



TIMO	OSC	NEG	ATIVO	ULTIMO	OSC	NEG	ATIVO	ULTIMO	OSC	NEG	ATIVO	ULTIMO
2.00	7.6	2	MYPK4	22.30	0.4	17	MEGE4	16.76	0.3	283	PETRE48	0.63
0.28	0.4	546	WPCAR4	64.78	1.0	327	ACOE5	BOVESPA			PETRE50	0.23
0.75	0.8	666	PINE4	17.88	0.8	119	ATIVO	ULTIMO	OSC	NEG	PIDB11	68.85
7.12	1.1	166	RAPT4	13.85	1.0	171	WACES4	72.30	1.0	76	PRFM4	39.00
5.20	0.2	202	WSDIA4	8.75	1.1	588	WAMBU4	1182.47	0.3	246	WPTIP4	25.54
6.22	0.3	378	SUZB5	21.40	0.4	153	WCGR55	420.00	0.9	103	WTCOL4	7.33
7.05	1.4	11	WTRPL4	30.90	0.8	294	WCPLE6	25.11	0.4	454	TLPP3	52.60
0.89	0.1	608	WBBR4	8.14	1.2	10	WCRUZ3	44.70	2.5	228	WTHR5	47.55
2.00	1.7	4	WCPA4	63.00	0.2	235	WCSNA3	88.18	0.4	927	WTHCP4	4.37
9.60	4.0	2	WUNIP6	1.79	1.1	134	WCTNM4	331.00	0.6	46	WTNLP4	33.60
9.01	1.1	706	WURLES	83.19	0.7	821	WGETI4	69.20	0.2	38	WTNLP36	0.22
1.18	1.6	870	WURLES	68.85	0.7		WLANE4	128.63	0.5	253	WUSIM5	96.00
6.32	1.1	232	WUCPA4	40.80			WPETR3	51.58	0.8	869	WAGV4	2.65
6.50	0.9	3	WGOR4	1.24			WTR4	45.60	1.0	3201	WUIV04	9.15

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# Economic Briefing

Now is time to think beyond the next crisis

October 2015



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ITUC Economic Briefing : October 2015

# Now is time to think beyond the next crisis

The fragile global economy overshadowed the G20 Labour and Finance Ministers meetings in Ankara held on 3-6 September as well as dominating the run-up to the annual meetings of the IMF and World Bank in Lima. The latest IMF forecasts that were released on the eve of the G20 meetings showed that global growth had fallen significantly in the first half of 2015 compared with the second half of 2014. This economic briefing that has been prepared by Carolin Vollmann and Peter Bakvis of the ITUC, Global Unions Washington Office, describes in detail the reasons behind the slow-down and why the global economy is off the tracks. The G20 Summit in Brisbane in November 2014 endorsed the target of raising growth by 2.1 per cent by 2018 above that which was then being forecast. The IMF figures show that growth is 3 per cent below where it should be if the target were to be met. In order to reach the target by 2018, growth would have to double. With current policies this is not going to happen and right now, the G20 faces a credibility problem.

The global trade union movement represented through the Labour 20 told Ministers in Ankara to take coordinated action and invest in jobs, support minimum living wages and collective bargaining, set targets for youth employment and put responsible investment in line with these policy needs. The same message is being delivered to the IFIs.

We have called on the Labour Ministers to issue a warning to Finance Ministers to target measures that can create jobs – through responsible investment and by raising wages as the G20 have reached a “tipping point” of income inequality. We have urged that the joint Ministerial has to act as a catalyst for policy actions. Otherwise, governments will stay in a “parallel universe”, where communiqué language does not translate into tangible results in the real economy.

There are solutions: The L20 growth modelling shows that expansion of public infrastructure investment by 1 per cent of GDP across the G20 could create up to 3.8 per cent more growth compared to current policies. In parallel, it is crucial for the G20 to start raising low and middle-incomes and, in doing so, inject purchasing power into economies. We have called on the G20 members to:

- Support youth employment through a G20 youth target, youth guarantees, quality vocational training and apprenticeships;
- Expand women’s employment and promoting inclusive labour markets so as to meet the G20 “25 by 25 target”;
- Tackle long-term unemployment by expanding training opportunities and active labour market policies;
- Introduce global social protection floors as called for in the joint statement by the World Bank and ILO;

- Strengthen workers' rights and social protection systems so as to support the transition from the informal to the formal economy;
- Guarantee "safe workplaces" by strengthening occupational health and safety systems, and ensuring that international labour standards and human rights are applied by G20 investors and companies throughout their global supply chains.

The G20 Labour and Employment Ministers "Ankara Declaration" acknowledged the danger of low growth and employment rates while underlining "the critical importance of

an integrated and comprehensive policy approach to foster strong, sustainable and inclusive growth. Our work to tackle inequalities, promote inclusiveness and strengthen the links between employment and growth must be complemented with corresponding efforts in other work streams" (§ 3).

The declaration included references to the fundamental rights at work, identified inequality and informality as the main challenges going forward, and called on G20 Leaders' to "prioritize job-rich growth by addressing the range of factors underlying weak aggregate demand" (§ 6).

This is progress on paper yet action remains wanting.

## 1 Growth prospects: The "new mediocre" has come to stay

The "two-speed recovery" scenario heralded by the International Monetary Fund (IMF) in the first few years after the 2008 financial crisis – with rapidly growing emerging-market economies such as China pulling along the rest of the global economy – came to an abrupt halt in 2015. Growth has been slowing every year in the emerging-developing country group since a high point reached in 2010, but the possible bursting of the credit-fuelled bubble in China in mid-2015 could lead to even lower overall growth and intensify recessions in some countries. Official agencies may carry out new revisions downward in their updated end-of-year growth forecasts, but already the IMF, in its latest forecast published in July, predicted that the year 2015 would mark the lowest rate of world economic growth since 2009, the year of the Great Recession.

