Report to G20 outlines jobs and wages disaster

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A report prepared for a meeting of G20 labour ministers held in Australia yesterday and today has highlighted the ever-worsening jobs market in all the advanced capitalist countries and the ongoing decline in the share of wages in national income.

Authored by the International Labour Organisation (ILO), the Organisation for Economic Cooperation and Development and the World Bank, the report said economic growth would "remain below trend with significant downside risks for the foreseeable future."

Low growth would continue to dampen employment prospects and lead to widening income inequality across the G20 countries, which collectively account for 85 percent of global gross domestic product.

The report said the jobs gap would "remain substantial" in several G20 countries "at least" until 2018, without giving any indication of what would happen thereafter. In other words, the worsening economic conditions that set in after the global financial crisis of 2008 have become a permanent trend.

Unemployment continues to remain at historically high rates, and almost one-third of those out of a job are long-term unemployed, compared to a quarter before the financial crisis.

A vicious economic circle has set in. Lower economic growth has led to the loss of jobs and falling real wages, while, as the report notes, in the "advanced" G20 economies a "large jobs gap and stagnating wage income have constrained both consumption and investment as sources of aggregate demand," thereby leading to lower growth or outright stagnation.

In addition, over the past 15 years, there has been an ongoing redistribution of wealth from wages to profits. According to the report, an index of real wages rose by only 5 percentage points from 1999 to 2013, while labour productivity over the same period increased by 17 percentage points in the advanced G20 economies.

After noting that the trend began before the crisis of 2008–2009, the report said it had "grown wider since 2010, as wages in many advanced economies continue to stagnate while productivity has recovered in the group as a whole." What it called the "moderation" in wage growth was greater than would have been predicted by the relationship between unemployment and wages before the crisis.

The redistribution of wealth was underscored by another series of statistics, which showed the long-term decline in the labour share of national income over the past four decades. In Spain the labour share had fallen by 16 percent, Italy 15 percent, the United States 11 percent, and Australia and Germany around 5 percent.

"The cumulative, long-term decline in labour share has been substantial and widespread and has been widely seen as a structural problem," the report stated.

While consumption spending by workers and their families constitutes the largest portion of aggregate demand, at least in the advanced capitalist countries, investment is the real driving force of the economy. But investment "has been below pre-crisis levels at the global level, and particularly so in advanced economies, with important negative consequences for job creation." This is despite historically low interest rates and the recovery of profitability in some countries and industries.

The report echoed a theme that is becoming common in such analyses: inequality is a contributing factor to lower economic growth. "Extensive evidence shows that high levels of income inequality tend to reinforce themselves, reducing social mobility and thus affecting long-term potential growth," it stated.

What did the report propose be done to change the situation? Nothing. "There is no magic or universal formula for creating productive, quality jobs," it declared. While calling for "interventions," it insisted that they had to be "feasible in country circumstances and fiscal space and need to be aligned with country priorities and social expectations."

What this means in practice is that any government action must be in accord with the demands of the banks and finance capital, which have dictated the policies carried out in the six years since the financial crisis erupted and created the present conditions.

The only word of caution was a reference to an analysis by the ILO of "recent episodes of social unrest" which found that the most important determinants of such occurrences are "weak economic growth and a rising unemployment rate."

Financial Times economics commentator Martin Wolf also took up this issue in a column published earlier this week. He pointed out that in the second quarter of this year, real domestic demand in the eurozone was 5 percent lower than in the first quarter of 2008 and that since 2008 nominal (in money terms) demand had risen by a mere 2 percent.

Wolf too sounded a warning, saying that the European Commission "needs to take a stand for common sense and growth, instead of insisting on misery yet again."

"This is not just a matter of economics," Wolf added. "The capacity of the peoples of member states to tolerate high unemployment and deep slumps has been impressive. But it cannot be unlimited." Unless action was taken, there would be a "populist reaction."

Neither the analysis provided to the G20 nor the entreaties of columnists like Wolf for "common sense" policies is going to produce a change of direction.

The ruling corporate and financial elites are locked into a system in which profit accumulation—the lifeblood of the capitalist economy over which they preside—no longer operates according to the logic of the past, in which new investment led to increased employment, higher wages and expanding markets, fuelling further investment.

Rather, profits now increasingly depend on the endless supply of ultra-cheap cash by the central banks to finance parasitism and speculation on the one hand, coupled with savage cost-cutting and the driving down of the social position of the working class on the other.

Key sections of the ruling elites in every country know that this class war agenda will inevitably produce a social explosion. That is why they are building up the repressive apparatus of the state and, as the recent events in Ferguson, Missouri demonstrate, will have no hesitation in using it.