

# ECONOMIC BRIEFING



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# OVERVIEW

## THE CURRENT CRISIS- DEEPER THAN PAST CRISES?

The global economic system is facing a critical moment of deep and intersectional social, economic, environmental, and health crises that are impacting workers and their families no matter where they live and what level of development their national economy has embraced. Meanwhile, many political leaders and international institutions are turning to orthodox macroeconomic responses - proven in previous times to only deepen the level of global inequalities and further undermine the quality of the lives

and employment opportunities for workers all over the world.

In 2022 we are witnessing a downward spiral of economic growth, simultaneously with an escalation in prices of goods and services that form the foundation of workers' most basic living costs, constraints on productive capacity, regressive income distribution, increasing debt at sovereign, corporate and household levels, and the lack of responsible business conduct as many companies race

to lay off workers, cut wages and maintain a “business as usual” model reliant on prioritising their own access to credit in order to maximise their own profit returns.

## INFLATION

The first sign of this was the enormous increase in prices, resulting in the doubling of inflation rates by the last quarter of 2021, and later impacting the prospects of economic growth.

The disruptions and price increases of important commodities, especially in food and energy, as a result of the Russian invasion of Ukraine in

early 2022 and the impacts of the COVID-19 pandemic further exposed the bottlenecks in the global supply chains that had been mounting over the last decade. People are now aware that the optimistic narrative of global growth, which had been touted ever since the “sub-prime” induced global financial crisis of 2009, was an illusion.

IMF FORECAST CORE INFLATION RATE WORLDWIDE JULY 2022



Source: IMF World Economic Outlook update July, 2022<sup>1</sup>

<sup>1</sup> <https://www.imf.org/es/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022> accessed September 2022

The consequences of price rises for the most essential items in the basket of goods and services for workers and their households, food and energy, coincides with

the heavy concentration in market share and trading power of the mostly duopolistic and monopolistic behaviour of trading houses, both at international and local level.

EVOLUTION OF FOOD INDEX PRICE. BASE 2014-16=100



Source: Food and Agricultural Organization Food Index.<sup>2</sup>

According to the FAO, the last price crisis took almost a whole year to settle.

Energy price increases in 2021 had huge consequences for the costs of

household consumption as a result of their further impact on inputs into many other goods and services, as well as the long lasting effects across the whole economy.

<sup>2</sup> FAO, <https://www.fao.org/worldfoodsituation/foodpricesindex/en/> accessed September 2022

### CHANGE IN PRICES IN RESPECT TO THE PREVIOUS YEAR.

	2021	2022	2023
ENERGY	81.0%	50.5%	-12.4%
NON-ENERGY	32.7%	19.2%	-8.8%
AGRICULTURE	24.2%	17.7%	-7.7%
FOOD	30.8%	22.9%	-10.4%
OILS AND MEALS	41.5%	29.7%	-13.9%
GRAINS	29.9%	20.4%	-10.3%
OTHER FOOD	18.4%	15.2%	-4.2%
RAW MATERIALS	8.9%	3.2%	0.7%

Source: World Bank Commodity Markets.<sup>3</sup>

The World Bank Commodity Markets “*pink sheet*” shows that after the increases of 2021 and 2022, the expected decline for 2023 is more modest, and that efforts should be made to restore the purchasing power of consumers, especially for those where food and energy are higher components in their expenditure baskets.

<sup>3</sup> <https://www.worldbank.org/en/research/commodity-markets#3> consulté en septembre 2022

# PESSIMISTIC ECONOMIC GROWTH

Global economic growth rates are a reflection of the turbulences described. In 2021, despite these factors we saw the emergence of strong resilience in many econo-

mies, as recovery was facilitated by unprecedented government financial interventions, as well as the strong contributions of the labour force in key sectors.

