Economics Briefs

EU in Chaos over Energy Policy

The EU Council of Heads of State and Government ended its meeting on energy policy in chaos on Dec. 17, as the 27 member countries disagreed on nuclear energy, natural gas, and CO_2 trading. Some countries, such as Poland and the Czech Republic, are threatening to veto the entire EU energy policy if the CO_2 Emission Trading System (ETS), considered to be the main driver in the energy price spike, is not shut down. At the same time, Austria, Luxembourg, and Ireland opposed the inclusion of nuclear energy and natural gas in the EU's Taxonomy of "green" energy sources. Since EU decisions must be taken unanimously, the summit ended without a decision. Now the EU Commission must find a transitory solution, which must then be approved at the next EU Council.

Going into the summit, Polish Prime Minister Mateusz Morawiecki denounced the ETS as a "European energy tax." After the summit, Morawiecki tweeted that the ETS "does not work" and needs deep reform. According to *Euractiv*, Poland threatens to veto the "Fit for 55" agenda to achieve "net-zero" by 2055 if the ETS scheme is not scrapped. Poland's government "will take necessary legal steps" to block the elements of the Fit for 55 package "that would be incompatible with the nation's interest and just transition," said Climate and Environment Minister Anna Moskwa at the Dec. 16 press conference in Brussels. Moskwa called the ETS "a sickness" and said it "discourages [the countries] from transition." She said it "influences the high energy prices hitting citizens and households." According to press reports, outgoing Czech Transport Minister Karel Havlicek called for the ETS scheme to be scrapped altogether.

On nuclear energy, Austrian Chancellor Karl Nehammer chanted victory: "We managed to achieve a partial success in regard to not adding nuclear energy to the taxonomy," he said. Austrian Climate Minister Leonore Gewessler had told *Euractiv* in November that Austria would sue the Commission if the EU decided to include nuclear in the bloc's taxonomy of "clean" energy sources. A majority of EU member nations appears to be backing France's proposal to include nuclear, but the small bloc of anti-nuclear governments refuses to concede.

Meanwhile, natural gas prices keep rising, and the population cannot wait longer. The January contract rose over €135 on Dec. 17, a €30 increase in a week.

ECB Keeps Monetary Policy on Course

The European Central Bank (ECB) board met Dec. 16, following the Federal Reserve Open Market Committee's Dec. 15 statement that it would lower Federal Reserve asset purchases by $30 billion/month and end them in March, and would raise its discount rate several times in 2022. The ECB, however, announced no change in interest rates and a milder-than-apparent tapering at the board meeting Dec. 16. The ECB announced a regular end of the Pandemic Emergency Purchase Program (PEPP) next March as scheduled, but at the same time an *increase* of the "normal" Asset Purchase Program (APP) purchases from €20 to €40 billion monthly. ECB President Christine Lagarde still insisted that inflation is transitory—a claim recently abandoned by top U.S. Treasury and Federal Reserve officials—although acknowledging that it is (quite) stronger than expected.

The ECB has crossed a red line, as an inflation rate officially now at 5.2% is way above the 2% target, even if the ECB new policy is to tolerate "transitory" deviations from that target. The central bank's original inflation forecast at the beginning of the year was 0.9% for 2021. During Lagarde's term thus far, the ECB has bought almost €2 trillion of government and corporate bonds, bringing its balance sheet to €4,836 billion.

The Bank of England's governors also met Dec. 16, and unexpectedly raised its still very low discount rate from 0.1% to 0.25%.

Fall in Turkish Currency Becomes Critical

The major Turkish stock markets were shut down for much of the day Dec. 17, managing to drop by 9% between the closures ordered by the government. The Turkish lira fell below 17 to the U.S. dollar the same day, and had lost 54% of its value against the dollar in 2021 at that point. The Turkish Central Bank's repo rate is currently 14%, but that represents a steady lowering of the rate by a full 5% in recent months, and inflation in Turkey is officially running at 21%, with price increases for staples and energy much larger than that.

