Economics Briefs

A Hiroshima-Level Explosion Possible on U.S. Rails?

The Feb. 3 derailment of a Norfolk Southern freight train near New Palestine, Ohio, with five cars carrying vinyl chloride, has resulted in dangerous, toxic pollution on the Ohio-Pennsylvania border, partly through a decision by the State of Ohio for a "controlled burn" of chemicals to avoid explosion, which burn went badly out of control. A toxic pollution crisis, initially denied by state authorities, has continued for two weeks and now includes West Virginia.

The past five years have seen eight significant freight derailments in the Pittsburgh metro area alone. The nation's freight railroads operate with crews of just one or two rail workers per train, with speedup of train schedules and workers, and with minimal maintenance. In the Feb. 3 case, a railcar bogie (wheel set) was already on fire in Salem, 20 miles before the derailment—caught on a security camera, but either not detected or not signaled by a Norfolk Southern "hot box" detector right by the tracks at Salem, whose purpose was precisely to detect such axle overheating and stop the train. The derailment was then caused, reportedly, by a melted railcar wheel.

A recent Biden Department of Transportation rule expanded the range and quantities of what hazardous materials could be transported by rail. It appears the central purpose was to allow transportation of liquefied natural gas by rail to LNG ports for export, to exploit the shortage created in Europe by NATO.

An explosion of 20 or so such LNG rail cars would roughly equal the force of the Hiroshima bomb, said experts criticizing the National Transportation Safety Board (NTSB), which approved the rule. The NTSB said, however:

"The risks of catastrophic liquefied natural gas releases in accidents is too great not to have operational controls in place before large blocks of tank cars and unit trains proliferate."

Why the Financial Attack on India's Adani Group?

Western financial press and ratings agencies have hit the Adani Group of companies and the Indian economy as hard as they can. The economic prospects for the biggest BRICS economies—China and India—are for an acceleration of GDP growth into the range of 5–6%, according to the IMF/World Bank, while the EU and UK economies are in decline and the U.S. economy is stagnating. The Russian Central bank has assessed the 2022 shrinkage of the Russian economy under monster sanctions at 2.5%, rather than the 4.5% as earlier forecast, and has raised its 2023 forecast to the possibility of 1% growth rather than the –2% of its earlier forecast. This depends in part on Russia's goods trade with China and India continuing to expand in 2023, and on assistance with capital investment from those nations.

The Adani Group is a leading infrastructure investor, power generator and power grid operator in India. On Feb. 13 *Bloomberg News* reported and *Reuters* headlined ("Adani Slashes Growth Targets Amid Rout…") that Adani Group "planned to scale down capital spending." An Adani Enterprises spokesman denied the report. Moody's Investors' Service downgraded Adani companies' outlook from "stable" to "negative," as Fitch Ratings had already done on Feb. 9. Another *Reuters* wire, "Adani Tries to Calm Investors as Regulator Confirms Probe," speculated that, "The Adani crisis has sparked worries of financial contagion in India, … and cast a shadow on the group's capital raising plans."

The Group and three other Indian conglomerates have scheduled a combined $250 billion in new economic infrastructure investments from 2023–2030. These large private investments may be linked to public investments in the crucial International North-South Transportation Corridor, and/or in Russia's Far East as discussed during President Putin's visit to Prime Minister Modi last March.

Massive short-selling of Adani Group stocks has not occurred in India, where it would be legal, but by shadow banks using derivatives products and operating outside India—which makes it illegal under Indian law.

Defense Budget's Rise Is Eclipsed by Debt Service

While the U.S. military budget has rocketed up from just over $700 billion in Trump's last fiscal year to $847 billion now, another national cost—interest on the federal debt—has risen faster and surpassed it. Annual interest on the Federal debt was about $350 billion at

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the turn of the century, $415 billion at the time of the 2008 financial crash, and more than $500 billion in 2020. In 2021–22, however, with the total Federal debt rising by 20% and interest rates on it—long near zero—suddenly ranging from 2% to over 5% depending on the duration and month of issue of the Treasury security, interest payments on the Federal debt reached $853 billion in 2022 according to U.S. Bureau of Economic Analysis data in a report from the Clemson University College of Business. The rise in that cost is still accelerating.