GDP GROWTH PER YEAR ACCORDING TO IMF JULY 2022	PROJECTIONS			
	2020	2021	2022	2023
WORLD OUTPUT	-3.1	6.1	3.2	2.9
ADVANCED ECONOMIES	-4.5	5.2	2.5	1.4
EMERGING MARKET AND DEVELOPING ECONOMIES	-2.0	6.8	3.6	3.9
EMERGING AND DEVELOPING ASIA	-0.8	7.3	4.6	5.0
EMERGING AND DEVELOPING EUROPE	-1.8	6.7	-1.4	0.9
LATIN AMERICA AND THE CARIBBEAN	-6.9	6.9	3.0	2.0
MIDDLE EAST AND CENTRAL ASIA	-2.9	5.8	4.8	3.5
SUB-SAHARAN AFRICA	-1.6	4.6	3.8	4.0

Source: IMF World Economic Outlook update July 2022

However, the optimistic forecasts of the “new normal” began to fade as productive constraints

started to emerge and economic growth forecasts are being revised downward, almost monthly. Where

country-based information is gathered and systematised, in April 2022 the IMF revised their earlier estimates downwards, and again in July when the latest World Economic Outlook was published. July estimations for 2022 and 2023 are 3.2% and 2.9% respectively, -0.4 and -0.7 percentage points lower than what was forecast in April.

The OECD forecast for 2023 is 2.8% growth. The World Bank forecasts

3.2%. UNCTAD forecasts 1%, while there is the expected ripple effects of inflation on other prices for around one year.

These statistics indicate that by the end of 2022 the world will have dived into a scenario of what economists call “stagnation”: no growth or insignificant economic growth alongside high or rising price inflation.

## HOW DID WE GET HERE?

The answers can be found in the comparative analysis of the changes that GDP growth has taken since the beginning of the 21<sup>st</sup> Century. It is not simply the result of the impacts of the pandemic, despite the macroeconomic impacts of COVID-19 accelerating some processes.

Growth measured by GDP was recorded in most regions, especially in those regions with lower relative incomes and in the emerging economies, where growth rates

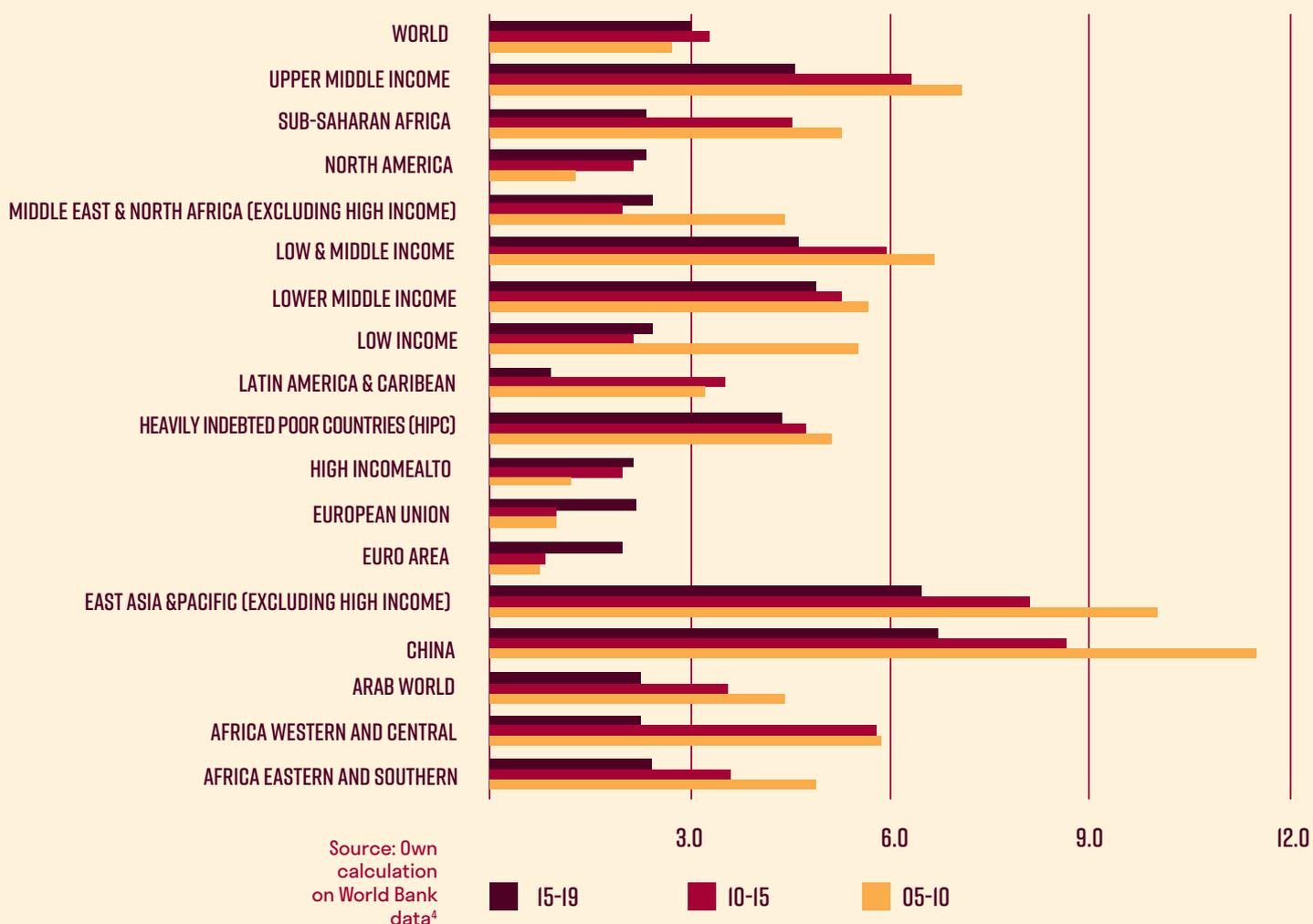
have been much higher until 2010, with a steeper decline after 2015 until 2019. The exceptions are the high-income countries (EU, Euro area, North America) where after 15 years of extremely low growth, they witnessed modest GDP growth at 2% per year between 2015 and 2019

