
Economics Briefs

GOP Reportedly Dropped Military Spending Cuts in Talks for New ‘Debt Ceiling’

Despite reports of broken-down or suspended talks, President Joe Biden, who stoutly maintained for months his steadfast refusal to discuss the U.S. “debt ceiling” issue with Republicans in Congress, is in fact negotiating with them, and with Democratic leaders, over making some spending cuts in return for a vote to raise the Congressional statutory limit of debt one more time.

But according to Garrett Graves of Louisiana, a GOP representative briefed on the negotiations, the spending cuts the Republicans are proposing to trade for a debt ceiling increase no longer include military spending cuts—in particular, no cuts to authorizations of more than \$100 billion in weapons and aid to Ukraine in NATO’s proxy war against Russia. Despite significant opposition among the American public to this huge overseas war, and resolutions against it advanced by Republican senators including Rand Paul and Mike Lee, and House members led by Thomas Massie and Matt Gaetz, the top GOP leaders negotiating with Biden actually want to further *increase* the gigantic American military budget, beyond its \$870 billion level in Fiscal Year 2023.

Thus the Republican move to hold a threat of U.S. sovereign default over the head of the White House, has lost whatever redeeming value a move against NATO’s endless “Ukraine” war could have given it.

Biden met personally in hours of negotiation May 9 and May 10 with the four top officials of Congress—Senate

Majority Leader Chuck Schumer and Minority Leader Mitch McConnell, House Speaker Kevin McCarthy and Minority Leader Hakeem Jeffries—after which a May 11 session was cancelled to allow staff work on proposed cuts. Another White House meeting was to take place May 15.

Federal Reserve Sees ‘Sharp Contraction’ of U.S. Bank Lending

The Federal Reserve has just released its May 2023 [Financial Stability Report](#), a bi-annual survey of risks facing the U.S. economy, and it warns of a coming “sharp contraction” of bank lending. *The Washington Post* [quoted](#) from it:

“Despite decisive actions by the Federal Reserve, the FDIC [Federal Deposit Insurance Corporation], and the U.S. Department of the Treasury, concerns about the economic outlook, credit quality, and funding liquidity could lead banks and other financial institutions to further contract the supply of credit to the economy. A sharp contraction in the availability of credit would drive up the cost of funding for businesses and households, potentially resulting in a slowdown in economic activity.”

The *Post* added that already, “All over the country, small businesses are feeling banks pull back on lending.”

The *Financial Times* reported:

“U.S. banks expect to tighten lending standards over the course of the year because of worries about rising losses in their loan portfolios and concerns that customers will continue to withdraw deposits, according to a survey from the Federal Reserve.... Banks over the course of the first three months

of 2023 had pulled back in commercial and industrial lending, real estate lending and consumer lending. Three-quarters of respondents to the survey also flagged worries about declining values of borrowers’ collateral.”

The Fed reported U.S. banks lost another \$12 billion in deposits in the week ending May 3; they have lost \$1 trillion since April 2022.

Can China and India Join (with Russia) in De-Dollarization?

Modern Diplomacy, a web platform which describes itself as an “opinion-maker with far-reaching influence across the Middle East, Africa, and Asia,” ran an April 30 [article](#) with the provocative headline, “India Joins China in De-Dollarization Drive.” The report begins with the Indian policy, as of March 29, of accepting rupee payment for exports to 18 “countries facing dollar shortages or currency crises,” but also says that India is exploring a Russia-India-China alternative to SWIFT. The article otherwise emphasizes that China and India have in common, not only an increasing trade volume between them, but the anticipation of U.S./EU sanctions potentially spreading to them.

In fact, the latest (11th) set of sanctions proposed by the European Union “executive,” according to *Reuters* May 8, will sanction seven Chinese companies “to punish China over accusations [!] of Beijing’s role in Russia’s war in Ukraine.” The EU executive also proposes to “curb [European] exports to nations seen as involved in bypassing Russia trade restrictions under new sanctions against Moscow”—so India

is indirectly targeted as well.

