Economics Briefs

Another Advance Toward Fusion Power

A record combination of high temperature and long duration of confinement of a fusion plasma has been achieved by China's primary fusion power experiment, known as the Experimental Advanced Superconducting Tokamak, or EAST.

Daily Pakistan reported on May 29, "China's artificial sun [has set] a new world record as it achieved a plasma temperature of 120 million degrees Celsius for a period of 101 seconds. The huge accomplishment is a key step toward the test run of a fusion reactor. Announced by Gong Xianzu, who is a researcher at the Institute of Plasma Physics of the Chinese Academy of Sciences (ASIPP), [who] was in charge of the experiment conducted in Hefei, capital of East China's Anhui Province."

The EAST experiment took a full year to prepare; and in another run, this Chinese prototype of an "artificial sun," reached an even higher plasma temperature, 160 million degrees Celsius, and sustained it for 20 seconds. These temperatures are high enough and sustained long enough for deuterium-tritium ions in the plasma to fuse and produce energy, if the superhot plasma can be stably confined with less energy input than the output from the fusion reactions.

"It's a huge achievement in China's physics and engineering fields," the paper quoted ASIPP Director Song Yuntao. "The experiment's success lays the foundation for China to build its own nuclear fusion energy station."

Former Chief Economist of European Central Bank Warns of Crash

Former European Central Bank (ECB) chief economist Jürgen Stark on May 24 denounced Germany's loss of fiscal sovereignty, and said Europe is in danger of a financial crash.

Interviewed by the blog *Tichys Einblick*, Stark said, "In my view, the erosion of national sovereignty in terms of fiscal policy has already occurred." He blamed the particular eroding effect of the bond-purchasing (quantitative easing) program of the ECB, which has proceeded at the expense of financial stability and has favored the explosion of state indebtedness, especially of the southern EU member countries. Speaking carefully, given his prominence and the impact of his statements on markets, Stark said, "I do not want to provoke a crash, but it cannot be ruled out."

Stark furthermore denounced the Next Generation EU program which the EU calls its "recovery program," as "having nothing, really absolutely nothing, to do with the consequences of the pandemic." The program is designed to expand the powers of the EU, Stark charged, stressing that this has nothing to do with the treaties on economic and financial stability, including the 1992 Maastricht Treaty, that have been signed by Germany: "We are in the middle of a systemic change."

Welter of Shortages Is Driving Inflation in U.S. and Worldwide

In the North American housing market there is a historic shortage of homes for sale and a ferocious "seller's market" for homes that are built; yet the builders who sell new homes are halting construction in locations across the United States and Canada. Single-family home construction starts dropped 14% from March to April in the United States. The reason is runaway price increases in building materials, feeding through to a crisis in affordability of homes to buyers in all but the uppermost home price classes. An index of prices of construction materials (lumber, steel, iron, copper, gypsum, etc.) is up 12.5% this year, according to a CNBC report May 20. Final prices for homes have risen more, by 18-20% depending on the survey. Homebuilders are inserting escalation clauses into sales contracts (half of all builders are doing this); and in other cases, halting construction on subdivisions after putting in foundations.

In addition to the price increases there are shortages of materials, and also a shortage of appliances for new homes, according to Associated General Contractors. Construction employment is still below pre-pandemic level.

There are shortages of 120 significant drugs according to the U.S. Food and Drug Administration. The microcomputer chip shortage is projected to last through the next two years. As a result of this, North American auto production is down by 25% or more, depending on maker.

The UN Food and Agricultural Organization reported May 6, under the headline, "FAO Food Price Index Continues To Rise Unabated," that this index is up 30.8% in a year; the cereals sub-index, up 26%; the dairy price index, up 24.1%; the meat price index, up 5.1%; the sugar price index, up 60%; and vegetable oils, up 100%."