It should be noted that both inflation and GDP growth rates are signals of other variables in the market economy, including investment, employment, income distribution,

state interventions and market structure. Further analysis of these are quite revealing in order to understand the present dynamics

of the global economy, beyond the differences between North or South, East or West, centre or periphery.

### AVERAGE GDP GROWTH % BY REGIONS



<sup>4</sup> World Bank Data. <https://datos.bancomundial.org/indicador/NY.GDP.MKTP.KD.ZG>

# LAGGING INVESTMENT AND BOOMING PROFITS

In economic terms production can strictly be dedicated to three different objectives:

- consumption - fulfilling the immediate needs of people;
- intermediate consumption - as in the process of transformation of new goods or services; and
- investment - when production is then used as inputs into the production of other goods and services.

Investment is the variable that expands the productive capacity of an economy and defines the future potential output. It can be domestic i.e., by the local firms, or the denominated FDI (Foreign Direct Investment), which is when agents from other countries invest in a third country. FDI has been quite dynamic for some decades, especially in the process of “outsourcing” production

from developed countries, to emerging markets, profiting from lower costs of production, mainly labour, and permissive -de jure or de facto- regulations. Since the crisis of 2008-09 the behaviour of investment has changed significantly, especially since 2015.

According to UNCTAD<sup>5</sup>: *“Although global FDI flows rebounded strongly in 2021 (in relation to 2020), industrial investment remains weak and well below pre-pandemic levels, especially in the poorest countries,”* adding that:

At US\$ 1.5 trillion of value, FDI in 2021 was globally only 6.9% more than in 2019, but down -23% in relation to 2015, which was a turning point in the growing trend. For the developed countries it was -2.9% in relation to 2019, but 44% less than in 2015, and one third less than in 2000.

<sup>5</sup> UNCTAD World Investment Report 2022 [https://unctad.org/system/files/official-document/wir2022\\_en.pdf](https://unctad.org/system/files/official-document/wir2022_en.pdf) page 6

## COMPARISON OF INFLOWS OF FDI

	2021/2000	2021/2015	2021/2019
TOTAL	16.6%	- 23.3%	6.9%
DEVELOPED	- 34.2%	- 43.6%	- 2.4%
DEVELOPING	275.6%	12.9%	16.8%

Source: UNCTAD  
op. cit.

The change in the direction of investment is alarming: *“Despite high profits, the appetite of MNEs for investing in new productive assets overseas remained weak.”* (UNCTAD op. cit.) For example, in 2021 the 5000 largest multinational enterprises had record profits, doubling the previous profits, taking advantage of pent-up demand, very low interest rates, as well as the extraordinary support from governments to ameliorate the negative effects of the pandemic.

