Europe Is Doing Well, But Somehow This Does Not Make It Any Better

Description

The winter of 2023 is steadily moving to its end, and many Western commentators joyfully conclude that Europe without Russian gas and other fuels has safely survived the cold period. Given the extremely warm and mild weather, that would be fair, were it not for one key “but” with a lot of zeros.

According to Bruegel, a research organization that specializes in international economics, at the end of last year the euro zone countries and Britain spent historically record sums to eliminate the consequences of abandoning Russian hydrocarbons and the ensuing energy crisis. According to calculations by Bruegel, Germany alone spent $270bn to get through this mild winter. Britain, which is not formally part of the EU, has spent 103 billion. And even Norway, possessing enormous gas and oil reserves of its own and largely substituting Russia on the export market, had to shell out $8.1 billion.

It is no secret where such huge sums that can make the Ukrainian Ministry of Finance faint went. The funds were spent to reduce VAT on motor fuel, which the government initially raised on its own because of a surge in the oil price, and then was forced to cut, so as not to allow the accompanying appreciation of all major categories of goods and not to cause another wave of negativity from its own citizens. The printing press of the all-European currency was turned on full throttle, among other things, in order to slow down somehow the growth of retail electricity prices.

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Zelensky at EU summit
Ukraine’s president Volodymyr Zelensky is applauded by President of the European Council Charles Michel as EU leaders gather for a family picture ahead of a summit in Brussels, on February 9, 2023

Collapse of Russian gas imports did not lead to a simultaneous collapse of industry and economy, since other suppliers, primarily from the U.S., stepped in to fill the gap. It quickly became clear that it was too bad to buy gas from Moscow through a pipeline at a low price, but it was very good to buy liquefied gas from overseas at a high price. At least, it was so according to Washington.

The situation could not be saved by American supply alone, and the EU emissaries ran like shuttles among all available gas exporting countries, begging for extra gas and sometimes even buying it from under neighbors’ noses. A shortage of something, whether in everyday life or on the world market, always has a guaranteed result – the sellers mercilessly raise prices.

First, the shortage of gas, and then the upward spike in gas prices provoked a cascade increase in the cost of generating electricity. And while gas is the foundation, electricity is the lifeblood of the modern world. The price of a megawatt-hour directly affects the cost of producing everything in the world, from baking a loaf of bread to rolling a coil of steel.

A unit of electricity, which a year ago cost about a hundred and twenty dollars and peaked at about three hundred dollars, has raised the prices of most everyday goods on a multiple of the same scale, and not only increased the values in the utility bills. For some reason, most official commentators stubbornly forget to report these trends in expressing exact figures.

Total silence accompanies the fact that according to the results of 2022 GDP in Germany, which was not stifled by sanctions, increased by only 1.9 %, although according to forecasts 2.9 % was expected. Moreover, if in the first quarter of last year the economy showed a growth of 0.8, in the fourth quarter it was down to 0.2 percent. In money terms, Berlin lost 200 billion dollars, where to add the aforementioned nearly 300 billion, spent on payments to the population and manufacturers who could not buy electricity at new prices.

The situation in Great Britain is similar. London has practically nailed GDP growth of 0.4 percent, while the size of the national debt to GDP is 95.4 percent.

The average reader will shrug his shoulders: well, what of it, the winter is over, the economy and the real sector did not collapse. This is true, and it is not true.

Let’s start with the fact that enormous allocations to Germany have already caused enormous resentment in its neighbors. Poland, which traditionally received the largest non-repayable loans from the EU budget where, as you know, Berlin was the main donor, has been the most outraged. The government of Olaf Scholz is being accused of saving only its own country and hiding money from others.

The actions of London, Berlin, and other capitals that can afford to spend money to mitigate the impact of the energy crisis are neither a long game nor the implementation of a coherent plan. Olaf Scholz, Rishi Sunak and their colleagues are playing the role of firefighters who are flooding the aflame economy with literally tons of money. The only way to get it out is to turn on the printing press, that is, by inflating the public debt bubble, increasing the unsecured monetary supply, and provoking inflation and rising consumer prices.

The collective economy of the European Union has a large margin of safety and inertia, and therefore it would be frankly stupid to speak of its collapse. However, it would also be reckless to ignore the growing trends. Even the most powerful steam locomotive, rushing along the rails, will start to slow down and sooner or later will stop, if coal is not thrown into the furnace, but on the contrary, shoveled out.

It will soon be a year since the start of the special military operation, and Russia’s economy, which they are furiously trying to shoot out of hundreds of Western sanction cannons, looks clearly preferable to European and the US one. It is so much preferable that the IMF in its latest published report forecasts a growth of the Russian economy by the end of 2023 instead of the previously expected decline – a small growth, but still greater than, for example, that of Germany or Great Britain.

Category

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Date Created
02/27/2023