China – No Communism, No Recovery, No Iron Rice Bowl

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When China began its high octane rush to build capitalism in the 90's it was like a savior for old capitalism's chronically ill system – like a benefactor investing in a failing old family business. China borrowed and bought from old capitalism, and old capitalism not only profited from that but also from new investment opportunities and a source of well and cheaply made goods to be sold to their low wage growth masses. But now what had been mutually beneficial has become mutually harmful.

The lack of a significant recovery, which now seems permanent, has forced China to attempt a major enlargement of the internal economy. That has cost a lot without showing much of a benefit. The next step is retrenchment. 1.8 million coal and steel workers have been laid off. Fearing social unrest $15 billion has been raised to pay for early retirement and retraining. The national pension system had a surplus as late as 2013. It now has a growing deficit which extrapolated to 2050 will total $122 trillion. But unemployed workers are said not to be very worried. They still imagine their country to be in some sense communist and so will always do something to provide for the needs of the proletariat. But now it is the needs of the new capitalist ruling class that are paramount, and those needs in relation to the working class is a professional police force trained in western tactical schools on the best ways to break strikes and riots. For more serious uprisings the former people's army has been largely reformed into a well paid professional force loyal to the forces that made them well paid.

China rulers are also being forced to weaken its program to create a buffer class of petite bourgeois parasites that could be expected to militantly defend its ill-gotten gains from dangerous threats from below. $15 trillion invested in the asset management industry have 100% guaranteed paybacks. Now get this – the investor, regardless of the financial situation, will get all of its initial investment *and* promised return. In short – they can only make money – they can't lose. China is not only no longer communist, it's one big slush fund for capitalist parasitism. It's the same with the Shanghai market – the government insures that it will not have a prolonged decline. The central bank is concerned that without risk investment becomes a moral hazard. As if sponging off the productive class isn't immoral enough. In any case, it's apparently out of the hands of government control. The next slump will settle everyone's hash, including that of foreign capital as it observes its prodigy undergo financial progeria.

When the 2008 financial crisis severely impacted China's export generated economic growth the government borrowed heavily to supplement growth with internal projects – from infrastructure to the building of whole cities. Overall debt rose from 156% of GDP in 2008 to 268% of GDP in 2016. According to the Bureau of International Settlements that is twice the average of emerging economies. That debt now has to be paid but much of the expenditures were for public needs and return little revenue. According to the rating agency Fitch a dollar of internal investment in 2008 generated an 80 cent return to China's GDP, but that dollar now returns only 25 cents. JPMorgan reports that 60% of China's borrowing in 2017 will be to repay old debt. Thus actions done to climb out of an economic trough are now pushing the country into a new one. Something which even a very badly run planned economy would probably have avoided.

The markets loved the 2.9% growth in Industrial Production in October compared to the same month the previous year because it was the highest monthly rate since January 2015. It didn't matter that it was largely due to increased vehicle sales because of the hurricane losses, or that this ephemeral rate is the same as in November 2014 and only slightly more than November 2007.

China operated 2600 high speed rail lines in 2016 – that's 60% of the world total – but now construction of new lines has largely come to a halt because of the world slump and ballooning debt. The current 20,000 Km of fast rail was to be expanded to 45,000 Km by 2030. Fixed Asset Investment growth has been virtually nil from Jan. to October of this year now that Moody's and S&P Global Ratings has lowered China's credit rating.

Total aggregate US household debt totaled almost $13 trillion as of September 30, 2017 – that's 16.2% more than the second quarter of 2013. With the Fed now planning a regular sequence of interest rises, the cost of being in debt will also rise, and the cost to the economy when the debt-ridden, with a national average 3.1% saving rate – the lowest since December 2007, slow their buying and bring on the next slump.

According to the NAR existing home sales in October came in at 5.48 million – seasonally adjusted annual rate, just about exactly the same rate as July 2015. Why stagnation when there is supposedly full employment and a steady if slight increase in earnings? A big problem is fewer homes on the market, down 20% over the past three years, which naturally results in higher prices. More than half of home sales are in the bottom two tiers. Neither would-be buyers or sellers accept assertions about a strong employment environment. Such lies are good for expanding the asset bubble, but in the world where real people have to survive they serve as nothing more than an irritant.

The shills made their expected big deal out of the 8% year over year increase in industrial production new orders. It's informative to note that in real dollar terms (unadjusted) the total value so far this year is $1.558 trillion. For the same period in 2014 it was $1.552 trillion. That's stagnation.