Conspicuous examples of this behaviour are the four largest food conglomerates, commonly known as ABCD (ADM, Bunge, Cargill, and

Dreyfus) that control 75% of the trade in grain<sup>6</sup>, which recorded windfall profits between 20% and 80% in the framework of price hikes and emerging supply difficulties. It should be noted that these 4 companies, although operating from their traditional headquarters, each have their tax residency based in tax heavens or special jurisdictions, including Bermuda, Switzerland, or Delaware.<sup>7</sup>

At the same time, in dramatic contrast, millions of people are experiencing hunger or famine. According to the World Food Program: *“Conflict, COVID, the climate crisis and rising costs have combined in*

<sup>6</sup> There used to be the big 5, but in 2002 the Swiss company Andre went bankrupt. There are other smaller players too, that come from other businesses such as minerals extraction, manufacturing, or commodity trading, but the big four are famous as the major players.

<sup>7</sup> Sources from corporation websites or research:  
<https://investors.bunge.com/sites/bungeltd-ir/files/2021ar.pdf>  
[https://www.sec.gov/Archives/edgar/data/1303241/000114420412010419/v303488\\_sc13ga.htm](https://www.sec.gov/Archives/edgar/data/1303241/000114420412010419/v303488_sc13ga.htm)  
[https://www-cdn.oxfam.org/s3fs-public/file\\_attachments/rr-cereal-secrets-grain-traders-agriculture-30082012-en\\_4.pdf](https://www-cdn.oxfam.org/s3fs-public/file_attachments/rr-cereal-secrets-grain-traders-agriculture-30082012-en_4.pdf)

*2022 to create jeopardy for up to 828 million hungry people across the world.” (WFP)<sup>8</sup>*

Not only food commodity companies are under the spotlight for tax avoidance and various methods of “profit enhancement”. Companies from a range of sectors have been utilising transfer prices, auto-loans and changing jurisdictions in order to maximise profits to shareholders and management.

The “overvaluation” of capital through practices such as mergers and acquisitions or stock *buy-backs*<sup>9</sup> has meant that financial speculation has become more profitable than the production of goods and services. This has moved the focus from efficiency and productivity to a financial architecture, at both micro and macro level, and has reduced

the potential for job creation, all disguised as “*technological evolution*”.

This explains why “*greenfield*”<sup>10</sup> *investment numbers increased by only 11 per cent, still one fifth below pre-pandemic levels*” (UNCTAD op. cit.). The value of greenfield investments remained flat in developing countries, at the lowest level ever recorded. “*This is a concern, as new investments in industry are crucial for economic growth and development prospects,*” UNCTAD warns “... *the expected interest rate rises in the United States, Europe and other major economies ... could slow down M&A markets later in the year and dampen the growth of international project finance. Negative financial market sentiment and signs of a looming recession could accelerate an FDI downturn.*”

<sup>8</sup> WFP: <https://www.wfp.org/global-hunger-crisis> accessed September 2022.

<sup>9</sup> This is when the major shareholders of a corporation, instead of investing the profits, buy shares of their own company to increase its stocks value and increase the control over the company.

<sup>10</sup> Greenfield investments is when a foreign company, instead of acquiring an existing one in a country, faces a complete full endeavour of new investment in a country, which is a net expansion of the productive capacity.