Table 1 shows that there is some variation in predictions among organizations, some of which may be due to differences in the methodology used in forecasting models (for example, the IMF uses purchasing power-parity exchange rates while the World Bank uses market rates). However most of the agencies concurred in adjusting downwards their previous growth forecasts. Yet none of these took into account the dramatic volatility in asset prices that occurred in August and September. The projections seem to confirm IMF chief Christine Lagarde's warning in April that the world economy could be entering into a "new mediocre [of] low growth for a long time". However the IMF has declined to revisit its own policies, such as promoting austerity in a variety of countries, which have contributed to the new mediocre, and has distinctly underplayed the possibility that insuffi-

**Table 1: Growth forecasts for 2015 and 2016 in percent (change from previous forecast)**

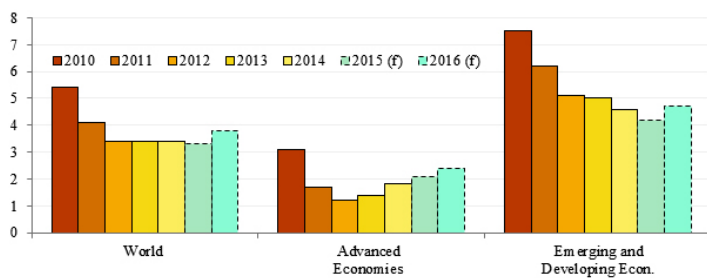
Source	Month (2015)	Global		Developing and Emerging Economies		Advanced Economies	
		2015	2016	2015	2016	2015	2016
IMF	July	3.3 (-0.2)	3.8 (-0.0)	4.2 (-0.1)	4.7 (0.0)	2.1 (-0.3)	2.4 (0.0)
World Bank	June	2.8 (-0.2)	3.3 (0.0)	4.4 (-0.4)	5.2 (-0.1)	2.0 (-0.2)	2.4 (0.0)
OECD	June	3.1 (-)	3.8 (-)	Non-OECD: 4.2	Non-OECD: 4.9	OECD: 1.9 EA: 1.4	OECD: 2.5 EA: 2.1
EU Commission	May	3.5 (-)	3.9 (-)	--	--	EU: 1.8 (-) EA: 1.5 (-)	EU: 2.1 (-) EA: 1.9 (-)
		2015		Developing		Transitioning	
				2016	2015	2016	
UN DESA	June/ July	2.8 (-0.3)	3.1 (-0.2)	4.4 (-0.4)	4.8 (-0.3)	-2.0 (-3.1)	0.9 (-1.2)
						2.2 (0.1)	2.2 (-0.1)

Sources: IMF World Economic Outlook, 2015; World Bank, Global Economic Prospects, 2015; OECD, Economic Outlook Interim Assessment, 2015; UN DESA, World Economic Situation and Prospects, 2015 update; EU Commission, European Economic Forecast, 2015.

ciently regulated financial institutions combined with other problems could set off another economic crisis.<sup>1</sup>

The IMF's latest global growth report shows stagnating global growth rates since 2011 (see Figure 1) with an expectation of a mild decline from 2014 to 2015 and improvement in 2016. The Fund has corrected downwards its predicted 2015 growth rate at least nine times: in September 2011 it predicted 4.8 per cent growth for 2015; by July 2015 the forecast was lowered to 3.3 per cent<sup>2</sup>. Because of recent developments, the projection for 2016 likely overstates what will occur. The composition of stagnant global growth has changed across country groups. While there has been a very gradual increase of economic growth from 2012 onwards in the advanced economies group, growth rates in emerging and developing economies have maintained a steady decline since 2010.

**Figure 1: Real growth has stalled in most countries since 2010**



Source: IMF, World Economic Outlook Database, 2015.

## 2 The state of the global economy

The IMF's most recent global economic forecast includes the observation that "the underlying drivers for a gradual acceleration in economic activity in advanced economies remain intact". For emerging market economies, it stated that "a rebound in activity in a number of distressed economies is expected to result in a pickup in growth".<sup>3</sup>

IMF forecasts are frequently widely off the mark, and never more so than in the crisis countries of Europe where the Fund predicted that countries' economies would quickly recover. These forecasts appeared to be more an attempt to justify

the austerity and structural adjustment policies supported by the IMF and its European "Troika" partners than an unbiased appraisal of the recessionary impact of these policies. (The IMF's chief economist later acknowledged that the Fund severely underestimated the impact of austerity.) Bias in IMF forecasts has a long history, as an analysis published prior to the 2008 global financial crisis made clear. The study showed a tendency to exaggerate growth rates both in major IMF shareholder countries, i.e. large industrialized countries, and in countries under an IMF lending programme.<sup>4</sup> Forecasts could be all the more uncertain now because of the vulnerabilities that emerged after the Great Recession: rising and unsustainable debt, housing and other asset price bubbles; increased inequality; and more precarious jobs in many countries. According to some analyses, the global financial system may be even more susceptible to instability than it was in the immediate aftermath of the global crisis.<sup>5</sup>

## 2.1 The Fed and its critical impact on the world economy

Possible increases of the interest rate by the US Federal Reserve ("the Fed") before the end of 2015 have been evoked for several months as the American economy and labour market have appeared to strengthen. The US gross domestic product (GDP), which struggled in the first quarter, growing only by 0.6 per cent, recovered later in the year to increase by 2.3 per cent (annual rates) in the second quarter. The main driver was consumer spending, although exports, state and local government spending (particularly in the health sector) and household investments in fixed assets also contributed. Prices, which fell in the first quarter, bounced back and increased by 1.6 per cent in the second quarter.<sup>6</sup>

Unemployment continued its downward progression, due mainly to job creation in retail trade, health care, technical services and financial activities since the beginning of 2014. The US unemployment rate fell to the pre-crisis level of 5.3 per cent in mid-2015, but labour force participation, which stabilized between 62 and 63 per cent for more than a year, remains substantially below the pre-crisis level of 66 per cent. The employment-to-population ratio has picked up slightly since beginning of 2014 but because of the low participation rate, at 59.3 per cent the ratio remains approxi-

1 See for example the Survey IMF article of 14 August 2015 concerning the IMF's assessment that the Chinese economy has transitioned to "safer and more sustainable growth": <http://www.imf.org/external/pubs/ft/survey/so/2015/CAR081415B.htm>

2 Greg Jericho, "Stuck in low global growth and India overtaking China – is this the 'new normal'?", The Guardian, 15 April 2015: <http://www.theguardian.com/business/grogonomics/2015/apr/16/stuck-in-low-global-growth-and-india-overtaking-china-is-this-the-new-normal>

3 IMF, World Economic Outlook Update, July 2015: <http://www.imf.org/external/pubs/ft/weo/2015/update/02/pdf/0715.pdf>.

4 Frank-Oliver Aldenhoff, "Are economic forecasts of the International Monetary Fund politically biased? A public choice analysis", Review of International Organizations, September 2007, Volume 2, Issue 3, pp 239-260.

