

# The Global Economic Crisis

## A Union Response

Thousands of working New Zealanders are currently being hit by the global recession, but while it's currently a hot topic of conversation the recession can be a tricky thing to understand. We hope this will explain in plain language what the global economic crisis is, what brought it on and how workers and unions can respond to it.

### **What is the global economic crisis and what caused it?**

Some of the world's biggest economies are in recession, including the US, UK, Japan and Europe. How this happened is that after a period of worldwide economic boom based on speculation and dodgy lending practices, the bubble finally burst.

One of the main reasons for this was the collapse of the US sub-prime mortgage market – sub-prime is the practice of extending credit to people who would otherwise not have access to the credit market. These mortgages had a high credit risk but the banks hid this by bundling them with more secure mortgages.

Because of this, when sub-prime mortgage holders started defaulting in large numbers huge swathes of the banking industry were affected and were forced to file for bankruptcy.

The nature of the global economy meant that the debt on these loans was tied up in investment programs and securities around the world, thanks to tricky hedge funds and other unregulated financial products. So when the subprime mortgages went under, so did the investments. As a result, ordinary businesses across the world with no direct connection whatsoever to US sub-prime suddenly started facing difficulties or even folding if they couldn't get a bank loan or lines of credit. Banks stopped trusting each other as they were unsure of the security of other banks balance sheets and credit dried up, causing the whole system to fail.

Higher interest rates, falling consumer confidence, stock market turmoil and higher oil prices started forcing workers and their families to cut their spending. Demand for goods and services collapsed and business profits started to slump. As a result workers started being laid off, reducing their spending and further reinforcing the downward cycle. It could be characterised as a perfect storm.

Working New Zealanders are not responsible for any of this, but like everyone else we are going to have to face up to it whether we like it or not.

### **What is a recession?**

Technically, an economy is in recession if it experiences two consecutive quarters of negative growth. The word also has a wider meaning — it generally refers to a downturn across a broad range of economic indicators like spending and business investment. A prolonged and worsening period of economic stagnation generally stops being referred to as a recession and becomes a depression. During a recession unemployment rises dramatically and businesses cut staff to save costs. Treasury predicts the New Zealand unemployment rate will rise to at least 7% from the 4.2% we are currently at. Treasury are known to be conservative in their forecasts which means it could be worse than their forecast.

### **How can workers and their unions respond?**

Unions have 3 messages for members and the companies that they work for:

1. If a company is experiencing difficulties due to the recession, we will, as always, work with members and employers to ensure that the effects are minimised. We will work to ensure that all affected members are consulted about any changes to work places, including suggesting alternatives to any redundancies or reductions in the terms and conditions of employment. Where redundancies are necessary we will work to ensure that our members receive their full entitlements and any support that they require. In

order to do this work efficiently we will be requesting that companies disclose all the necessary information, so that we can all work together to come up with solutions.

2. If a company chooses not to disclose information and to use the Economic Crisis as an excuse to keep wages down, reduce wages or make unnecessary cuts to staffing numbers, we will work with our members to discover what is really going on and we will challenge any changes. If a company chooses to overlook its obligation to enter into meaningful consultation with affected employees, we will challenge this too.
3. Some sectors of the work force will not be as badly affected as others. Where companies are ticking along and making good profits, we will continue in our usual work for wage growth.

There has never been a more important time for working people to stick together and try to protect our terms and conditions and to ensure that things are fair. If you are not a member of the Union, it is a good time to think about joining. If you are, then it is a good time to talk to your workmates, friends and family about joining us.

The EPMU has produced a video called *Crunch Time* to explain the recession and a union response. You can find the video at [www.rmtunion.org.nz](http://www.rmtunion.org.nz) or [www.epmu.org.nz/crunch-time/](http://www.epmu.org.nz/crunch-time/) or by searching for "Crunch Time EPMU" at [www.youtube.com](http://www.youtube.com).