Economics Briefs

The One Factor To Reduce Inflation Is Gone in the U.S. Economy

Labor productivity in the U.S. economy dropped by 1.7% in 2022 as a whole, according to a March 1 report by the Labor Department, which only a month earlier had thought it dropped by "just" 1.3%. Thus, after 15 years of annual productivity growth bouncing between zero and 2% at most, it has gone negative in a year in which the Federal Reserve started hiking interest rates allegedly to cool inflation in a "hot economy." Productivity readings show the economy, instead, in deepening recession.

Underlying the merely indicative disappearance of labor productivity growth, is the more important drop to near zero, since 2005, of growth in total factor productivity (TFP)—economic growth accounted for by technological advance, particularly in basic economic infrastructure. The American economy's TFP growth, which averaged about 1.75% per year in the 1990s, dropped below 1% per year after the great financial crash, and to an average 0.5% in the past decade, according to IMF studies.

Connected to the 2022 productivity plunge are the sharp upward revisions which the Labor Department made on March 1 to estimates of average "unit cost of labor" in industrial and manufacturing processes. That unit cost rose by 6.3% in 2022, the Department now estimates, almost 2% more than it said a month earlier. Hourly compensation rose by only 4.4%—but workers are producing less, in less and less productive employment, making it cost more to employ them.

This is used falsely to claim "wage inflation" is pushing rate hikes by the Federal Reserve, whose money-printing actually triggered the inflation wave. The only way actually to reduce inflation without falling into depressionary deflation, is by investments to create technological advances in infrastructure and industry and thereby increasing the rate of productivity growth.

China Earns 'Stunning' World Superiority in R&D Says Australian Think-Tank

This may be what's giving the Biden Administration doubts about its aggressive "decoupling" policy: China leads all "Western democracies" in conducting basic research in the great majority of technological areas "deemed critical for economic growth and military power over the coming decades," reported an Australian think-tank covered in *Japan Times* March 3. The Australian Strategic Policy Institute (ASPI), taking a firmly geopolitical view of what is actually a matter of human progress and well-being, gave China a "sometimes stunning lead" in 37 of ASPI's 44 areas of technological research, including areas of space research, energy R&D, robotics, advanced materials, quantum technology, and others. China often produces more than five times as many highly cited research papers as the United States, which ranks second worldwide (first in cited papers on advanced semiconductors and quantum computing) according to ASPI's Technology Data Tracker. The *Japan Times* noted that ASPI's report "was partly funded by the U.S. State Department."

Interest Component in U.S. Federal Budget Will Soar to $1 Trillion in Two Years

Interest costs in the U.S. Federal budget will hit $1 trillion in Fiscal Year 2025, roughly 15% of the total budget going to interest alone, according to a Congressional Budget Office (CBO) report covered by the *New York Times* and CNBC Feb. 15. This, while there is no economic growth even when measured by GDP. Interest on the federal debt already exceeds even military spending as of this Fiscal Year 2023, totaling more than $850 billion. But as the Treasury (in CBO projections) adds another $19 trillion by 2032 to its current $31 trillion debt, and interest rates rise over 5%, debt interest costs will cross the $1 trillion annual mark in two years and keep accelerating upwards.

The source is not mentioned in congressional or media tantrums about the "debt ceiling." In early 2020, under COVID pandemic pretexts, the Federal Reserve actually gained the capability to drive federal government spending and debt. This "regime change" was accomplished through the seizure of clear control of fiscal policy by a troika of Janet Yellen (Fed chair in 2020 and then seamlessly Treasury Secretary from 2021), Steven Mnuchin (her immediate predecessor and partner at Treasury), and BlackRock CEO Lawrence Fink, who designed the special purpose vehicles through which the Fed "supported" a $5 trillion outburst of Federal "stimulus" borrowing and spending in 18 months, while the Treasury, in turn, provided the Fed with $450 billion of that as collateral. That "stimulus" has since added another $1 trillion in debt by Biden's Inflation Reduction Act, and the federal budget is now on track for deficits of $2 trillion per year for a decade.