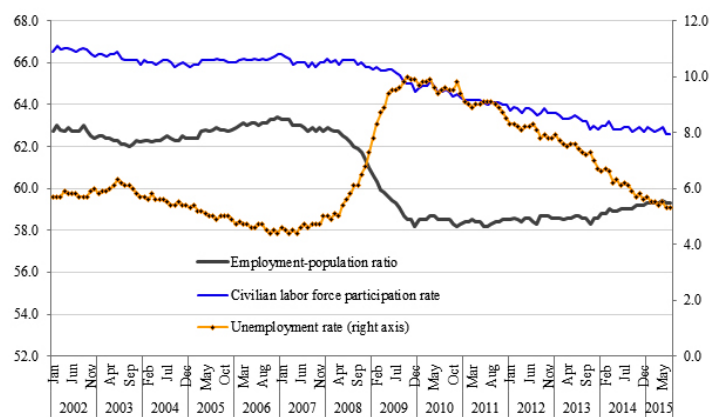
5 See John Ficenec "Eight signs a global market crash is imminent as central banks lose control", Financial Post, 20 August 2015: <http://business.financialpost.com/investing/global-investor/eight-signs-a-global-market-crash-is-imminent-as-central-banks-lose-control>.

6 Bureau of Economic Analysis, "GDP increases in second quarter", 30 July 2015: <https://www.bea.gov/newsreleases/national/gdp/gdphighlights.pdf>

mately 2 percentage points below its pre-crisis level (see Figure 2).

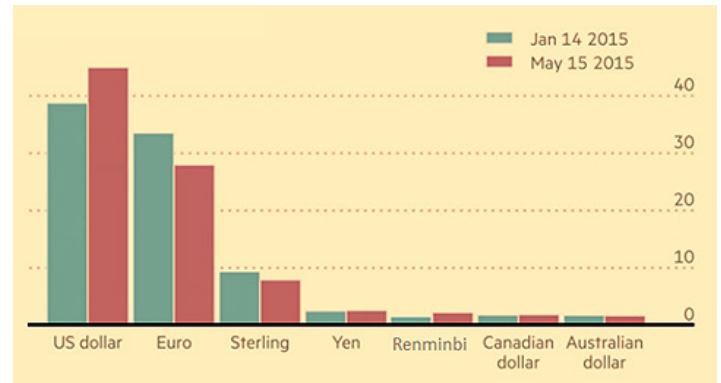
Furthermore, 6.3 million individuals in the US work in part-time jobs involuntarily (one-quarter of all part-time workers)<sup>7</sup> and wages have remained stagnant; they rose in the second quarter of 2015 by only 0.2 per cent (quarter-to-quarter change), the lowest rate of growth since 1982.<sup>8</sup> The overall labour market situation does not indicate a booming economy, although in comparison with Europe the United States has had a more successful recovery from recession, most likely because the US avoided Europe's obsession with austerity and applied a supportive monetary policy throughout the recovery period.

**Figure 2: The US labour market**



Several economists in the US have warned that an interest rate increase by the Fed could negatively affect the national economy by reducing consumption and investment, cutting growth and harming workers, particularly those at the lower end of the wage distribution.<sup>9</sup> Many analysts fear that the biggest adverse effect of a US interest rate increase will in fact be on developing economies and that recent stock market movements in those countries confirm this fear. The dollar remains the currency in which most capital flows to and from transitioning and low-income economies are denominated (see Figure 3).

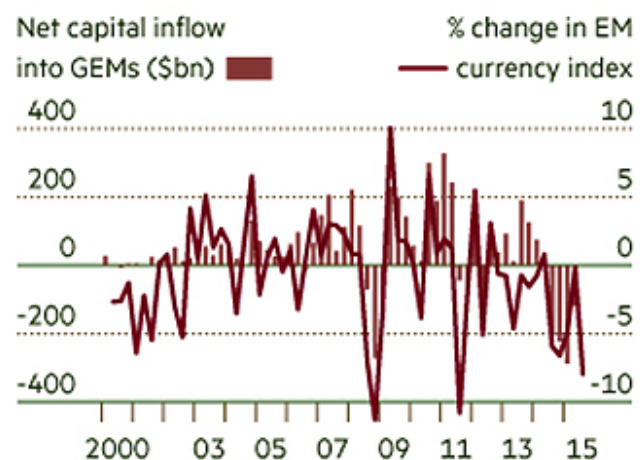
**Figure 3: Share of global payments by value (%)**



Source: Financial Times, "The Renminbi: growth of a global currency", 2015: <https://www.youtube.com/watch?v=uMaLnXXc-ts>

The biggest risk of an increase in interest rates by the Fed is to induce a sudden and uncontrolled reversal of capital flows, in particular of the "carry trade", which consists of borrowing money at low cost and investing it where returns remain high. The sudden reversal can send weaker currencies into free fall against the dollar, increase import prices, slash domestic demand and put pressure on borrowers whose debts are denominated in dollars. The weaker demand will in turn lead to a slowdown of exports from advanced economies. This reversal of cash flows has already started in expectation of an interest rate rise in the US as well as other factors. Over the last 13 months, approximately \$1 trillion has left emerging markets. This is reflected in the emerging currency index depicted in Figure 4 showing a 20-point drop since mid-2014. The various forecasts seem to underplay these signs.

**Figure 4: Emerging Market (EM) capital flows and exchange rate movements**



Source: Financial Times, "What has gone wrong for emerging markets?", 21 August 2015: <http://www.ft.com/intl/cms/s/0/821985d0-4695-11e5-af2f-4d6e0e5eda22.html#axzz3jZPdKhdR>

<sup>7</sup> Bureau of Labor Statistics, "Employment Situation Summary", 7 August 2015: <http://www.bls.gov/news.release/emp/sit.nr0.htm>

<sup>8</sup> Financial Times "US workers' pay posts smallest gain since 1982", fast FT 2015: <http://www.ft.com/intl/fastft/369551>

