ITUC CSI IGB

Economic Briefing
(October 2019)

A new economic crisis in the horizon?

Global growth has slowed if not stagnated. The IMF's global growth projection is now expected to be 3.2 per cent in 2019, and 3.5 per cent in 2020, 0.1 per cent lower than the April 2019 projections. While the outlook for advanced economies has seen a slight improvement, forecasts for emerging and developing economies worsened. Latin America faces the largest slowdown and is now expected to grow 0.6 per cent in 2019, a 0.8 per cent drop from the April forecast.

Predictions suggest we are on the verge of a new financial crisis. Experts, politicians and global leaders make references to crisis precursors, drawing analogies with the mid-war period and warning of early signs and downside risks.

China and the USA: In the second quarter of 2019, China's economy grew by 6.2% which is the lowest growth figure since 1992. US growth fell from 3.1% in Q1-2019 to 2.1% in Q2-2019 and the US Federal Reserve is already trying early-response measures by lowering its interest rates; the first time since the 2008 crisis. The trade war between the two countries is fueling this and any further escalation could cause an even greater slowdown.

Brexit: After seven years of growth, the British economy contracted by 0.2% in Q2-2019. Analysts expect further contraction if the Brexit date (October 31) holds and more businesses relocate to continental Europe with disruption of supply chains. The pound is in almost 1-1 ratio with the Euro, and economic uncertainty is increasing. In Germany, industrial production dropped by 1.5% in June 2019 (month on month) while, in the event of a no-deal Brexit, the remaining members of the EU face hundreds of thousands of jobs lost. The UK government has forecast job losses of 2.8 million in the event of a no-deal Brexit, and 700,000 in the event of a 'soft' Brexit.

Ballooning private (corporate) debt: UNCTAD's Trade and Development Report for 2018 warns of high debt levels. "*By early 2018, global debtstocks had risen to nearly $250 trillion –three times global income – from $142 trillion a decade earlier. UNCTAD's most recent estimate is that the ratio of global debt to GDP is now nearly one third higher than in 2008.*" Developing countries' private debt as share of global debt stock increased from 7% in 2007 to 26% in 2017. Debt sustainability problems seem to be concentrated in non-financial corporations (meaning companies that are not banks, insurance companies or the like). A recent OECD report adds another dimension to the issue: "*corporations in both advanced [USD 2.9 trillion] and emerging markets [USD 1.3 trillion] are facing record levels of repayment requirements in the coming years. [...] Notably, for emerging market companies, the amount due within the next 3 years has reached a record of 47% of total outstanding amount; almost double the percentage in 2008.*" The report also finds historically low ratings for investment grade (safe) bonds and a prolonged decline in overall corporate bond quality. A recession now would make it more difficult for these companies to re-finance their debt.

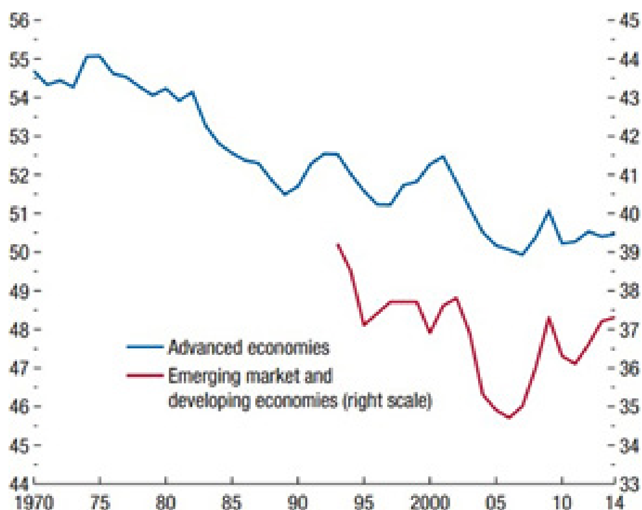
Employment crisis: There is an employment crisis, with 172 million people worldwide currently unemployed, with levels projected to increase r by a further 1 million people every year. Young people are disproportionately affected, with more than 11% finding themselves out of a job. Women remain excluded from the labour market, accounting for less than two fifths of the global workforce and earning, on average, about 20 per cent less than men. There is a breakdown in direct employment to the extent that 60% of the world's workers are now working in informal work including new platform businesses with no rights, no minimum wages, no social protection, and no rule of law.

Labour market crisis: More than 60 per cent of global trade is dependent on supply chains sourced from different parts of the world. These chains are based on outsourcing labour at the lowest possible cost and dehumanising exploitation including modern slavery with forced and child labour. This requires domestic law and compliance, mandated due diligence for corporations and an ILO global standard.

