
Economic Briefs

U.S. Economy Suffering Productivity Collapse, Particularly vs. China's

The labor productivity figures released Aug. 9 by the Department of Labor showed, as Harvard economist Jason Furman had warned it would, the worst productivity collapse over any two quarters in the 75 years of this economic measurement. The second quarter's 4.6% drop followed the fall of 7.4% in the first quarter, to make a 12% collapse. The context makes it worse, because labor productivity growth on average has now been below zero for three years, since mid-2019, and below 1% for the past 10 years. Growth in technological productivity (so-called Total Factor Productivity) has been below 0.5% since the crash of 2008.

Here is the most telling comparison between the American and Chinese economies: Growth of labor productivity in China has not fallen below 6.5% annually since the global financial crash of 2008, with the exception of 2020, when it was "only" 2.7%; Total Factor Productivity growth has not gone below 2.5% annually (National Bureau of Statistics of China, Cornell University CEIC Data).

The now-enacted CHIPS and Science Act (the China Competition Act), which pours more than \$40 billion into developing semiconductor production capacity in the United States, has two severe flaws. It is throwing nearly all U.S. high-technology investment eggs into a basket which, economists have increasingly proven since 2005 or so, is the only technological revolution known not to increase economic pro-

ductivity significantly. The second flaw, already visible in high-profile announcements by Foxconn and TSMC, is that the purpose of the government largesse is to draw NATO-based semiconductor manufacturing investment out of Taiwan and mainland China, and into the United States. That is, not to move even this field forward technologically.

Russia Grows Investment Partnership with Turkey, with Nuclear Power Focus

Al-Monitor on Aug. 10 ran a detailed [article](#), "Russia Offers Erdoğan Economic Lifeline," on Russia-Turkey economic cooperation, including the payment in rubles by Turkey for Russian natural gas, which *EIR* has already reported from the Aug. 5 Sochi meeting of Putin and Erdoğan.

The essential agreement is that Rosatom, and also other Russian companies, are making additional investments in the subsidiaries that are building Turkey's four-reactor Akkuyu power plant. This is taking the form of direct investment in Akkuyu Nuclear JSC, and also purchase of Turkish issues of sovereign bonds to support the project. Thus far, reportedly, the recent investment flow is the equivalent of \$2.6 billion. Combined with payment for Russian gas in rubles, this lowers the pressure on Turkey's sovereign debt and currency (coming from its severe inflation). It does not have to acquire dollars or euros to buy the gas; and the likely (intended) gradual fall of the ruble over the near future will help the Turkish lira.

In addition, according to *Al-Monitor's* account, Russian companies have

been importing goods from Europe, including machinery, via Turkish companies. Since the Russian companies pay a premium in rubles for these goods, this supports Turkish companies and also strengthens the lira against the ruble.

This is not "sanctions evasion," but credit cooperation centered around accelerated construction of nuclear power plants for Turkey. At 4,500 MW, the four-unit Akkuyu plant being built in Mersin will produce 10% of Turkey's power consumption. More nuclear plants are planned.

Potential Significance of China-Saudi Agreement on Oil for Investment

As reported in an Aug. 9 *Oilprice.com* [article](#) by Simon Watkins, a memorandum of understanding signed Aug. 4 between the largest oil companies of China and Saudi Arabia (Sinopec and Aramco) committed them jointly to develop energy-related manufacturing and processing projects within the framework of the Belt and Road Initiative. The MOU, as described by Watkins, sounds like the kind of oil-backed project investment offer which China made, also through Sinopec, to Iraq in 2019, and which in that country has been steadily sabotaged by U.S. and British puppets up to the present time.

Watkins—who was formerly a forex trader at Credit Lyonnais and has a thoroughly geopolitical take on the matter—called the MOU "a critical step in China's ongoing strategy to secure Saudi Arabia as a client state," and quoted the president of Sinopec, Yu Baocai, to describe the agreement:

"The signing of the MOU intro-

duces a new chapter of our partnership in the Kingdom.... The two companies will join hands in renewing the vitality and scoring new progress of the Belt and Road Initiative and [Saudi Arabia's] Vision 2030.”