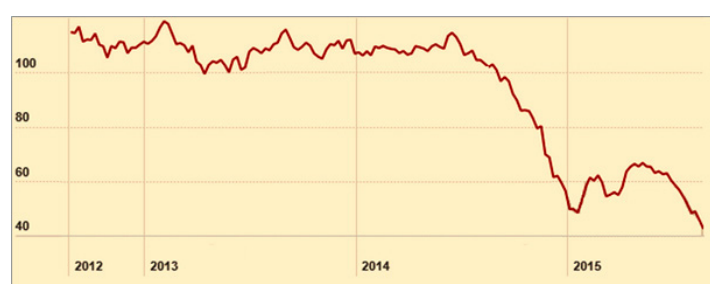
<sup>9</sup> Dean Baker, "The Federal Reserve Board and the War for Poverty", August 24 2015: <http://www.truth-out.org/news/item/32477-the-federal-reserve-board-and-the-war-for-poverty>



## 2.2 Weak fuel and commodity prices

To make things worse for emerging-market economies, fuel and commodity prices remain low, dragging down prospects for countries dependent on those exports. The price for crude oil, which had rebounded in April and May from below \$50/barrel to \$65/barrel, dropped in July and August so that prices are again below the \$50/barrel threshold – half the value of mid-2014 (see Figure ).<sup>10</sup>

**Figure 5: Price development of crude oil (\$US per barrel)**

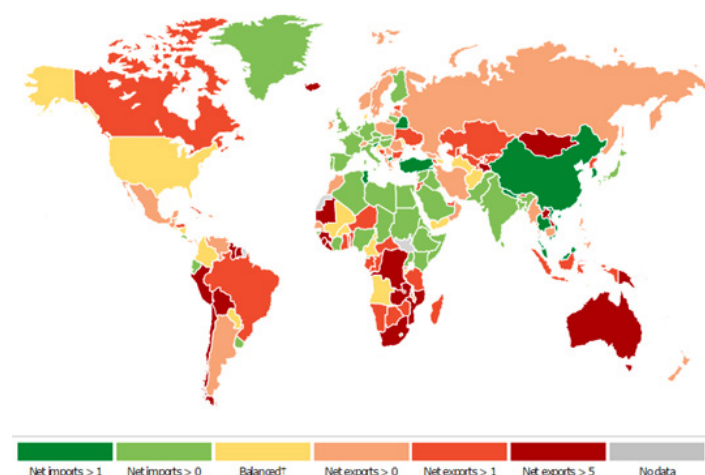


Source: Financial Times, Markets Data, 2015

Other commodity prices have followed a similar pattern, reflecting the low level of global demand. Recently they touched a 13-year low, close to their level in 2002.<sup>11</sup> For instance, copper futures<sup>12</sup> are currently traded at approximately half their value at the beginning of 2011.<sup>13</sup>

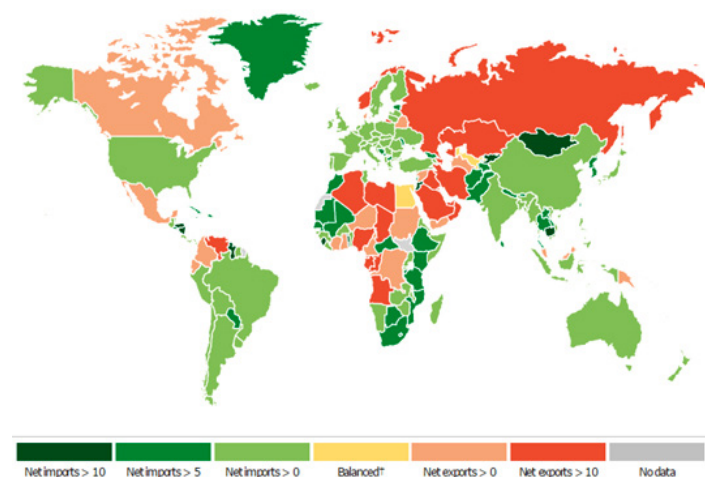
Figures 6 and 7 show the global export and import dependence on metals (Figure 6) and oil (Figure 7). Latin America, Southern and West Africa, some Central Asian countries and Australia are heavily dependent on metal exports. Low oil prices particularly affect Russia and the Middle East-North Africa. In the former, the IMF projects a (negative) GDP growth rate of -3.4 per cent; for the latter it projects 2.4 per cent in 2015, which could prove to be highly optimistic because revenue losses have been addressed through public financial buffers with the consequence of declining reserves.<sup>14</sup>

**Figure 6: Metal imports and exports (including ores)**



Source: The Economist (2015) "A risky state", August 12, available at: <http://www.economist.com/blogs/graphicdetail/2015/08/commodity-dependency>

**Figure 7: Oil imports and exports (including petroleum products)**



Source: The Economist (2015) "A risky state", August 12.

## 2.3 Lower growth and high leverage in Japan and China

A main contributor to the slowdown in demand for commodities is lower GDP growth in China and Japan. The Japanese and Chinese economies account for almost 20 per cent of global GDP.<sup>15</sup>

Japan applied an expansionary monetary policy early in the crisis and managed to leave behind a decade-long state of deflation. The economy registered beginning-of-the-year

10 Financial Times, Markets Data, 2015: <http://markets.ft.com/research/markets/Tear-sheets/Summary?s=IB.1:IEU>

11 Financial Times, Markets Data, 2015: <http://www.ft.com/intl/cms/s/0/9f2795cc-2ef8-11e5-91ac-a5e17d9b4cff.html#axzz3j6TZ5arN>

12 A future is defined as a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. The primary difference between options and futures is that options give the holder the right to buy or sell the underlying asset at expiration, while the holder of a futures contract is obligated to fulfill the terms of his/her contract. Source: [www.investopedia.com](http://www.investopedia.com)

13 <http://markets.ft.com/research/markets/Tear-sheets/Summary?s=US@HG.1:CMX>

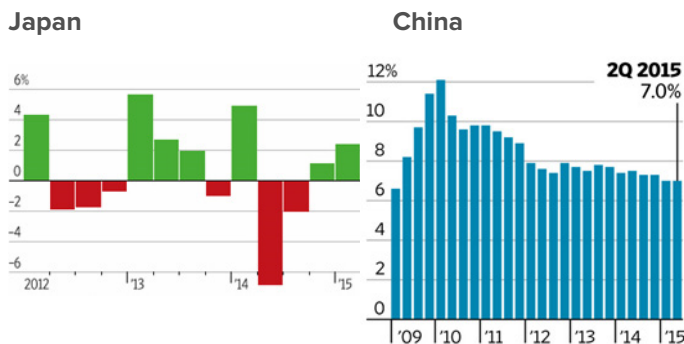
14 <http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/mreo0515.pdf>

15 <http://statisticstimes.com/economy/world-gdp-ranking.php>

growth of 2.4 per cent (Figure 8) but then fell to -1.6 per cent in the second quarter on a year-on-year comparison.<sup>16</sup> The main reason for this downturn is a weakening export sector and lower consumer spending.

