

## China's future depression - Log Cabin Democrat (Conway, AR) - February 5, 2020 - page 1

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During the last 100 years, the two biggest economic calamities in the U.S. were each preceded by unusually good economic times.

Before the Great Depression we had the roaring 20s. Before the Great Recession of 2008, we had the Great Moderation – a time period that got its name because inflation was low and stable and recessions were infrequent.

During these good times, people put their guard down and took too much risk, which laid the seeds for the bad times to come. In the 1920s, people started to buy expensive goods on installment plans.

When bad times came, they cut back their expenditures on new purchases so they could make their installment payments and avoid having their expensive items seized for nonpayment.

The decrease in expenditures worsened the business climate. Before 2008, people bought expensive houses that they could not afford. Banks lent them money when they should have seen the risk involved and denied these loan requests. When housing prices plummeted, the investment banks that held the loan repayment agreements were in dire straits, and they stopped functioning as they once had.

The U.S. experience may give some insight into what lies ahead for China. From 1979 until relatively recently, China has experienced one of the longest and most rapid periods of economic growth in human history.

During this time, the Chinese took on unwise risk that will only become evident when bad times finally do occur.

The news is filled with events that may signal the beginning of the bad event that leads to a severe downward spiral in China.

First, the trade war between China and the U.S. poses a risk for China. Much of its economic growth was based on ramping up its exports to the U.S. By limiting its export market, U.S. policy is curtailing some opportunities of growth in the Chinese economy.

Second, many smaller banks have made so many bad loans that their solvency is in question. The January 22 edition of the Wall Street Journal reported that the government recently came to the aid of six banks and seized control of one bank to prevent these banks from going under.

This bailout only addresses problems at a small fraction of the Chinese banks that are in trouble. A troubled banking sector played a significant role in the severe U.S. economic downturns in the 1930s and late 2000s. A troubled banking sector may play a similar role in China.

Third, the Chinese government has spent a significant amount of money on infrastructure projects that will seem to be bad investments now that the economy's growth rate is slowing.

Fourth, the coronavirus illustrates how vulnerable China is to serious health threat. Travel to and from China has been restricted, which will further dampen China's economic growth. The travel restrictions make it difficult for multinational companies to conduct business in China and they highlight the risk of investment there.

It is always hard to say what event will prove to be the tipping point that leads to a severe economic recession. China seems to be experiencing some events now that could provide the necessary nudge toward really bad economic conditions.

In any event, China's decades of remarkable growth and good fortune put this country at risk in a way that could lead to an economic disaster.