Watkins continued: “The scale and scope of the MOU is enormous, covering deep and broad co-operation in refining and petrochemical integration, engineering, procurement and construction, oilfield services, upstream and downstream technologies, carbon capture and hydrogen processes. Crucially for China’s long-term plans in Saudi Arabia, it also covers opportunities for the construction of a huge manufacturing hub in King Salman Energy Park that will involve the ongoing, on-the-ground presence on Saudi Arabian soil of significant numbers of Chinese personnel.”

Recall that Saudi Arabia was reported in early July to be considering taking payment in Chinese renminbi for some oil sales. Watkins’s account suggests that the renminbi “payment” will actually include credit for industrialization projects.

German Think Tank: Natural Gas Scarcity Would Kill 330,000 Jobs

As Germany’s *Spiegel* weekly reported online, the German Economic Institute (IW) formulates a “gloomy” outlook in a survey simulating two scenarios. In its report, the IW asserted the following startling estimates, which bear both scrutiny and attention: If gas prices rise by 50%, inflation is likely to increase by 0.9% on average this year, and by 1.3% next year. If gas prices double, which is currently a “realistic” scenario, inflation would grow by 1% this year and by almost 4% next year.

In their study, the researchers simulated the consequences for the labor market and the economy if gas prices

should rise by 50% in the third quarter, compared with the second quarter, as well as in the event that prices double. The study was based on taking into account the consequences of the Ukraine war, in particular the energy crisis. The IW team calculated that if gas prices double, some 30,000 people could lose their jobs this year, and in the coming year, another 307,000. If gas becomes scarce, enterprises that can’t afford higher prices for gas as their main source of energy, will reduce production and, as a consequence, also reduce employment.

The IW also calculated the consequences for GDP of a doubling of gas prices in the third quarter from July to September: The German economy could then shrink by 0.2% this year, and then slump by 2% next year, which corresponds to a loss of €70 billion.

Behind the ‘Remarkable’ U.S. Jobs Reports

A strange characteristic of recent, “remarkably strong” U.S. Labor Department jobs reports, points to something significant.

Every month the Bureau of Labor Statistics conducts two surveys. The Establishment Survey (of employers) has recorded growth of 1.8 million jobs over the past four months, including almost 530,000 in July. The Household Survey (of employees and their households) has reported, net, no employment growth at all from April-July, along with declining labor force participation. Unless the reports are being outright faked, this shows a stagnant number of employed Americans taking on more and more jobs, part-time jobs, while others are continuing to leave the reportable labor force altogether. The BLS reports do show several hundred thousand full-time jobs disappearing in those four months, and “multiple job-holders”

having increased by more than a million to nearly 7 million.

Another Crime Case of a Big U.S. Bank

U.S. Bank, the sixth-largest bank based in the United States with \$560 billion in assets, has been fined \$37.5 million by the Consumer Financial Protection Bureau for creating many thousands of fake accounts in the names of their depositors and clients. This is the same crime for which Wells Fargo Bank was fined five times that amount, and put under an “asset size cap” in 2017; in both cases the practices were clearly deliberate, organized, and characterized by obvious crimes against depositors. The U.S. Bank’s employees used the personal and financial data they obtained from depositors and wealth management clients, to open fake stock accounts, fake bond accounts, and fake credit card accounts and credit lines, of which the clients were unaware.

These practices, apparently incentivized by bank managements, were and are a means of pushing the deposits of a huge bank into various forms of risk securities, and high-interest debt assets of the bank (particularly credit cards).

As the Federal Reserve has exploded the U.S. banking system’s reserves, deposits have also exploded, from \$11.4 trillion in 2016 to \$18 trillion in 2021. Nearly 80% of these deposits are in the 12 largest of the 5,000 U.S.-based banks. But loans across the banking system did not grow; all of the added deposits and reserves were pushed into securities and derivatives speculation. That was the period in which the Wells Fargo and U.S. Bank “fake accounts” crimes—though beginning earlier—peaked.

No banking system has ever needed Glass-Steagall as badly as this one does.