

III. Economics

Europe's Economic Breakdown: To a Financial Blowout, or a New System?

by Paul Gallagher

Sept. 4—As their productive economies break down, governments in Europe have begun big bailouts—but for now, not bailouts of megabanks, but of large energy and commodities companies. Excessive corporate debt leverage, from 12 years of central bank money-printing and zero interest rates, means that European non-financial corporations cannot withstand the tripling and quadrupling of energy *and especially electricity prices*, and the overall 30-50% producer-price inflation they are experiencing. NATO nations' hyperinflationary central bank policies and the results of their sanctions and war were crushing their own economies, even before those banks started to raise interest rates.

Economies across Europe, with consumer inflation rates ranging from 9 to 22% already and producer-product inflation rates up to three times that, have entered a physical breakdown crisis they brought on themselves, and strikes and protest demonstrations are breaking out everywhere. The United States—the driver of this breakdown alongside the UK—is just moving from inflation to recession. With the effects of this crisis on the developing nations threatening failed states, famine, and starvation, a new international system for productive credit



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Economies across Europe have entered a physical breakdown crisis they have brought on themselves. Non-financial corporations cannot withstand the hyperinflationary rise of natural gas and electricity prices.

generation is needed on an emergency basis to save hundreds of millions of lives.

Therefore it is important that a website of the BRICS group—China, Russia, India, Brazil, and South Africa, with several other nations soon joining—has published the call by LaRouche's movement for leading nations to form an Ad Hoc Committee for a New Bretton Woods. We report below some national actions apparently related to this initiative for the urgently necessary new international credit and monetary system.

'A Dramatic Plunge in Production'

Austria announced on Aug. 30 a \$2 billion bailout of the nation's main energy supply company, Wien Energie—an "extraordinary rescue measure" according to Chancellor Karl Nehammer, but one that will soon be repeated by his government.

Sweden on Sept. 2 announced a "temporary liquidity" bailout fund equivalent to tens of billions of U.S. dollars to all the country's electricity producers, according to the Sept. 3 *Financial Times*. Wholesale electricity prices are 11 times what they were a year ago, according to Sweden's Financial Supervisory Authority head Erik Thedén. Prime Minister Magdalena

Andersson said Russia's closing of the Nord Stream 1 pipeline threatened "a war Winter, but also threatens our financial stability" (she didn't mention Germany's refusal to open Nord Stream 2).

In Finland the Fortum energy group of companies asked for a bailout in the range of €5 billion.

In Belgium both the Prime Minister and the Economics Minister have told the country in this past week that "the next 5-10 winters will be very difficult" to get through. The President of France announced "the end of the age of abundance ... of products and technologies we have become accustomed to."

The total use of natural gas in Europe (not just Russian gas) had dropped by 11% in August from a year earlier, according to the International Energy Agency, in a process quaintly called "demand destruction by inflation"—meaning destruction of productive economic activity. The decline in use of natural gas by companies in Germany was 21%.

Germany, Europe's strongest economy, is the plainest case of breakdown under its embrace of NATO's indefinite war and sanctions against Russia. It is becoming clear that Germany's industrial economy has been to a certain extent based on stable natural Russian gas prices, with hundreds of billions of euros in industrial output leveraged on what, until recently, was about €20 billion annually in imports of Russian natural gas. Already in July, 15% of *all* industrial companies had to reduce or shut down production due to energy hyperinflation, according to the Association of German Chambers of Industry and Commerce (DIHK) survey reported Sept. 2 by OilPrice.com, which estimated the percentage in late August at more than one-fifth.

The president of the Federation of German Industries (BDI) Siegfried Russwurm told the *Financial Times* Sept. 2 that the 21% drop in natural gas consumption in a year repre-



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Even Germany's green fanatic Economics Minister, Robert Habeck, called the situation alarming: "Industries are experiencing a structural collapse."

sented "a dramatic plunge in production.... The situation is already toxic for many firms, now or shortly, not only because of gas scarcity, but above all because of the absurd price increases." Even Germany's green fanatic Economics Minister Robert Habeck called the situation alarming, and said industries "are not just being restructured, but experience a collapse, a structural collapse occurring under enormous pressure," according to the *FT*.

The world's second-largest steel producer, ArcelorMittal, closed one of its two blast furnaces in Bremen Sept. 1. Arcelor said that it can no longer operate all its plants economically due to natural gas and electricity prices. Aluminum and zinc smelters in Slovakia, Norway, and the Netherlands have also been shut down due to the inability of major commodity producers/traders like Trafigura to pay the electricity costs.

And farms everywhere in Europe, America, and the developing world are threatened with liquidation due to unpayable input costs and insane "Green Deal" demands. Farmers' protests are now sweeping Europe (see report in this issue).