British 'Salad Crisis' Food Shortage Going into Fourth Week

On Feb. 28, supermarket chain Lidl GB followed the UK's market leader Tesco as well as Asda, Morrisons, and Aldi in imposing customer purchase limits on tomatoes, cucumbers, and peppers. This is not going to improve the situation in general, since the UK is faced with a shortage of fruit and vegetable supplies not only due to less production in Spain and the Netherlands as a result of the high energy costs, but also because of reduced domestic production in Hertfordshire County and other places. Everywhere greenhouse capacities, which depend on natural gas, have been shut down for the same cost reasons.

This takes the UK into its fourth week of empty supermarket shelves, with the Agriculture Ministry declaring that the situation is not expected to improve for several weeks more. Apart from the absence of food items at the stores, drastically increasing prices are a shock for average consumers. The inflation rate for food already was at 17% year-on-year at the end of February.

Impact of Soaring Interest Rates Is Far Worse in the Developing Sector

The continuous rise of interest rates that the U.S. Fed has embarked on, is creating a situation in the developing sector that is rapidly leading to a blowout. Take the case of Argentina, where the central bank's basic rate rose from 35% one year ago, to 75% today. The actual cost of borrowing for a small or medium business, however, is over 300%, according to reliable sources consulted by *EIR*. Official inflation stands at 99%; but in the last two weeks alone, the cost of eggs rose by 40%, of cheese by 50%, and so on. The average retirement pension a year ago was the equivalent of U.S. $450 per month; today it is $150, a two-thirds cut.

In neighboring Brazil, the rising Fed interest rate has pushed that country's central bank rate up from 10.7% a year ago, to 13.75% today—a 30% rise. In February 2023 official inflation was "only" 5.8%.

In Mexico, the interest rate has nearly doubled, going from 6%, to 11.25% over the same period, and official inflation stands at 7.9%.

Nigeria's interest rate rose from 11.5% to 17.5%, year-on-year—a more than 50% rise—and inflation is 22%.

Iran is a particularly explosive case, due to sanctions and financial warfare being waged against that country. Although it has kept interest rates steady at 18% between February 2022 and February 2023, January inflation was reported at 53.4%.

EU's 'Nuclear Eleven' To Cooperate Across Supply Chain, Training, New Tech

Eleven European Union countries committed on March 1 to "cooperate more closely" across the entire nuclear energy supply chain. They agreed to promote "common industrial projects" in new nuclear generation capacity and new technologies such as small reactors.

A statement released March 1 by the French government read: "On the occasion of the informal Council of Energy Ministers in Stockholm, the ministers and high-level representatives of 11 Member States, including Bulgaria, Croatia, France, Hungary, Finland, the Netherlands, Poland, the Czech Republic, Romania, Slovakia and Slovenia, met this morning with the [EU] Commission and the Swedish Presidency to jointly reaffirm their desire to strengthen European cooperation in the field of nuclear energy, in accordance with the objectives of the Euratom Treaty, the promotion of research, and the dissemination of technical information.

"Ministers agreed to foster closer cooperation between their national nuclear sectors in order to ensure the best cooperation across supply chains and to explore joint training programs and industrial projects, in order to support new projects, notably based on innovative technologies, as well as the operation of existing power plants. They also discussed the possibilities for increased scientific cooperation and the coordinated deployment of best practices in the field of security."

Russian Finance Minister: We Have Adapted to the Sanctions

In a March 3 interview with *RT,* Russian Finance Minister Anton Siluanov noted that Russia had survived the intense barrage of western sanctions against the country.

"Russia is learning and working under the new conditions. Moreover, while responding to new challenges, we began to actively invest in our own products, which we used to acquire abroad," Siluanov said. "Last year was not an easy one for our country's economy.... Despite the bans on the export of our commodities and non-commodities, we have found new markets. If you look, for example, at the volume of our hydrocarbon production last year, not only did it not shrink, but it grew."

"We also created an independent system of financial transactions [and] our own system of transmitting financial messages.... All of this has generally created the basis for financial stability," he explained.