Equally in China, GDP growth has continued to weaken. Although still high by international standards, the IMF's predicted growth rate for China, at 6.8 per cent, will be the lowest annual GDP increase for the country since 1990. The IMF projects a further slowdown in 2016 and beyond and argues that this might be part of a natural saturation as China transitions from an emerging to a higher middle income economy.<sup>17</sup>

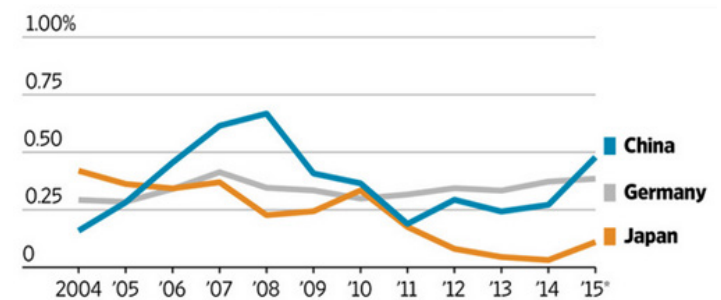
**Figure 8: Quarterly GDP growth rate (year-on-year-comparison, seasonally adjusted)**



Source: Wall Street Journal

The Chinese government has sought to intervene in exchange markets to keep its export sales high. In previous years, interest rates as well as the exchange rate against the dollar were kept artificially low to spur credit-based investment and exports. In recent years wage growth supported domestic consumption while industries transitioned from low-skill manufacturing to more complex production and services. As a consequence, net exports declined from 10% of GDP in 2007 to only 2.1% in 2014<sup>18</sup> but they increased again in 2015, contributing to China's overtaking Germany as the country with the highest current account balance (see Figure 9), if forecasts materialize.

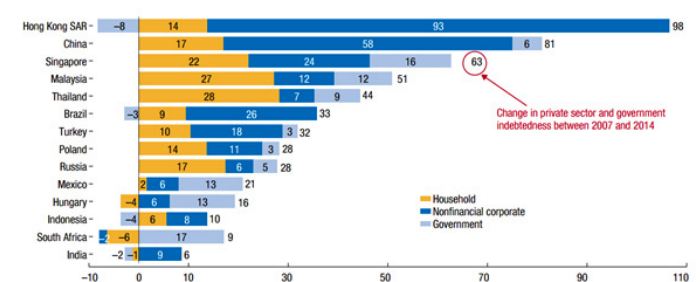
**Figure 9: Current-account balances as a percentage of global GDP**



Source: Wall Street Journal "Why China's Yuan 'Reform' Merits Skepticism", 19 August 2015: <http://www.wsj.com/articles/why-chinas-yuan-reform-merits-skepticism-1440003227>

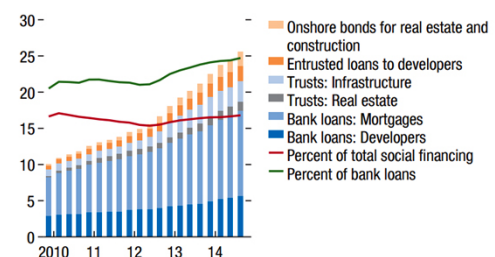
As mentioned, China's domestic consumption has increased but investment stimulated by easy credit has continued to be the major driver of the economy. Investment as a proportion of GDP reached 46.9 per cent in China in 2014; in comparison, in the other BRICS countries (Brazil, Russia, India, South Africa), the investment/GDP ratio ranged from 19.1 to 31.5 per cent in the same year.<sup>19</sup> The expansion of credit led to China's debt/GDP ratio almost doubling in the past seven years, far more than in the other BRICS countries (see Figure 10). A substantial part of lending went into real estate mounting to 25 per cent of total bank loans (see Figure 11). These "unproductive" investments have fuelled a bubble that may finally have begun to burst – a development that could further affect China's economic growth.

**Figure 10: Change in Private Sector and Government Indebtedness between 2007 and 2014 (as a share of GDP; percentage points)**



Source: IMF, Financial Stability Report, April 2015, p. 42

**Figure 11: Lending to Real Estate Sector (in Trillions of Renminbi, unless otherwise noted)**



Source: IMF, Financial Stability Report, April 2015, p. 38: <https://www.imf.org/External/Pubs/FT/GFSR/2015/01/pdf/text.pdf>

19 IMF, WEO Database, 2015

16 <http://economictimes.indiatimes.com/news/international/business/japan-economy-shrinks-in-q2-in-setback-for-abenomics/articleshow/48507860.cms>

17 <https://www.imf.org/external/pubs/ft/survey/so/2015/CAR081415B.htm>

18 <http://www.imf.org/external/pubs/ft/scr/2015/cr15234.pdf>

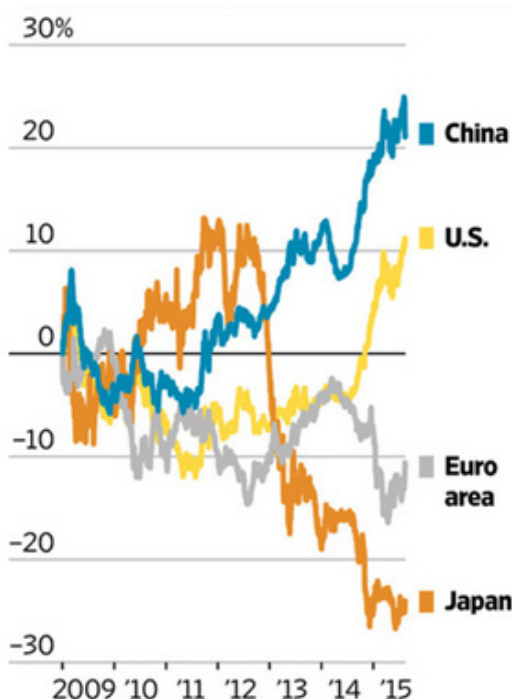


## 2.4 Currencies, stocks and the volatility of financial markets

China's decision to allow for a more flexible movement of the exchange rate regime in March 2014 resulted in a 10 per cent appreciation of the Chinese currency, the renminbi, against the US dollar since mid-2014.<sup>20</sup> In mid-August China devalued its currency by 1.9 per cent against the dollar.<sup>21</sup> This has been followed by speculation that the action was either the beginning of a free fall of the Chinese currency caused by capital outflow or a measure to aid domestic exporters that could set off a currency war.<sup>22</sup>

Such speculation seems at the least premature when put in the context of changes to other currencies. As Figure 12 shows, the Chinese currency has appreciated substantially over the past five years – followed since mid-2014 by the US dollar. On the other hand, the Japanese yen and the euro have experienced major depreciations.