Now for the Corporate Debt Bubble

This collapse of productive economic activity is less publicized than the devastation of households by inflation, which is triggering major strikes and demonstrations. Following big strikes in the UK and small demonstrations in Germany, suddenly on Sept. 3, some 60-70,000 people (100,000 according to Radio Genova) filled up Wenceslas Square in

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World's Second-Largest Steelmaker Closes European Plant

By Tsvetana Paraskova - Sep 02, 2022, 11:30 AM CDT

The world's second-largest steelmaker, ArcelorMittal, is the latest industrial company to

Prague, Czech Republic, demanding “lower gas and electricity prices and neutrality on the conflict in Ukraine,” to quote a Twitter message by one demonstrator. The protest threatens to force resignation of the government.

But it is the collapsing physical assets of productive companies which characterizes the economic breakdown which has now hit the trans-Atlantic (i.e., the NATO) world. Don’t stand and wait for the big banks and financial systems to go up in a hyperinflationary blow-out. Those megabanks have been so fortified against just such a blowout, by more than a decade’s zero/negative interest rates and wild money-printing by the Federal Reserve, that they will be the last to go. The debt of non-financial corporations is going now.

It is frequently said that the Federal Reserve headed by Jerome Powell—which has caused devastation to developing sector currencies, import capacities, and economies just by lifting its discount rate to 2.5%—does not contemplate doing anything as economically destructive as the early 1980s Federal Reserve headed by Paul Volcker.

But Powell’s Fed doesn’t have to get anywhere near Volcker’s 20%+ rates to cause a debt collapse. In 1980, total world credit market debt was \$20 trillion; now, it is over \$325 trillion, according to the Institute for International Finance, having grown by \$75 trillion just since 2017. More important, worldwide debt of non-financial corporations was \$6 trillion in 1980; it is over \$80 trillion now, and has grown by \$20 trillion just since 2016. For United States-based corporations, debt was \$700 billion in 1980, and \$12 trillion now.

And most importantly, when Volcker took office in August 1979 the Federal Reserve’s funds rate was at 11.2%. Volcker raised it to 20% within 15 months, wiping out millions of small and medium-sized American businesses and banks to stop inflation. When



Federal Reserve

The U.S. Fed, headed by Jerome Powell, is devastating developing sector currencies, import capacities and economies, without even approaching the Volcker rates of 1980.

York Fed President Bill Dudley, former Treasury Secretary Larry Summers, Wall Street bank economist Steven Roach, and others are demanding now. Then that \$80 trillion global corporate debt bubble will shake the supposed “fortress balance sheets” of the megabanks.

Significance of BRICS Moves

On Aug. 18, the website of Russia’s National Committee on BRICS Research (NCI BRICS) [published](#) the Schiller Institute’s “Call for an Ad Hoc Committee for a New Bretton Woods System,” with a [lead-in](#) on its home page. The text includes a link to the English-language Schiller Institute website with the full list of the most notable signers, and a form for new supporters to sign up. The Call was also to be published in Russian on the NCI BRICS site. This adds the prospect of the crucial “next step” to emergency financial and economic actions forced on Russia by NATO’s



UN/Eskinder Debebe

In 1980, the then Fed Chairman Paul Volcker’s 20%-plus interest rates wiped out millions of small and medium-sized American businesses and banks.

monster war sanctions.

With consultation and encouragement from bodies of the BRICS and of the Eurasian Economic Union (EAEU), Russia is continuing to work on establishing new, non-speculative and stable international producer prices for the most important commodities, including gold. With Europe’s productive companies being crippled or shut down by sanctions that were in-



or a “commodity basket” including gold.

Gold trader Ronan Manly [wrote](#) on goldseek.com Aug. 31, an extremely detailed account taken from three Russian news sources, of this plan, its submission to the Russian Finance Ministry by the Commission of the Eurasian Economic Union (EAEC), and the Finance Ministry’s forwarding of the plan to various Russian industrial companies, evidently for feedback.

Even more so than with energy and food commodities, this plan is one for battle, because the UK and United States

tended to shut down Russian production, stable commodity prices and currency exchange rates are essential goals for a new international monetary and credit system.

