UN report says global economy could be heading for systemic crises

Nick Beams
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The latest UN Trade and Development Report, published earlier this month, presents a picture of a global economy wracked by lower investment and growth, the increased domination of giant corporations, financial speculation, a falling share of labour income and rising social inequality.

The report contains an important chapter detailing the link between financial speculation in commodity markets and rising costs in basic foodstuffs.

Setting out the overall situation, the report said: “Today’s global economic landscape is characterised by growing inequalities and divergence of growth paths between key regions.”

The world economy, slated to grow at only 2.4 percent this year, with a slight rise to 2.5 percent in 2024, “is flying at ‘stall speed’… meeting the definition of a global recession.”

“Compounding these issues is the absence of adequate multilateral responses and coordination measures. Without decisive action, the fragility of the global economy and an array of diverse shocks risk evolving into systemic crises.”

The growth rate shows no sign of returning to pre-pandemic levels in the absence of any “clear driving force” to propel the global economy onto a “robust and sustainable recovery track.” The figure is among the lowest in the past four decades, outside of crisis years.

One of the key features of the present situation, outlined in the report, is the increasing domination of the global economy by giant corporations and finance capital. This has led to the reduction of the labour share of income from 57 percent in 2000 to 53 percent today.

Roughly translated into raw figures, this means that with global GDP at close to $100 trillion, the income flowing to working people today is around $4 trillion less than it would have been had the already depressed share in 2000 been maintained.

In the words of the report: “The declining labour share and the rising profits of [multinationals] point to the key role of large corporations dominating international activities… [and] driving up global functional income inequality.”

The domination of finance capital and the rise in interest rates is already having a major impact on poorer countries.

“Some 3.3 billion people—almost half of humanity—now live in countries that spend more on debt interest payments than on education or health,” the report said, with the external and publicly guaranteed debt in these countries tripling over the past decade.

The proportion of government revenue used for debt service payments rose from 6 percent in 2010 to 16 percent in 2021. Nearly a third of these countries are on the “precipice of debt distress” with the situation to worsen as interest rates on bonds rise.

One of the major effects of the COVID pandemic has been to trigger a surge in inflation to the highest levels seen in four decades. This brought a major shift in the policies of the major central banks, led by the US Fed, to rapidly lift interest rates on the grounds that this was needed to “fight inflation.”

The objective was not to deal with the cause of the price hikes but rather with its effects—that is, to slow the economy in order to suppress the wages struggles of the working class in the response to cuts in living standards.

A major component of the inflation surge has been the escalation of food prices and other necessities such as fuel and energy which the UN report makes clear is rooted in the activities of the corporate food giants and commodity traders.

As with all reports from bodies such as the IMF or the World Bank, the UN report presents its findings as part of a case for reform. Its own analysis, however, demonstrates is impossible to implement such measures as long as the major corporations remain in the dominant position. Notwithstanding this approach, the report provides some important information.

Its chapter dealing with "food commodities" and "corporate profiteering" begins: "The stark contrast between the surging profits of commodity trading giants and the widespread food insecurity of millions underscores a troubling reality: unregulated activity within the commodities sector contributes to speculative price increases and market instability, exacerbating the global food crisis."

It draws the conclusion: "Profiteering from financial activities now drives profits in the global food trading sector."

That is, whether workers, in advanced capitalist and developing countries alike, can put food on the table to feed their children is determined by the activities of financial speculators.

The report noted there was a vicious interplay developing in which higher energy costs increased the price of fertilizers, leading to a reduction in their use and lower crop yields, which in turn led to higher food prices.

The profits of the nine big fertilizer companies over the past five years grew from an average of around $14 billion before the pandemic to $28 billion in 2021 and then to what is called an "astounding" $49 billion in 2022.

It cited a July report by the international aid agency Oxfam which found that food and beverage corporations made on average $14 billion a year in windfall profits for 2021 and 2002, more than enough to cover the $6.4 billion needed to deliver life-saving assistance for East Africa twice over.

Within the food commodity markets, speculative activities that play a major role in price hikes are not just carried out by banks, hedge funds and other financial institutions. The major food trading companies, such as Archer Daniels Midland and Cargill, have become actively involved as well.

These firms have "come to occupy a privileged position in terms of setting prices, accessing funding, and participating directly in financial markets." This enabled speculative trades in organised market platforms but also in derivatives markets "over which most governments in the advanced countries have no authority or control."

These activities are increasing as the report pointed to the "disproportionate role" played by "non-operating activities (speculation) … in the current era of super profits."

In other words, the global food market is a kind of giant casino in which the chips in the hands of the ultra-wealthy players are the lives of livelihoods of billions of workers and their families.

There is a major transition taking place in which large commodity trading companies have become major financiers.

"They act as creditors to governments and private entities," carry out speculation on the future direction of prices "leveraging their large informational advantage" and issue financial instruments to third party investors such as pension funds who want to get in on the action.

Like all would be reformers, the authors of the report advance the prospect of regulation. But the facts are so stark that their own findings make clear this is a completely bankrupt perspective.

After pointing to the domination of the food system by major agri-corporations, which have been able to expand their influence up and down supply chain, it concludes: "If a handful of companies continue to hold inordinate power over the world's food systems, any policy effort to mitigate the short-term effects of food price spikes will be futile in the long term."