
Economics Briefs

Exchange-Rate Moves Reflect a Global Physical-Economic Collapse

Despite the fact that the U.S. Commerce Department reported on April 28 a dismal 1.4% annual rate of GDP contraction in the United States in the first quarter, the U.S. dollar has gotten extraordinarily strong against other major currencies since the start of this year, and rose even further after that report. This period of real runaway global inflation, commodity shortages, and supply shut-downs has brought the world's financial haven currency, the dollar, up sharply against other currencies being hit by physical-economic decline.

The euro has fallen from \$1.13 to just over \$1.05 since the start of war in Ukraine. The Japanese yen is at a 20-year low vs. the dollar, and falling. The Chinese yuan has fallen from 6.3/dollar to below 6.6/dollar in two months. The Indian rupee is falling more slowly, by about 2% this month. The British pound has fallen 12% in three months. The Turkish lira, Egyptian pound and Brazilian real have all fallen more sharply than any of these "advanced" currencies, and the developing nations as a whole are experiencing rolling devaluations with painful economic effects.

This threatens masses of, especially, corporate debt with default, as well as foreign exchange derivatives contracts that did not anticipate such sharp changes in exchange rates. Remember the \$5 trillion daily specula-

tion in these rates as of 2012.

One currency of significance has moved up against the dollar during the war in Ukraine and the monster sanctions—the ruble, which is now at about 70/dollar. This is due primarily to capital controls by Russia since Feb. 28. The Central Bank of Russia made another substantial cut April 29, from 17% to 14%, in the very high rate (of 20%) it set March 1 in reaction to NATO's monster financial sanctions. The Russian central bank is now forecasting an inflation rate between 18% and 23% in Russia in 2022 as a whole, but says it could be lower depending on the "pace of import substitution and the restructuring of the Russian economy."

Russian Discussion of Gold Backing for Ruble from a Higher Official

RT and other Russian media report that the Secretary of the National Security Council, Nikolay Patrushev, said on April 26 that Moscow "is working on linking the price of the ruble to gold and other commodities." Patrushev is reported to have described a "two-loop monetary and financial system in the country," which would "provide [back] the Russian currency with both gold and a range of goods representing a currency value. As a result, the ruble exchange rate would correspond to its real purchasing power parity," Patrushev said. He stressed that it is important that the means of payment in the national financial system, the ruble, "is not tied to the dollar."

On April 29, Patrushev's comments were reinforced by President Putin's spokesman Dmitri Peskov, who said, "The question of creating a financial system in Russia, in which the ruble's value will be tied to gold and currency assets, is now being discussed."

However, Russian Central Bank head Elvira Nabiullina evidently is not part of and not sympathetic to these discussions. On the same day as Peskov's remark, Nabiullina said at a press conference, "it is not being discussed in any way"; and she stressed that the ruble must have a floating exchange rate. Nabiullina's answer was to a question by Reuters, and it is reported internationally only by Reuters.

There continues to be little apparent connection of the Russian gold-ruble plans to credit for economic development, although Patrushev stressed that the national economy must also be "restructured on the basis of new technologies." In the contexts of discussions of national-currencies trade with India and of meetings with Central Asian countries, however, the need for the ruble's exchange with those currencies to support mutual investment in projects has been stated—for example, by Russian Trade and Industry Minister Denis Manturov April 17 at the INNOPROM Industrial Trade Fair in Tashkent, Uzbekistan.

Americans' Real Incomes Are Falling Quite Rapidly

U.S. Labor Department data released this week along with the Commerce Department's report of declin-

ing GDP in the first quarter of 2022, show that the real incomes of U.S. employees are falling faster than the -2.7% at which real weekly wages have been reported to have declined over the past year to March 2022.

First of all, the inflation-adjusted total compensation costs of employers for civilian workers in the United States economy dropped by a much larger -3.7%, consisting of a -4.2% drop in real benefit values, and a -3.6% decline in the real cost to employers of wages and salaries. This is over the same year to March 2022, and was reported April 29 in the Labor Department's Employment Cost Index.

Moreover, the Federal Reserve reported April 29 that over the four quarters ending with March 2022, the purchasing power of U.S. household incomes after taxes dropped by \$2.2 trillion in 2021 dollars, constituting a decline of -10.9%, easily the largest such drop since at least 1947 when this data record began.

Cruelly, it was the Federal Reserve and Treasury's "turning off the tap" of massive money-printing and borrowing and unproductive spending since 2019, which made this drop in real household income so large. That same massive money-printing, by the time it was put on pause, had been the trigger setting off raging inflation in an unproductive economy.

Federal Reserve's 'Taper' Just Announced Is Hardly a War on Inflation

The Federal Reserve on May 4, as this issue goes to press, will have announced its plans for reducing its holdings of Treasury and private mortgage-backed securities, which have sat at \$9 trillion for the past five months. This enormous load of assets

bought from Wall Street banks to give them reserves and liquidity, is \$5 trillion larger than it was in the Fall of 2019 when the U.S. interbank lending markets began to break down. Whereas Federal Reserve Bank assets were equivalent to approximately 7% of U.S. GDP in 2005, before the global financial crash, they are now equivalent to just under 40% of GDP.

This massive money printing in the past three years, supporting \$5 trillion more in borrowing and non-productive spending by the Treasury, was the primary trigger for the rapid inflation which has hit a declining economy since the end of 2019.

Now, the Fed will announce a plan which would have it take more than eight years to sell the huge asset book off—and of course it will not sell all the securities off. But according to Bloomberg's sources in an article May 1, the Fed will allow about \$90 billion or 1% of these assets to mature without reinvestment each month starting in June. By that time its May Federal Open Market Committee meeting will presumably have made a first 0.5% rise in the Federal funds rate.

At that point it will have been nearly a year and a half since the wild asset inflation of the past decades, which broke out into fierce commodity inflation starting late 2019, spilled out in turn into producer and consumer price inflation at the end of 2020. Such measured Fed steps, started so late, are not likely to slow the inflation.

Senior German Economist Blames Greens for Coming Economic Gloom

In an interview with the Merkur journal, Hans-Werner Sinn, former di-

rector of the Ifo Institute econometrics team, categorically rejected the idea of a total ban of gas imports from Russia:

"In doing so, we are also hurting the Russians a bit—but primarily ourselves. The Russians have China as an alternative customer. The Power of Siberia pipeline already supplies gas to China, and a new pipeline, Power of Siberia II, connecting the western part of the Russian pipeline network with Beijing, has already been agreed upon. The gas volumes flowing through it can already be pledged by the Russians to the Chinese for loans."

Sinn continued that the expected gloomy perspectives for the German economy have a lot to do with the fact that:

"the Greens want to cut off our cheap energy anyway. We still have three nuclear power plants that are operational and three that were shut down last year. In total, at least five to six power plants can be kept in operation or taken offline. And according to the EU's stipulations, these are green energy. What will be done now is to increase the use of coal-fired power plants. This is justifiable from a safety point of view, because lignite is located on German territory. No one can take this energy away from us—but it is, of course, CO₂ polluting."

Of the notorious *Energiewende* by Germany, Sinn said:

"The energy transition is a shambles. The fluttering power from wind and solar energy ... absolutely needs power from gas-fired power plants as a complement in order to secure the power supply during the many dark lulls. The green hydrogen they dream of can also provide a substitute in the long term, but it will come from French electrolyzers that run on nuclear power."