China Moves To Suppress Commodity Inflation

China has become the global countervailing force against inflation, aiming to reverse the "commodity boom" and simultaneously strengthen the dollar against the yuan. First, as already reported, the National Development and Reform Commission (NDRC) last weekend cracked down on commodity speculation by metals producers and their banks, threatening serious fines and penalties. Second, the China Banking and Insurance Regulatory Commission (CBIRC) requested banks to unwind existing books of commodity-linked products, meaning with retail investors. CBIRC is cracking down on commodity speculation among retail investors, and exchanges have been told to implement price-control measures for commodities. Third, credit impulse in the Chinese banking system is negative; that is, new bank credit as a percent of GDP is falling. This has stopped the rise of some commodity prices (metals) and also caused long-term government bond rates in the U.S. and Europe to fall.

China's Provinces and U.S. States Outflank Blocks on Trade

Chinese provinces and U.S. states are working to increase subnational economic and trade cooperation as a "work-around" while bilateral relations between the two superpowers remain tense. On May 22, an online forum for economic and trade cooperation by U.S. state governments welcomed cooperative approaches. The forum was attended by 150 government officials and business representatives from several Chinese provinces, including North China's Shanxi and Central China's Hunan, and U.S. Federal states California, New York, and Iowa.

New York State Lt. Gov. Kathy Hochul said that as her state recovers post-COVID, it is committed to promoting win-win economic development: "We have had a long partnership [with China] and we look forward to continuing this relationship." Chicago Mayor Lori Lightfoot told the forum that as part of its COVID-19 economic recovery plan, Chicago plans to invest in manufacturing, life sciences, transportation and food processing, and plans to seek cooperation with China in these areas.

Mei Xinyu, a research fellow at the Trade and Economic Cooperation unit of China's Ministry of Commerce, told *Global Times* May 23, "There are strong complementarities in bilateral trade," and anti-China forces in the U.S. "will never be able to eliminate this reality." Song Guoyou, Deputy Director for the Center for American Studies at Fudan University, told the paper that there is great potential for division of labor and distribution in the two countries' supply chains.

Entire U.S. Banking System Has 70% More Reserves than Loans

The unprecedented reserve overflow of the U.S.-based banks, with deposits completely decoupled from lending, is only getting worse as the Federal Reserve's latest quantitative easing binge passes 18 months. The Fed's most recent flow-of-funds report, for the week ended May 12, now shows the entire U.S. system of banks with a 10% surplus of deposits over all bank credit, and a 70% surplus of deposits over bank loans. The figures are: $17.15 trillion in deposits, $15.55 trillion in bank credit, and $10.35 trillion in loans and leases.

What this indicates is, first, that the banks held $5 trillion in speculative securities assets of all kinds (part of "bank credit") despite claiming to be "commercial banks." And these figures are dominated by the Wall Street "Big Six" banks, which have two-thirds of all deposits and are now nearly 20% larger than the immense size they boasted as of 2019.

Second: Add to that their $3.8 trillion in cash reserves and $2.2 trillion in "trading assets and reverse repos," and you have huge banking conglomerates which are absolute engines of hyper-speculation and inflation. Pumping them ever more full of reserves, is the Federal Reserve—so careful and attentive now about reducing its exposure to fossil fuel-related investments, of course—whose balance sheet has reached $8 trillion and rising, from $3.75 trillion just 19 months ago at the start of "QE4."

Germany: Extracting Big Profit from Privatized Housing

The Munich-based Institute for Social-Ecological Economic Research (ISW) has issued a review documenting that 25% of residences in the German city of Kiel, 15% in Dresden and 10% in Berlin are now owned by big private housing groups. The six biggest such groups—Vonovia, Deutsche Wohnen, LEG, TAG, Grand City Property, and Adler—alone own more than a million flats, extracting an annual revenue of €10 billion.

The big wave of privatizations of city-owned housing occurred around the millennium when the Greens were a partner of the Social Democrats in the national government. The Greens are now posing as ostensible defenders of "social" aspects of housing in the current election campaign.