

The China Syndrome

This was an expression developed by nuclear physicists to describe what could theoretically happen if the core of a nuclear reactor got out of control and melted down. The core would slowly melt its way through the earth all the way to the other side and go to China. Really an exaggeration. A movie by the same name came out in the 70s.

Today we seem to be faced with another China Syndrome of an economic sort. China's economy is "melting down" and it threatens to "melt its way through" the rest of the Earth and damage the rest of the world's economies.

What's particularly interesting about China's economic issues is that this is happening in the face of substantial stimulus from the Chinese government and PBOC. In other words, have we reached a point where stimulus is no longer effective? This seems very counterintuitive, but keep in mind that in the US, \$1 of stimulus provides less than \$1 of growth (I've seen estimates from \$0.20 to \$0.69). As this number gets smaller and smaller, you increase the money supply with little growth but more inflation. The inflation decreases the amount of stimulus that can be provided so that it may not stop the economic slide. This bodes poorly for the rest of the world's economies.