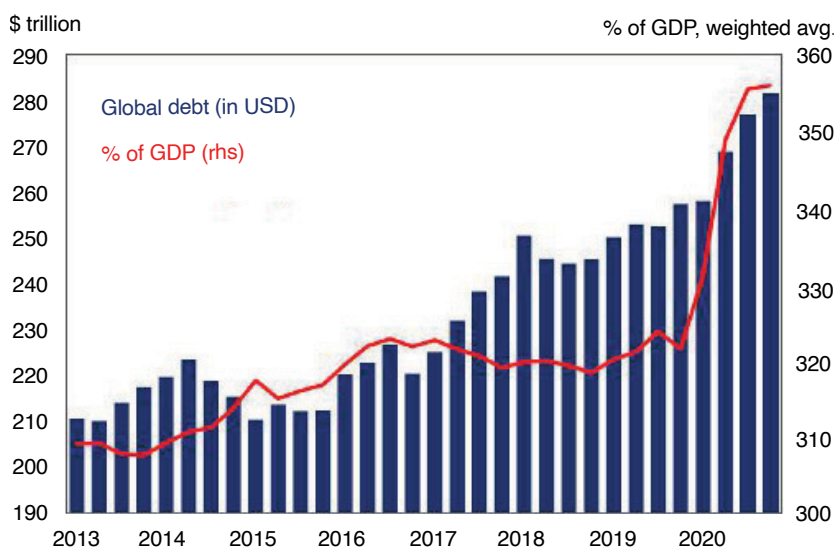
In July, the Central Bank of the Russian Federation published two new commodity standards. The first is an [international wheat standard](#), defined as the price (in rubles as a basis) of a metric ton of wheat delivered to the Russian Black Sea port of Novorossiysk for export shipment. The second standard is for a metric ton of coal under the same conditions. Since early July, the international price of wheat in dollars has been relatively stable between \$8 and \$9 per bushel; with the ruble appreciating by about 6% against the dollar during that time, the wheat price in rubles has been relatively more stable, varying within a range of 5%. But these new international commodity prices in rubles are thus far aspirational, steps toward stable, long-term producer prices for the most important commodities—in which the BRICS nations, and the EAEU nations, are dominant producers.

Now it is reported that since early July, Russian and EAEU senior officials have been discussing a new international precious metals exchange where the price of gold could be fixed. This would be essential to any new credit and monetary system in which one of the BRICS national currencies—or, in Russian President Putin’s reported idea, a new international trade settlement currency—would have a fixed value relative to gold

treasuries and monetary authorities are determined to ban Russian miners and refiners from the London Bullion Markets Association (they have already done that) and to ban the sale of Russian-produced gold anywhere in the world. Manly quotes both Sergei Glazyev of the EAEC and Russian National Security Council advisor Sergei Silvestrov on the intention to create a price standard of what Silvestrov calls [trade] “settlement gold”—involving a basket of commodities as well.

Another useful action by the Central Bank of the Russian Federation toward stable currency-exchange ratios between the ruble and other major currencies has been reported. *Bloomberg News* reported Sept. 1 from anonymous sources “familiar with the matter” that a

Global Debt, 2013-2020



Source: IIF, BIS, IMF, National sources

Russian ministers’ strategic plans meeting Aug. 30, attended by officials of the Central Bank including its head Elvira Nabiullina, gave initial approval to a plan to use up to \$70 billion equivalent in Russia’s ruble current account surplus, to purchase other “friendly currencies” led by the Chinese renminbi (or yuan). This would lower the ruble’s value against these friendly currencies—which also include, according to Bloomberg’s account, the South African rand, the UAE dirham, and the Turkish lira, among others. It would link Russia’s central bank’s large holdings of renminbi to the renminbi reserve fund of roughly \$25 billion equivalent already being formed by the People’s Bank of China and six other Asian central banks.

International Development Bank Needed

Two things are most notable here. First, the plan discussed at the Aug. 30 meeting reported by Bloomberg’s sources, was for Russia to use the renminbi it accumulates in this way as the source of credit for infrastructure building in Russia, in particular new development corridors typified by the International North-South Transport Corridor (INSTC) from St. Pe-

tersburg to the port city of Mumbai, India.

And second, this plan discussed Aug. 30 by ministers and central bank officials may well be the same plan described above in author Manly’s article, involving Russia moving to be able to set precious and strategic metals prices on an international exchange in Moscow, rather than on the speculative metals casinos in London. Bloomberg [wrote](#) it was shown the document presented at the meeting, and its limited alleged quotes from it suggest that it is that Eurasian Economic Commission plan.

It’s essential that these survival moves, and the view of them taken by China, India, and other major nations, be informed by the Schiller Institute’s new Bretton Woods proposal. A new international development bank must take central focus, and “Hamiltonian” national banks must cooperate with it to build new, high-technology projects of power, water, and healthcare, as well as transport/development corridors. And most importantly, the new credit and monetary arrangements, whether among the BRICS or EAEU nations or both, must succeed in bringing in the United States, as difficult as that may appear now.

New EIR Offprint Special Report Now Available

The Great Leap Backward: LaRouche Exposes the Green New Deal

Executive Intelligence Review has released this Special Report to warn of the extreme danger to mankind represented by the Green New Deal, also called “The Great Reset” by the leaders of the Davos World Economic Forum.

Already being implemented, this plan is taking over the direction of national economies from sovereign governments, using the power of central banks and the too-big-to-fail private financial institutions, cutting off credit to fossil fuel power generation and to industrial and agricultural enterprises claimed to emit too much carbon. Meanwhile it is creating a new huge bubble in the “sustainable fuel” sector, hoping to prop up the increasingly bankrupt financial system.

Stopping it by returning to a Hamiltonian American System credit policy, requires an understanding which is the purpose of this report.



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