The outbreak of hyperinflation is not the first to break out in Turkey in this century, but it is the most rapid to develop, and is occurring in a context of energy hyperinflation striking economies across Europe and in developing countries.

Turkey does not have a large or unmanageable foreign debt, but its many large real estate, engineering, and industrial firms are heavily indebted to major trans-Atlantic banks, particularly those in Spain and France. A drop in the values of bonds of both Banco Bilbao (BBVA) and Banco Santander has occurred since the beginning of October in response.

Wholesale and Electricity Price Inflation Highest in 40 Years

Wholesale and producer prices in Europe and the United States showed the largest increase in 40 years for November. No wonder that discussions about 1923 Weimar appear in the European news media. European wholesale price inflation stood at 16% year to year. The United States follows: the Producer Price Index for November rose 9.6% from a year earlier. But "intermediate producer goods" inflation hit an explosive 26% for the year. This refers to producer goods which are only components of finished producer goods like machine tools, spinning machines, tractors, etc.; in other words, intermediate producer goods are still in the production chain, not yet finished to sell to retailers who sell to end-customers.

Thus, a much higher U.S. producer-goods inflation is still working its way through the production chains, than has come out yet at either the wholesale or the retail end.

Record electricity prices are also expected for German consumers from January on, when some utilities will demand up to 80% more per kilowatt-hour. The price driver is the Amsterdam spot market, which has driven the price of the megawatt-hour up from €38 in November 2020 to €1,992 yesterday.

The situation is similar in other European countries. In Belgium, for instance, a cartoon is circulating, depicting two beggars: "How did you end up in poverty?" asks one. "Gambling? Drugs? Alcohol?" Replies the other, "I left the light on."

Record Demand for Coal with Green Deal Failures

The International Energy Agency (IEA), a body linked to the World Economic Forum and devoted to coordinating a complete global shift to "renewable" energy technologies, has had to report in its *Coal 2021 Report* that worldwide demand for coal for use in power production rose 9% in 2021, now standing at a record level. The agency also acknowledged that recent years' disinvestment in and shutdown of oil, natural gas, and nuclear plants had led to the 2021 forced updraft in coal use (which the World Economic Forum and other Green Deal powers have, on the contrary, mobilized to eliminate).

Calling the increase "a worrying sign," the IEA report "blames" it on China and India, saying that China's total coal use rose 9% in 2021, although the total world use rose just 6% because of drops in the use of coal in cement and steel production. Keisuke Sadamori, IEA Director of Energy Markets, is quoted: "The pledges to reach net zero emissions made by many countries, including China and India, should have very strong implications for coal—but these are not yet visible in our near-term forecast, reflecting the major gap between ambitions and action."

However, the U.S. Energy Information Administration reported a sharp rise in the use of coal for power production in the United States as well, and for the same causes centered on disinvestment in nuclear and fossil fuels, and low generation from "renewables." Whereas coal power had dropped in 2019 to just 15% of total electricity generation in America, it was back up to 27% in late 2021.

U.S. Household Wealth Rising for a Few, Dropping for Many

The latest (Dec. 9) Federal Reserve Flow of Funds ("Financial Accounts of the United States," https://www.federalreserve.gov/releases/z1/) report shows that total household wealth in the United States has been rising rapidly in the past two years, reaching a record $142 trillion after jumping by 4.3% just in the second quarter of 2021. It is up $31 trillion—more than 30%—just in the year to June 2021, thanks to immense Federal Reserve and Treasury money issuance, marking the COVID pandemic as enabling the greatest transfer of wealth in U.S. history.

The breakdown by wealth ranking of households offers an entirely different picture, however. The household wealth of the lower half of U.S. households has remained essentially unchanged for 15 years, going from $20 trillion in 2006 to $22 trillion now; that growth is roughly equal to the increase in the simple number of households within that lower half—so, inflation has actually lowered the household wealth for half of all Americans. During those 15 years, the wealth of the top 1% of households has risen from $17.9 trillion to $41.5 trillion, almost double the total wealth of the lower 50%.