A global wage crisis: Inequalities have reached historic levels, with 26 people last year owning the same as the 3.8 billion people making up the poorest half of the world's population. A decline in the labour income share compared to rising productivity over last decades has meant that economic growth is being shared less and less with workers

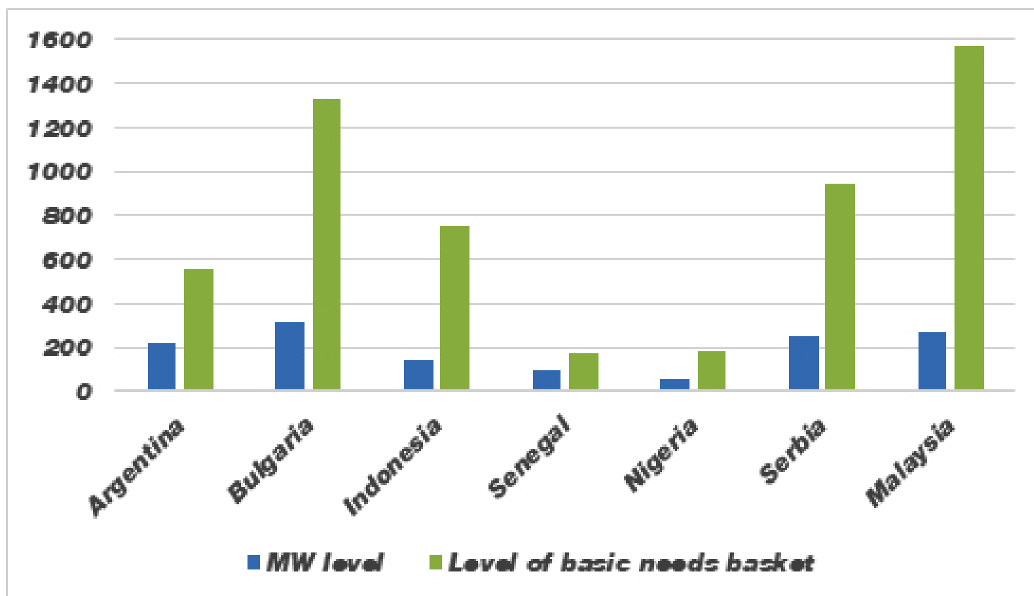
through their wages. These trends are creating despair and anger, hampering aggregate demand, paralysing domestic markets and holding back sustainable global growth. Sixty per cent of working families report that they are living on the edge, struggling to survive and minimum wages in the majority of countries are not living wages. Minimum living wage mechanisms and strengthened collective bargaining are essential to remedy this. Strengthened social protection is also desperately needed, as 55% per cent of the global population – 4 billion people – are not covered by any social protection at all, and less than one third of the world enjoys a comprehensive level of protection.

Evolution of the labour share of income



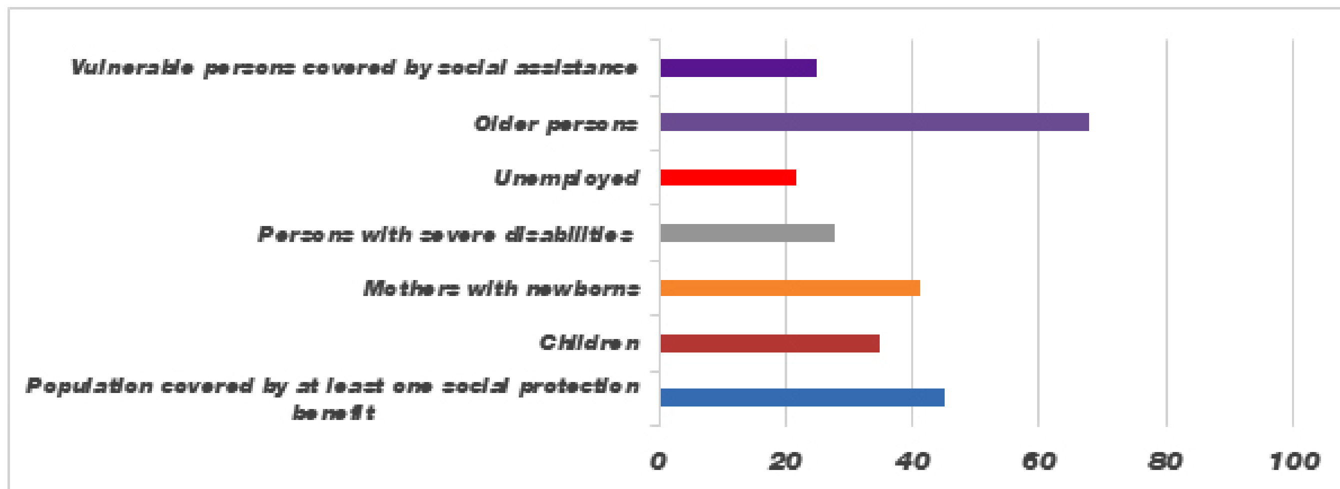
Source: IMF (2017)