U.S. Consumer Debt Grew 20% in Past Three Years

A nearly 20% surge in American households' indebtedness in 2020–22, detailed by the New York Federal Reserve Feb. 16, overlapped the reported virtual zero growth in both manufacturing and industrial production in the U.S. economy for the most recent year. Household debt grew by $2.75 trillion to $16.90 trillion, or 19.4%, from the end of 2019 to the end of 2022, including 2.4% growth in the last quarter of 2022 alone. Mortgage debt led the way, rising 8.2% just in 2022. U.S. manufacturing output grew by just 0.3% in 2022, also according to the Fed; and total industrial production grew by 0.79% for the year.

Wind Is Losing Money

The bad performance of wind power installations again in a recent Texas cold snap pointed to a bigger picture: Offshore wind turbine builders are also underperforming, and losing a lot of money.

General Electric's wind turbine business lost a whopping $2.2 billion in 2022, and is cutting its workforce by about 20%; only the new tax credit in the mislabeled Inflation Reduction Act might save it.

Siemens Gamesa, the wind turbine unit of the German industrial giant which calls itself "the global leader in offshore power generation," lost $974 million in its fiscal first quarter of October–December 2022 alone, according to Reuters on Feb. 1. *Fox News* added that it didn't receive a single offshore turbine order in that quarter, and its onshore turbine orders dropped by 46% from a year earlier, while the costs for its onshore windmill giants rose by 25% on the year.

The Danish firm Vestas, another big offshore wind producer, said in a report covered by *Reuters* Jan. 27: "In 2023, we expect high inflation levels throughout the supply chain and reduced wind power installations to impact revenue and profitability negatively."

Rapid component price inflation and lack of reliability have led to suspensions of some big offshore wind projects along the U.S. East Coast, targeted by the Biden Administration for 30 gigawatts of offshore wind by 2030.

In a Winter storm at the beginning of February with snow and cold, turbines in Texas froze and wind power delivered dropped to 1.6 GW out of 37 GW capacity. A vice-president of the wholesale power generation firm NRG Energy, admitted, "From wind, little reliability was promised, and it has delivered to expectations."

China Joined G20 'Sovereign Debt Roundtable' Feb. 17

For the first time, on Feb. 17, China took part in a "Sovereign Debt Roundtable," on developing nations' unpayable debt, held in India and sponsored by India, the G20 and the IMF/World Bank. Brazil also participated as next year's G20 chair, as did nations asking for restructuring of unpayable debts including Ethiopia, Zambia, Ghana, Ecuador, Suriname and Sri Lanka.

China continues to have a very different response to the current crisis of unpayable sovereign debt among low-income countries, than that of the IMF and its "Paris Club" of developed country creditors.

The IMF calls for debt relief, even forgiveness, but will not join debt restructuring negotiations. Such "relief" typically leaves the debtor country with slightly less debt to pay, but cut off for years from credit and project lending—hence from development. Since 2020, the U.S. and European "Paris Club" creditor countries and the IMF have been demanding China join in "debt relief" and "debt forgiveness," falsely claiming or implying that China has put lower-income countries in "debt traps" by its Belt and Road lending. Pan Finance, a London website, had the usual formulation Feb. 16 going into the Roundtable:

"U.S. Treasury Secretary Janet Yellen and other G7 officials see China, the world's largest sovereign creditor, as the main stumbling block for quicker work on debt treatments."

China's approach in nearly every case is to work out a restructuring of the debt with the debtor country, which almost always involves extension of new credit by China's state-owned development banks. It calls for the World Bank and other multilaterals to participate in such restructurings. Zambia's Finance Minister Situmbeko Musokotwane called out London's *Financial Times* for reporting, on the eve of the Roundtable, that he opposed China on this; Musokotwane clarified to *Global Times* that he does not oppose it.

China cites rapid Federal Reserve and European Central Bank interest rate hikes and energy hyperinflation, rather than the Belt and Road projects, as responsible for a sudden rise in developing nations' debts.