# SPECULATIVE INVESTMENT DOES NOT TRANSLATE INTO JOB CREATION

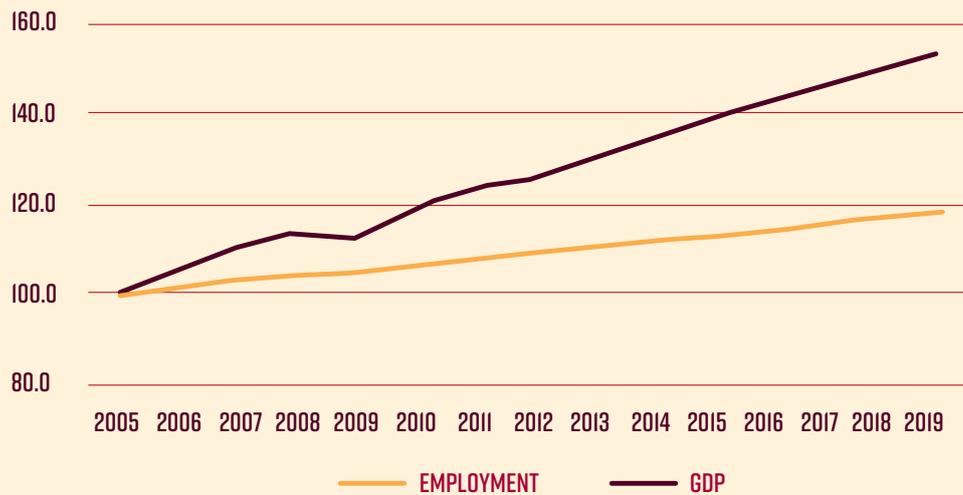
Investment in the last decade centred on “*intangibles*”, those items that do not directly contribute to the productive process such as patents, brands, crypto currencies and stock from third companies. The impacts on workers are clear. Billions of workers receive lower wages, or work fewer hours, face job insecurity and cannot expect the support of governments who justify cuts to social protection systems and public services when faced with reduced corporate tax contributions to state revenues.

While GDP has been increasing globally this has not been accompanied by growth in employment. The objective of “full

and productive employment” was abandoned in the economic narrative and as a political goal. This means that the GDP per worker increased, but this was not reflected in average real wages.

Between 2021 and 2022 the number of employed individuals is expected to increase by only around 2.1%, while GDP is expected to be much higher, proving GDP to be insufficient to significantly reduce unemployment and raise the living standards of the global population.

### EVOLUTION OF WORLD REAL GDP (CONSTANT 2017 US\$) AND EMPLOYMENT (NO. WORKERS) INDEX BASE 2005=100

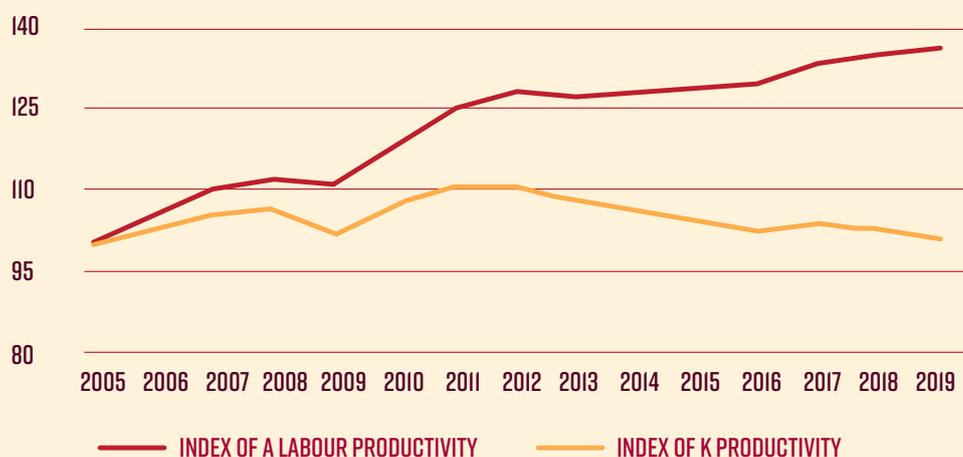


Source ITUC elaboration based on Penn tables database.<sup>11</sup>

Comparing the trends of total employment and GDP, using 2005 as the base year, employment worldwide increased by 18.1% until 2019 (not including 2020 due to the anomaly of COVID-19) and aggregate GDP, at constant US\$ prices, increased 53.6%. This means a tremendous

increase in the global productivity of labour, in relation to capital. This employment creation was only just sufficient to maintain the number of unemployed people worldwide, according to the ILO<sup>12</sup>, at around 200 million people.

### LABOUR AND CAPITAL PRODUCTIVITY, BASE 2005=100



Source: ITUC calculations based on PENT tables 10.0

<sup>11</sup> Penn World Table 10.0 <https://www.rug.nl/ggdc/productivity/pwt/?lang=en> accessed August 2022.