Minimum wage levels vs. cost of living (in USD), selected countries



Source: ITUC regional wage coordination forums / Note: in the cases of multiple minimum wages, the lowest one was selected.

Effective social protection coverage, global estimates (%)



Source: ILO World Social Protection Report 2017-2019

The lack of a global response

Despite this, meetings of G7 and G20 leaders in the last few months failed to discuss the possibility of a multi-faceted global crisis with any urgency or to lay foundations for a response.

This stands in contrast to 2008 when concerned government leaders convened under the G20 to coordinate a response. At the 2009 Summit the ITUC met with nine out of the twenty world leaders as well as heads of international organisations. The first G20 Leaders' Statements were aligned with union demands for fiscal expansion, adoption of the ILO Global Jobs Pact, respect for labour standards, and action promised on regulating financial markets. Indeed, world leaders seemed to be pursuing effective first response policies and most central banks cooperated.

However, since 2011, Europe and other parts of the world have returned to a strategy of fiscal consolidation, despite the fact that it has been shown not to work. The IFIs and many governments pursued aggressive labour deregulation by impeding unionisation, decentralising collective bargaining, facilitating mass lay-offs, pursing privatisation and slashing social spending. These reforms have fueled poverty and inequalities, dampened aggregate demand, and have had no significantly positive effect on overall employment or growth. At the same time, financial regulation has not advanced fast enough.

Current responses by Central Banks are placing constraints on growth in the real economy. Quantitative easing targeted government bond markets, often sending interest rates close or below zero. This type of monetary policy inflated the value of financial assets rather than creating conditions for much-needed direct public investment. Indeed, monetary policy since 2009 has played a key role in increasing inequality and has often been used instead of financial regulation or as an excuse for inaction. Today speculative capital is greater than in 2008 and monopoly power has extended to include the digital corporate giants, with little or no intervention from Governments. Competition policy has failed.

In 2016[1], financial assets stood at $300 trillion while the real economy - as measured by world GDP - accounted for just $76 trillion. At the same time, financialisation did not lead to increased investment in the real economy. Global FDI stood at $26 trillion in 2016, and fixed capital formation is on the same levels as 30 years ago in both developed and developing countries (around 20% of the GDP).

1 The problem of financialisation started much earlier. Among other things, the IFIs role in the 1980s, the establishment of the WTO, and the entry into force of thousands of bilateral investment treaties in the 1990s and 2000s, an ever-accelerating race to the bottom due to increased capital mobility, technological advancement, the spread of tax treaties and tax havens, 'investor-friendly' environments, and the insufficient structural response to the 2008 crisis - all increased global capital's power especially vis-a-vis labour.

Is there ground for global policy coordination this time?

In 2008, world leaders came together to coordinate fiscal spending, refrain from protectionism and take tentative steps to re-regulate finance. However, today's global political climate is much different. High debt restricts the use of expansive fiscal measures. Monetary easing has almost been exhausted in an asset-led recovery. Massive protectionist measures are already in place. Currency manipulation has greater legitimacy. Multilateralism is in crisis and many governments have retreated into nationalism with unilateral responses. Financial re-regulation has failed due to lack of will, regulatory fragmentation and the rise of shadow banking.

And democracy is at risk when more than 60% of people believe that their voice does not matter to their governments with a consequent loss of trust that signals a crisis in our democracies.

The multifaceted challenge of another global crisis includes the climate crisis - a zero emissions economy with Just Transition measures is our only chance of survival. Without the social dialogue vital to achieve progress on this the impact on the economy can only worsen.

In the face of inaction with no determined global coherence and no timeline reflecting urgency we will face a now certain economic, environmental and consequent social crisis without strong foundations for resolution. The victims working people and their families in all countries.

Absent global coherence the impacts of a full-blown crisis will be far-reaching. Without joint responsibility each government will put 'national interest' first laying the ground for further conflict which may well not be conducted only by economic and political means.