**Figure 12: Exchange-rate indices**



Source: Wall Street Journal, "Why China's Yuan 'Reform' Merits Skepticism", 19 August 2015: <http://www.wsj.com/articles/why-chinas-yuan-reform-merits-skepticism-1440003227>

20 Greg Ip "Why China's Yuan 'Reform' Merits Skepticism", Wall Street Journal, 19 August 2015: <http://www.wsj.com/articles/why-chinas-yuan-reform-merits-skepticism-1440003227>

21 John Author, "Hard landing – or worse?", 11 August 2015: <http://video.ft.com/4415159575001/Hard-landing-or-worse-/authors-note>

22 See for example Russell Flannery "China's Currency Devaluation Is A Sign Of Trouble", Forbes, 11 August 2015; or William Pesek, "Is China Preparing for Currency War?", Bloomberg, 5 February 2015.

Recent developments in the relative values of currencies are based less on developments in the real economy and more on speculation. Thus, trust in the stability of currencies has been eroded and investors are highly alert to any change. A high share of excess of liquidity went into the equity market, which has equally experienced severe volatility. Beginning with declines in China, stock markets around the globe lost value in mid-August. By month's end, stocks in most other countries recuperated part of their losses, but August proved to be the worst year for European stock markets in four years; in the US it was the worst in three years. Further falls in stock-market prices took place in early September.

## 2.5 The unsolved crisis in Europe

The call for "internal devaluation" as the only solution to the European economic crisis has been put forward by many governments and imposed through loan conditions by the Troika institutions: European Central Bank, European Commission and IMF. Their argument has been that "competitive imbalances" between "periphery" and "core" euro area countries have caused trade deficits, leading to a build-up of external debts. In the absence of the possibility to devalue the national currency, wage cuts and reduced public spending are required to lower costs, spur investments and finally exports that will narrow the trade balance, according to the Troika's logic. The approach is the same that the IMF has applied to countries with pegged currencies, for example Argentina in the 1990s and early 2000s until its economy underwent contraction and finally financial collapse in 2001-2002.

There are two problems with this reasoning. The first is the apparent contradiction with the objective of the euro area, as expressed in the Treaty on European Union (Maastricht Treaty). The latter stipulated that the objective of the union was "to promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion."<sup>23</sup> Cuts in wages and social programmes in Southern Europe and a lowering of living standards contradict the objective of convergence across Europe.

Secondly, this approach is presented as the only possible one. But the critical counterpart of a trade deficit is financial flows and securing their continuation. While certainly politically more complicated, a progress toward a fiscal un-

23 [http://www.cvce.eu/obj/treaty\\_on\\_european\\_union\\_maastricht\\_7\\_february\\_1992-en-2c2f2b85-14bb-4488-9ded-13f3cd04de05.html](http://www.cvce.eu/obj/treaty_on_european_union_maastricht_7_february_1992-en-2c2f2b85-14bb-4488-9ded-13f3cd04de05.html)

ion which entails financial transfers would have been a more coherent approach with regard to the underlying idea of the European Union.<sup>24</sup> Furthermore as the ETUC has noted, the option of an “internal re-evaluation”, i.e. wage increases in surplus countries, notably Germany, is completely absent from the mainstream debate and country specific recommendation of the European Commission.<sup>25</sup>

The question remains whether internal devaluation – in other words, wage cuts for an entire country – can conceivably substitute for the fact that the monetary union fails to meet the criterion of an optimal currency zone. Thus far, its implementation has failed to deliver the promised effects of higher growth and employment creation.

Even though Spain has an unemployment rate of 22 per cent, the IMF has praised the country as a major success of the austerity and structural policies it promotes because the economy re-entered positive growth in 2014 after three years of contraction. The Fund attributes a considerable part of the “success” to the fact that “the external current account registered a 0.8 per cent of GDP surplus in 2014. This reflects, in part, healthy export growth supported by regained competitiveness from price and wage moderation.”<sup>26</sup> In reality, the restoration of positive GDP growth in Spain in the last year and a half has nothing to do with “regained competitiveness” vis-à-vis the rest of the euro area through wage cuts. Negative wage growth as a result of labour market deregulation and weakened collective bargaining has indeed taken place, but in the first five months of 2015 Spain’s trade balance with the euro area (EA-19) was €2.1 billion, as compared to €2.5 billion in the first five months of 2014, a decline of 16 per cent.<sup>27</sup> A far more plausible explanation of Spain’s recent growth is due to looser credit conditions supported by the ECB, which have made it easier for businesses and consumers to contract loans, leading to a rebound of investment and private consumption.

Table 2 reveals that little progress has been made in “re-balancing” trade within the EU through internal devaluation in any of the EU’s so-called Southern periphery countries. Changes in the intra-EU trade balance in the first six months of 2015 as compared to the first six months of 2014 were negative, i.e. surpluses decreased or deficits increased, in three countries: Spain, Italy and Portugal. In a fourth, Greece, the change was negligible. On the other hand, Germany increased its intra-Europe trade balance by 46 per cent over the same period.