<sup>12</sup> ILO Data Finder <https://ilostat ilo.org/es/new-ilo-database-updates-work-related-indicators-to-meet-latest-standards/>, September 2022

The analysis of productivity<sup>13</sup> as the contribution to GDP growth by capital and labour shows that since 2005, capital productivity has been not only stagnating but declining since 2011, while labour productivity (GDP over employment or the number of workers) has been constantly increasing, except for

2009, during the subprime crisis. From 2011 to 2019, to refer to a point after the global financial crisis, the GDP per employed worker went up by 9.2%, while the GDP per dollar of investment went down by -8.4%. This difference is surplus appropriation by capital.

## THE FRUITS OF GROWTH ARE NOT REFLECTED IN WAGES

The distributional aspects of sustained economic growth are central to policy analysis. They form the foundation of union arguments for wage rises and wage bargaining. Even in developed countries, since the beginning of the 21<sup>st</sup> century labour productivity has increased, except for the period of the global financial crisis (GFC) of 2009, but average wages lagged behind their

contribution to growth. The ILO's Global Wage Report of 2020<sup>14</sup> shows this is the case, not only in countries where labour market institutions and regulations are weak, but also in developed economies.

<sup>13</sup> Capital productivity is GDP/capital stock; labour productivity=GDP/Total employment.

<sup>14</sup> ILO Global Wage Report 2020-21 <https://www.ilo.org/global/research/global-reports/global-wage-report/2020/lang--en/index.htm>

## AVERAGE WAGES AND LABOUR PRODUCTIVITY IN DEVELOPED COUNTRIES



Source: ILO  
Global Wage  
Report 2020

This trend shows a phenomenal appropriation from the workers labour-income share of the fruits of economic growth by capital, especially in the companies with the most concentrated forms of market share and corporate power.

This is clear in the average real-wage trends, alongside the dramatic loss of worker's purchasing power for goods and services. This is happening in the face of the excessive increase in profits by large corporations that sell essential goods and services to workers and their households.

Since 2007, from the peak of 2.5% in relation to the previous year, the

purchasing power of average wages grew at a meagre rate (when China is excluded). The expectation for 2022, due to inflationary dynamics, is that average wages may lose around 1.3% of purchasing capacity (ie -1.3%).

It is not possible to find an explanation of the erosion of real wages without highlighting some of the characteristics that labour markets have taken since the expansion of globalisation, evident, on the one hand, in the reduction of the elasticity of employment to growth; and in the increasing appropriation of a larger share of GDP by capital. These are based on the "disciplinary" power over labour

(workers and trade unions) imposed by:

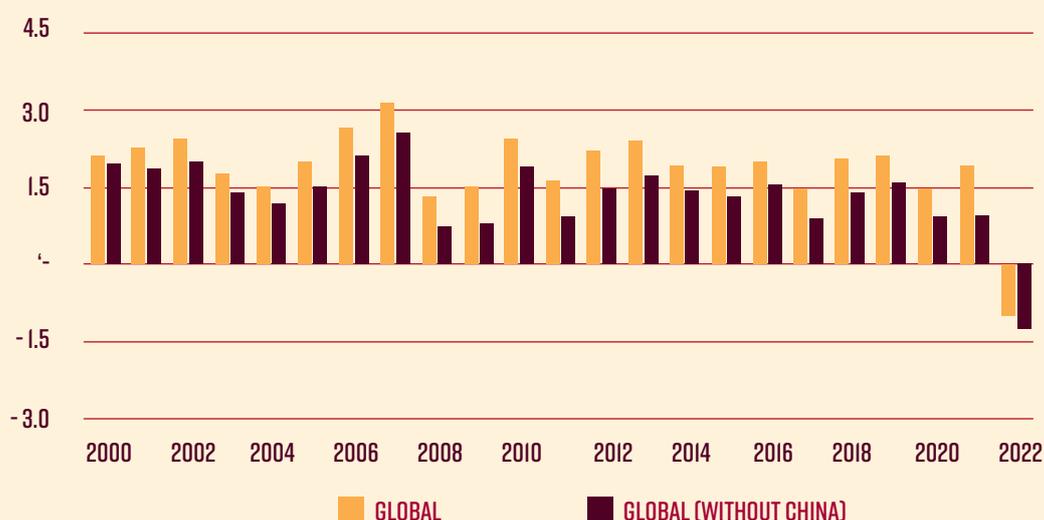
- Outsourcing, especially by capital threatening (and acting) to move production and employment to regions with lower relative wages and other benefits.
- Globalisation, by contracting suppliers in remote locations and segmenting production in a single firm or territory.
- Non-standard forms of employment, using technological tools such as the platform economy, the relaxation and de-regulation of labour laws, profiting from more precarious regimes

and eroding solidarity among workers.

