

Western Bailout vs Chinese Bailout

The west dealt with its financial crisis by basically swapping treasuries for non performing loans. It allowed a wholesale transfer of problem debt to the public (taxpayers) balance sheet, funded by the issue of government debt which only the Fed (and some hostage buyers like commercial banks subject to enhanced capitalization requirements) were willing to buy.

China, unfortunately is less experienced in the management of bailouts. They have left problem loans on private balance sheets and tried instead to reclassify these loans as anything but non performing.

Private balance sheets are open to scrutiny or at the least, question. China has instead tried to fund the private balance sheets to allow them to hold these NPLs instead of simply buying them out at par.

The western solution is more effective because it removes the NPLs from prying eyes of private investors and puts them on the Federal balance sheet. Taxpayers can yell all they want but they have no sway over the government like investors might on a corporate entity.