In addition, according to the *Modern Diplomacy* report, both China and India have a strong interest in expanding trade and cooperation with Iran, which requires de-dollarization because of the extensive and apparently permanent U.S. sanctions vendetta against that important nation.

Russia—said Foreign Minister Sergey Lavrov at the May 4-5 Shanghai Cooperation Organization ministerial in India—has accumulated too large a volume of rupees because of its increased trade surplus with India. One of several reports on Lavrov’s remarks said:

“Foreign Minister Sergey Lavrov noted the widening trade deficit with India, which has been a top buyer of Russian oil since Moscow launched its war on Ukraine last year. ‘As for rupees, this is a problem because there are billions of rupees accumulated in accounts at Indian banks and we need to use this money,’ Lavrov told reporters in India on Friday [May 5]. ‘For this, rupees should be converted into other currencies. This is being discussed’.”

Reportedly, Russia-India talks about trade in rubles and rupees had been suspended, and Russia wants to be paid by India for oil exports in Chinese yuan instead. This provides a new challenge for India-China cooperation in de-dollarization, notwithstanding the historic tensions between India and China. Russia could invest its surplus of rupees in Indian bank bonds or bonds of Indian corporations investing in projects in Russia’s Far East, but thus far has said “No” to Indian proposals for this.

Drastic Drop in German Industrial Output

The deindustrialization trend in Germany is accelerating. Industrial output dropped significantly in April

as compared to March, and new business fell by 10.7% compared to the previous month—as much as it has over the entire three years (!) since the beginning of the coronavirus pandemic and its related industry shutdowns in April 2020.

The automotive industry had a particularly large share in the decline: Production there collapsed by 6.5% compared to March. Machine builders produced 3.4% less. The construction industry reported a drop in production of 4.6%. The chemical industry was slightly better off with just –2.0%.

German companies are struggling with higher interest for loans combined with inflationary material costs, resulting in many projects no longer being worthwhile, particularly due to rising energy costs. The figures are from an overview of the Federal Ministry of Economics.

A Man Who Knows Something Discusses an Asian Reserve Currency

In a *Global Times* [interview](#) May 5, Mahathir Mohamad, the former Prime Minister of Malaysia who did the “impossible” in the 1997-98 “Asia Crisis”—using capital controls and deploying a stable currency in the midst of currency collapses all around him—spoke about a new non-dollar reserve currency for Asia, while also discussing the crisis brought on by NATO’s war. He returned to the proposal he made during that “Asia Crisis” so-called, and to the need to balance trade for Asia with a reserve currency:

“Long ago I suggested a trading currency to be used only for trade in the ASEAN region, as well as the Northeast Asian countries. That means Japan, South Korea, and China....

“The feeling in the world today is changing. Before, they accepted the Bretton Woods Agreement, which

says that trade should be conducted in the U.S. currency; now, many countries want to use other currencies. My suggestion that we should have a currency for trading in East Asia is now something that is acceptable to many countries.

“Whenever you have that, then you can value your exports against your imports. If imports are bigger than your exports, then only you pay. If not, you don’t pay. In a way, it is a kind of better trading that you do not exchange goods, but you exchange the value of the goods that you trade with. For example, if Malaysia sells more to China, in the following year China will have to increase its exports to Malaysia in order to balance the trade. Otherwise, China will have to pay Malaysia the difference within Malaysia’s exports. The difference will be in a special trading currency.”

Central Banks’ Gold Purchases Have Been Breaking Records

As the purchases of U.S. Treasury securities by the world’s central banks continue their slow but steady decline, the same central banks’ net purchases of gold have risen very strongly, led by the banks of China, India and Russia—and Singapore and Türkiye. According to the latest report from the World Gold Council, since the middle of 2022 the net purchases of gold by central banks have risen to 1,200 metric tons, easily record totals both by quarter, and for the entire nine-month period. Continuing the process, central banks’ net purchases in the first quarter of 2023 were 228 metric tons, one-third more than in the already high first quarter of 2022.

The central banks of the Global South are trading their dollar reserves for gold in preparation for new monetary agreements.