**Table 2: Total, intra and extra EU trade balance by country in billion Euros**

	Trade balance					
	Total		Intra-EU		Extra-EU	
	Jan-Jun 14	Jan-Jun 15	Jan-Jun 14	Jan-Jun 15	Jan-Jun 14	Jan-Jun 15
Belgium	6.5	13.5	12.5	25.9	-6.0	-12.4
Bulgaria	-2.1	-1.6	-1.2	-1.0	-0.9	-0.6
Czech Republic	8.7	8.9	10.1	10.8	-1.4	-1.9
Denmark	4.4	5.4	0.7	0.6	3.7	4.7
Germany	99.9	125.5	26.2	38.3	73.8	87.3
Estonia	-0.9	-0.7	-1.3	-0.8	0.4	0.2
Ireland	17.3	22.7	5.4	8.6	11.9	14.1
Greece	-10.5	-9.2	-4.9	-4.8	-5.6	-4.4
Spain	-11.7	-11.9	2.5	-0.7	-14.2	-11.2
France	-38.3	-29.2	-41.9	-39.8	3.6	10.6
Croatia	-3.6	-3.4	-3.2	-3.3	-0.4	-0.1
Italy	17.2	18.5	7.9	4.6	9.3	13.9
Cyprus	-1.6	-1.5	-1.3	-1.3	-0.3	-0.2
Latvia	-1.2	-1.1	-1.5	-1.3	0.3	0.2
Lithuania	-0.9	-1.5	-1.5	-1.3	0.7	-0.3
Luxembourg	-2.6	-2.9	-2.4	-1.2	-0.3	-1.7
Hungary	2.4	2.9	4.2	4.3	-1.8	-1.4
Malta	-1.0	-1.6	-0.8	-1.3	-0.2	-0.4
Netherlands	30.7	28.8	89.1	90.3	-58.4	-61.4
Austria	-2.2	-1.3	-5.7	-5.2	3.5	3.9
Poland	-0.9	4.3	5.7	11.3	-6.6	-7.1
Portugal	-5.0	-4.8	-4.4	-4.5	-0.6	-0.3
Romania	-2.8	-3.3	-3.2	-3.4	0.4	0.1
Slovenia	0.8	1.0	1.3	1.7	-0.6	-0.7
Slovakia	2.0	1.6	4.2	3.5	-2.2	-1.8
Finland	-1.1	0.7	-3.4	-3.3	2.3	3.9
Sweden	1.6	2.7	-5.3	-4.9	6.9	7.5
United Kingdom	-62.4	-74.9	-41.6	-57.6	-20.9	-17.3

Source: Eurostat news release, “Euro area international trade in goods surplus €26.4 bn”, June 2015: <http://ec.europa.eu/eurostat/documents/2995521/6941808/6-17082015-AP-EN.pdf/8f52571c-8921-41ae-bd44-18bb58e2b77a>

### 3 Labour markets in Europe and beyond remain troubled

The global jobs deficit created by the 2008 financial crisis has not been resolved. The ILO estimates that 201 million workers are unemployed in the world – 30 million more than before the global crisis.<sup>28</sup> The ILO also projects that the global employment situation will deteriorate over the next five years with unemployment rising by 3 million in 2015 and another 8 million over the following four years.<sup>29</sup> The wage loss

<sup>24</sup> See [http://www.researchgate.net/profile/Klaus\\_Armingeon/publication/265489694\\_Political\\_Economy\\_of\\_the\\_Sovereign\\_Debt\\_Crisis\\_The\\_Limits\\_of\\_Internal\\_Devaluation/links/54afb6e30cf29661a3d5d33d.pdf](http://www.researchgate.net/profile/Klaus_Armingeon/publication/265489694_Political_Economy_of_the_Sovereign_Debt_Crisis_The_Limits_of_Internal_Devaluation/links/54afb6e30cf29661a3d5d33d.pdf)

<sup>25</sup> [http://www.academia.edu/12902317/ETUC\\_ASSESSMENT\\_OF\\_THE\\_2015\\_COUNTRY\\_SPECIFIC\\_RECOMMENDATIONS\\_ON\\_WAGES](http://www.academia.edu/12902317/ETUC_ASSESSMENT_OF_THE_2015_COUNTRY_SPECIFIC_RECOMMENDATIONS_ON_WAGES)

<sup>26</sup> <http://www.imf.org/external/pubs/ft/scr/2015/cr15232.pdf> p. 5

<sup>27</sup> Instituto Nacional de Estadística, Boletín Mensual de Estadística, 2015

<sup>28</sup> ILO, World Employment and Social Outlook, June 2015: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_368626.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_368626.pdf)

<sup>29</sup> ILO, World Employment and Social Outlook – Trends 2015, Summary, <http://crisisobs.gr/en/2015/01/world-employment-and-social-outlook-trends-2015-full-report/>

due to the jobs gap is estimated at \$1.2 trillion, more than one third of it in the European Union (see Table 3).<sup>30</sup>

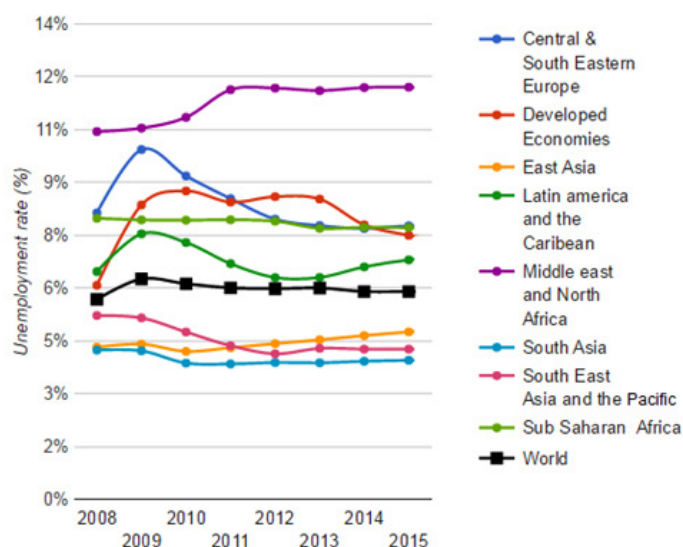
**Table 3: Estimated wages lost due to jobs gap 2013, in international USD (billions)**

	Wage gap, males	Wage gap, females	Wage gap, both sexes
WORLD	629	589	1218
Developed Economies and EU	531	358	889
European Union	281	186	467
Central and South-Eastern Europe (non-EU) and CIS	46	50	97
Asia and the Pacific	35	114	149
Latin America and the Caribbean	-4	27	23
Middle East and North Africa	7	16	23
Sub-Saharan Africa	14	23	37

Source: ILO, Employment and Social Outlook, June 2015, p. 21.

By regional aggregations, the Middle East-North Africa has the highest unemployment rate; youth unemployment has been particularly high in the region, standing at over 27 per cent in 2013 according to an ILO study.<sup>31</sup> In Central and South Eastern Europe it has declined to its pre-crisis level, but due in large part to out-migration of working age individuals. In developed economies unemployment remains elevated compared with 2008, while in Latin America it has been increasing since 2013 (see Figure 13).