- Low union membership, reduced density, limitations in organising workers in new sectors, resulting from prohibition, threats, and discrediting workers organisations to avoid worker unity and the power of coordinated demands.

These elements have resulted in massive wage suppression as a general characteristic of the accumulation dynamic of the global economy over these years, with the decline of the participation of workers in the distribution of the output generated by our economies.

### EVOLUTION OF REAL AVERAGE WAGES



Source: ILO  
GWR 2022  
(forthcoming) and  
ITUC forecasts  
for 2022

# WAGES ARE NOT SUFFICIENT TO SUPPORT DECENT LIVING STANDARDS

“Wage suppression” refers to the freezing or deterioration of the purchasing power of remuneration to workers, due to either the lack of negotiations or statutory increases. This was a characteristic during the extended period of low global inflation, and now when prices are accelerating, all the instruments aim to maintain nominal wages at the actual level, or keep wages under the inflation rate.

Despite the theoretical shortage of workers in developed economies, in the orthodox macroeconomic narrative, wages do not reflect the increase in prices, nor constitute an incentive to bring discouraged workers (if any) into the labour market. Only a handful of countries have increased the minimum wage - where they exist - at the level of indexing against inflation, while most of the developed world witnessed declines that on average were estimated at -1.3%.

## EMPLOYMENT CREATION AND PARTICIPATION OF WORKING POOR<sup>15</sup> IN PERCENTAGE

	2005	2011	2019	2021
EMPLOYMENT (MILLIONS)	2.817,0	3.008,3	3.287,3	3.257,2
MODERATE POOR (%)	18.9%	12.0%	6.7%	6.9%
EXTREME POOR (%)	19.9%	16.7%	11.1%	11.2%

Source:  
ILO Data  
Finder  
(op. cit.)

<sup>15</sup> According to the international poverty line defined by the World Bank in US\$ 1.90 PPP (Purchasing Power Parity). This value has been updated in September 2022 to US\$ 2.15 PPP

Working poverty, i.e. those that work but do not earn enough to keep their households out of poverty, has been declining steadily since 2005. This trend reversed in 2021, with little prospect of a return to the declining trend in the near future due to generalised price increases worldwide, which will aggravate the lack of employment creation as a result of the stringent monetary policies of countries.

**Support for full employment, fair wages and universal social protection:**

Sustained and inclusive economic development requires a fair share

for labour. It is critical to address the declining labour-income share of GDP by expanding decent work and by tackling in-work poverty exacerbated by surging inflation. This means ensuring adequate minimum wages that take into account the cost of living. Fair wages also require strong social dialogue and labour market institutions including collective bargaining, freedom of association, and equal pay.

## THE SPECTRE OF DEBT

The pandemic, even if it is not yet over, left a scourge of indebted countries and companies, especially of small and medium sized enterprises, and households. Sovereign debt is a crucial issue in emerging and developing economies, due to its effects at

macro and microeconomic level. Debt has almost doubled since 2011 up to 2020, jumping from US\$ 6.5 trillion to US\$ 11.7 trillion. Debt servicing accounts for US\$310 billion in 2022, which is equivalent to the GDP of countries such as Finland or Chile.

Emerging and developing countries have to pay higher interest rates for the servicing of their debt. One quarter of the countries that issued debt during the last two years are paying a spread of 1000 basis points or more, for new or refinanced funds.<sup>16</sup>

More exports are now needed than two years ago, in order to earn the

foreign exchange to service foreign debt. The ratio between debt and exports increased in 121 out of 127 countries. In 51 of those countries the debt service rate is above 250% of annual exports, meaning that all the exports of 2.5 years (without any imports) have to be devoted to servicing their debt.

