

Title: Temple Evergrandin leading the bulls to be slaughtered

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[Question]([https://old.reddit.com/r/Superstonk/comments/qrng6/so\\_did\\_evergrande\\_default\\_or\\_not\\_us\\_media\\_claims/hk6dydr/](https://old.reddit.com/r/Superstonk/comments/qrng6/so_did_evergrande_default_or_not_us_media_claims/hk6dydr/))

> Do we know if the bankruptcy proceedings take awhile or can be stopped with a later payment. Like  
oops heres your money dont break my knee caps?

[OP's Response]([https://old.reddit.com/r/Superstonk/comments/qrng6/so\\_did\\_evergrande\\_default\\_or\\_not\\_us\\_media\\_claims/hk6et07/](https://old.reddit.com/r/Superstonk/comments/qrng6/so_did_evergrande_default_or_not_us_media_claims/hk6et07/)) - emphasis mine

> My hunch is that China's central bank will take on the debt. This alone shouldn't be an issue. The big issue MSM isn't talking about is the impact Evergrande will have on the sector should it fall (which it will). Chinese central bank **\*\*can only bail out so much\*\*** and if the Chinese central bank then defaults too. The disease will spread world wide in seconds.

This post is not intended as a criticism of the response I linked to, I'm just using that as reference to what I've noticed are widely held assumptions about money. I've been subscribed to /r/mmt\_economics for a little while now and find it really fascinating whenever I come across comments about money, like the one above, in other contexts.

Let me show you.

First try to imagine what would happen if the Chinese central bank bailed out Evergrande by paying its international debt. Exactly where do the money come from? Like in a very practical way, try to imagine how the process would go down. Who's going to call who about what to ensure the funds arrive in the bond-holders bank account. Which parts of this transaction would be manual do you think? Do you think the issuing bank would initiate the transfer once it received phone confirmation from the central bank, or would they wait for the signed document? What about after the transfer has completed. How do they get refunded by the central bank? Or is that even how any of that works? I honestly have no idea.

But why would there be a limit to how much money the central bank can spend on bailing out Evergrande's international debt? If part of the debt is to be paid in Australian dollars, then at some point in the process Chinese currency would be sold and Australian currency would be bought. Chinese currency would decrease in value relative to Australian currency. Australian importers would be able to buy more Chinese goods as a result. Oh no! The central bank caused an increase in demand for Chinese exports. Probably not the worst kind of inflationary pressure for China right now.

But maybe it would be smart to keep an eye on inflation anyway, just to at least appear like you care about domestic price development. Issuing state bonds could serve as good pressure release valve. What, nobody wants to buy your bonds because your currency is undervalued? Just increase the interest until it clears. And now you have secured that demand for the longer term.

What else can you do to address inflation across the whole economy? Taxes!

But what about paying the domestic debt? This problem becomes easier to reason about if you ignore the money in your mental model. The problem here is that on the one hand you have all these empty apartment buildings, and on the other hand you have all these people needing a place to live. After matching people with all the finished Evergrande apartments, you're probably left with some people just standing there, holding their bags, with nothing to do. Here's what you do. Give them hammers and sickles and tell them where the forests are. Or you can buy more apartments. You decide. Either way, your people will have a job to do.

The required ingredient for prescriptive economic analysis from an MMT perspective is a strong government with control of its fiat currency. That sounds like China to me. I'm guessing I've misunderstood how some of this works, or missed out on relevant details. In that case please feel free to correct me. But please understand that I'm just trying to reason about finance and economy without all the hairy bits. MMT is recognized economic theory, super interesting, and have honestly provided me my most eye opening experience in economics and politics. Highly recommended.