**Figure 13: Unemployment rate by region**

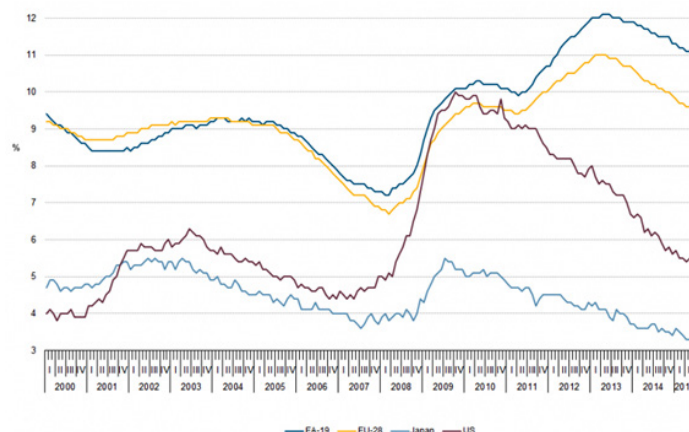


Source: ILO, Employment and Social Outlook, June 2015: [http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS\\_337911/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS_337911/lang--en/index.htm)

In Europe labour markets show little improvement, notwithstanding claims by the IMF and its Troika partners that their policies are succeeding. Although unemployment in the EU declined to 9.6 in June 2015, more than five years into economic recovery, unemployment remains far above its pre-Great Recession level of 7 to 7.5 per cent. In the euro area the unemployment rate, at 11.1 per cent in June, is considerably higher than the EU average. It is worth pointing out that the mayor surge in European unemployment occurred after

mid-2011, two years after the Great Recession, when austerity had become the dominant policy (see Figure 14).

**Figure 14: Unemployment rates EU-28 EA-19 US and Japan seasonally adjusted January 2000 to June 2015**



Source: Eurostat, Statistics Explained, June 2015: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Unemployment\\_rates\\_EU-28\\_EA-19\\_US\\_and\\_Japan\\_seasonally\\_adjusted\\_January\\_2000\\_June\\_2015.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Unemployment_rates_EU-28_EA-19_US_and_Japan_seasonally_adjusted_January_2000_June_2015.png)

It should be stressed that a low unemployment rate does not necessarily indicate a healthy labour market. The ILO cautioned in June 2015 that the recovery from the crisis was uneven and fragile with significant underemployment, particularly in many emerging and developing countries, that does not show in unemployment rates.<sup>32</sup> The incidence of temporary and self-employment is also on the rise in developed economies and affects young people in particular (see Figure 15).

**Figure 15: Temporary work in advanced economies**



Source: Martin Sandbu, "Free Lunch: The rise of the precariat", Financial Times, 6 August 2015: <http://www.ft.com/intl/cms/s/3/d42ddef4-3c1b-11e5-8613-07d16aad2152.html#axzz3jZPdKhdR>

Those in precarious employment have a higher risk of poverty. Not only has the number of precarious jobs increased, but so has the likelihood of those workers ending up in poverty situations. ILO data show how dramatically the rate of poor households headed by a worker in a precarious job has increased in some countries. In Mexico this rate stands almost at 50 per cent. Some Eastern European countries such as Bulgaria and Hungary show rates above 30 per cent.<sup>33</sup>

<sup>30</sup> ILO, Employment and Social Outlook, June 2015, p. 21.

<sup>31</sup> ILO, Taqueem Fund for Evaluation in Youth Employment, 2014: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---exrel/documents/publication/wcms\\_193812.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---exrel/documents/publication/wcms_193812.pdf)

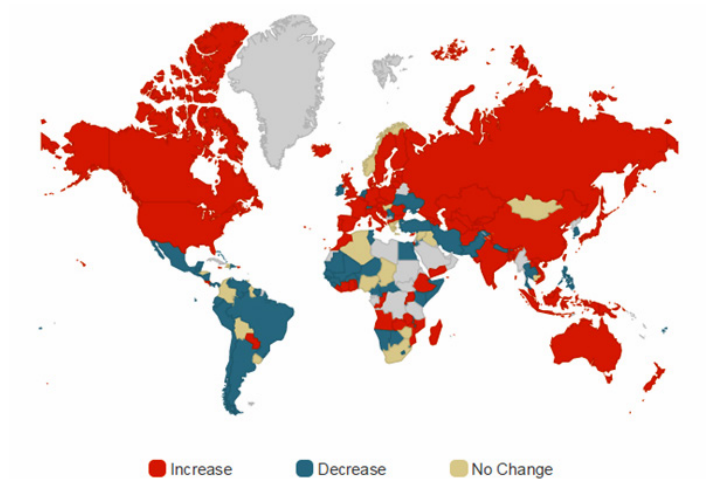
<sup>32</sup> ILO, Employment and Social Outlook, June 2015, p. 17

<sup>33</sup> ILO, World Employment and Social Outlook 2015, May 2015: [http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS\\_369630/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS_369630/lang--en/index.htm)



The increased number of working poor explains part of the growth of inequality, which has been widely documented. Figure 16 shows the changes in inequality across the globe, with increases in almost all developed economies but also in several developing countries including three of the five BRICS.

**Figure 16: Inequality across the globe, change between 1990 and 2010**



Source: ILO, Labour Markets, Institutions and Inequality, March 2015: [http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS\\_351265/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/WCMS_351265/lang--en/index.htm)

## 4 Concluding remarks

The global economic situation is no more sustainable in the second half of 2105 than it was five years ago, and in fact appears to be less stable than when the recovery from the Great Recession began. The US Federal Reserve, which has been seeking to raise interest rates for most of this year, may do so but then find that financial volatility will force it to delay or rescind the changes. Events in China may continue to destabilize financial markets in other countries. The expectation of increases in US interest rates and the slowdown in the Chinese economy is making exchange rates and stock markets more volatile, something that is of particular concern in light of the amount of debt that has accumulated in emerging-markets economies and others in recent years. Overall, the risks that have built up are now turning into substantial threats for the real economy. Another major blow to the global economy – whether it comes from Europe, China, Latin America or the US – could return the world to recession within the next year. And of additional concern is how economic policy will respond to another recession. Policy-makers in almost all countries failed to use the opportunities the Great Recession created to reshape the financial architecture so as to serve the economy, instead of using the economy to serve the financial sector by bailing out banks and weakening the public sector. The challenge to address to policy-makers is to ask why they missed the opportunity for reform in the last crisis and how they intend to prepare a different response to a new crisis.

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