## WHAT CAN BE EXPECTED IN THE FUTURE?

The future prospects are grim. Since inflation rose threefold, especially in developed countries, unilateral and uncoordinated measures based in the economic orthodoxy have begun. “Reducing demand” is the obsession of most Central Banks and international financial institutions. Since consumption is anchored in the wages and lower income sectors of society, all the measures aim to affect this objective, which is at its core, anti-worker.

The first very blunt tool to achieve this, as it is easy to implement, is to **raise interest rates**. Interest rates can be raised overnight and with immediate effects in the economy. This measure induces savings (of those that have some excess income) and hence lowers consumption.

Between May and June 2022, 164 countries, except four (Switzerland, Japan, Bulgaria and Denmark) increased their interest rates<sup>17</sup>. Some

<sup>16</sup> The difference between the FED rate and what the country is paying is equivalent to 10%.

<sup>17</sup> Of the G20 countries, only Japan did not increase interest rates.

of these increases were the highest recorded in more than 40 years.

The second group of measures are those aimed at **reducing fiscal expenditure**, especially in respect to direct subsidies to households, the provision of public goods and services and social protection. Although contradictory to the previous goal, the reduction of corporate taxes is often offered as an alternative in order to compensate business for reduced economic activity, even when its effect is insufficient and counterproductive, as this then has resulted in windfall gains in profits to larger corporations.

UNCTAD warned of “*disorderly global financial movements*” as a result of the increase in US interest rates. As is evident now, this resulted in a reversal of capital movements back to the US, fleeing the rest of the world. The impact of this “capital flight” is reflected in the devaluation of currencies, even the Euro. This single action has imposed additional inflationary pressures globally but with the main impacts being on developing countries, especially those that are highly indebted.

Past global economic crises have impacted workers differently, in different regions and industries. This time that is not the case. One of the main characteristics of this crisis is the impact on workers of both developed economies and emerging countries, impacting all the sectors, industries, and contractual arrangements, no matter the demographic factors and levels of economic development.

Hence, there is a need for very specific, coordinated measures that would reduce the harmful impacts on workers and our communities. It is estimated that without extraordinary interventions, “business as usual” is expected to result in more than 250 million more people suffering hunger or famine by the end of 2022

Within the framework of high debt, austerity will generate economic implosions across the globe.

The scenario for dramatic global recession, for stagflation and economic despair is most likely. Without action to reverse the loss of labour-income share through seriously addressing

the purchasing power of wages and achieving a renewed commitment to investing in social protection, under the current economic orthodoxy of “business as usual” we have no capacity to achieve the international commitments to realising sustainable development under Agenda 2030 nor of creating a global economy that works for everyone.

### **The global economy is not working for working people and their families.**

The social contract has never been guaranteed in developing nations and in developed economies it has been deteriorating for decades. While profits and productivity have grown markedly since the onset of hyper-globalisation, the labour-income share has been in constant decline. The wealth driven by the resulting explosion of global supply chains has been derived from the dehumanising exploitation of workers denied fundamental rights and decent work. The result is a broken labour market with 60% of workers globally trapped in informal work and more than 1/3 of workers in formal employment experiencing precarious or insecure working

lives. These factors are compounded by the failures of the policies and programs imposed on economies by the International Financial Institutions (IFIs). The vulnerability of many economies has never been greater. We need new economic models with new business models that are based on full employment, decent work and shared prosperity.

### **We demand a New Social Contract:**

- 1) Jobs - full employment to include all, as an economic and developmental policy target; investing in climate-friendly jobs with just transitions;
- 2) Rights - compliance with the promise of the ILO Centenary Declaration of rights and protections for all workers now including occupational health and safety, irrespective of employment arrangements;
- 3) Just wages - minimum living wages, equal pay with a marked increase in collective bargaining;
- 4) Universal social protection with a global social protection fund for establishing systems in the poorest countries;

- 5) Equality of gender and race, including a world of work free from gender-based violence and harassment; and
- 6) Inclusion with a rights-based development model realised through multilateral reform with the realisation of the Sustainable Development Goals (SDG's) and the Paris Climate Agreement, which effectively addresses the threats to our peace and common security.

**A new social contract with shared prosperity and just transitions will help stabilise communities and economies generating a common security that addresses poverty, exclusion and will help create more peaceful coexistence.**