Strikes destroy consumer confidence in business

Tenza 20 Mlungisi Tenza, Obiter vol.41 n.3 Port Elizabeth 2020, LLB LLM LLD Senior Lecturer, University of KwaZulu-Natal, "The effects of violent strikes on the economy of a developing country: a case of South Africa," No Publication, http://www.scielo.org.za/scielo.php?script=sci\_arttext&pid=S1682-58532020000300004

The relationship between the business of the employer and its customers is based on loyalty and confidence. The employer is expected to keep this relationship going by supplying goods or deliver services to clients when needed. It is expected that this would take place without disturbance. However, during strikes or conduct in furtherance of a strike, this relationship gets affected since the level of production or service delivery is reduced or does not take place. It is well known that the continued existence of a business relies on customers' satisfaction with services or goods provided. A business that does not have customers can hardly survive as they are the backbone of the business. If a strike is violent and takes long to resolve, this may chase away customers or clients as the possibility of not getting what they want is high if less or no production takes place. The possibility that customers could shift loyalty to other businesses doing the same business as the employer is high. The end result is that a prolonged strike has the potential of chasing away customers or clients as they may not want to associate themselves with a business environment that poses a risk to their lives. In addition, customers may want to share solidarity with employees and refuse to associate with a business whose employees are on strike. To stop this from taking place, the employer and the union need to speed up the process of resolving their dispute through a non-violent mechanism such as a collective bargaining process.

Confidence k2 growth

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In 1933, US President Franklin D. Roosevelt pointedly noted that "confidence... thrives on honesty, on honour, on the sacredness of obligations, on faithful protection and on unselfish performance. Without them it cannot live". And over 80 years later these words still resonate with political, policy and business leaders as they grapple with increasingly fickle cycles of consumer and business confidence. To be fair, global policymakers are currently confronting a perplexing set of factors in the aftermath of the financial crisis and major central banks' deployment of unconventional monetary policy via unprecedented asset purchase programs and negative interest rates. Arguably, the crisis of 2008-09 and its legacy continue to cast some doubt on the effectiveness and accountability of policymaking institutions in the major developed economies. Confidence levels in the major developed economies have also been influenced by concerns about the socioeconomic consequences of the unrelenting pressure for ‘structural change’ in an increasingly competitive global economic system. At the household/consumer level, a key concern has been persistently high levels of unemployment faced in some regions and subdued income growth in developed economies, while for businesses, sluggish demand and highly competitive operating conditions continue to influence perceptions of resilience and confidence. Consequently, as the global economy moves into the second half of 2016 it is important to understand the causes and consequences of shifts in consumer and business confidence and the possible implications for the business cycle and macroeconomic policy settings. Confidence may be a case of shifting sands With policymakers in the major economies working hard to restore and maintain confidence levels and shifts in sentiment indicators playing a key role in risk assessments of investors, it is worthwhile to consider the various influences on this qualitative economic measure. Our analysis of the various indicators of consumer and business confidence that are regularly published highlight several common factors that have the potential to cause marked shifts in sentiment; including: Changes in interest rates and/or exchange rates, particularly if they are rapid, large and unexpected Swings in the business cycle and associated movements in employment/unemployment levels and business investment intentions Shifts in the relative prices of nondiscretionary goods and services, notably petrol, healthcare, education and utilities prices Large external economic and/or financial shocks, such as the financial crisis of 2008/09 and the Eurozone sovereign debt crisis of 2010/11 Announced policy shifts in the stance of government fiscal policy, including large structural spending cuts or increases/decreases in taxation rates. Interestingly, it is widely accepted by economists that the financial economy operating via interest rates and exchange rates acts as a buffer for the real economy in terms of external shocks, but this effect can often be magnified due to the out-sized impact on consumer and business confidence. For example, Australia was not directly affected by either the financial crisis or the subsequent Eurozone debt crisis, but on both occasions a considerable upsurge in general anxiety and slumping confidence were recorded. Australian households and businesses reported concerns about the economy's vulnerability in the face of unprecedented upheaval in global financial markets. Not surprisingly, in some quarters concerns continue to be expressed that small open economies such as Australia and New Zealand often experience disproportionate reactions to economic and financial disturbances that emanate from much larger and more complex economies, including the US, the Eurozone, Japan, and China. To be sure, we are not suggesting that economic policymakers should maintain inappropriate macro policy settings in order to buoy consumer and business confidence. Rather, the announcement and implementation of shifts in key macro policy needs to be sensitive to the psychological impact on households and firms in the real economy. It is the need to manage psychology that has led the major central banks to bolster their policy 'forward guidance' activities, as they fine-tune strategies to eventually end a period of extraordinary monetary policy accommodation. It's not all in the mind as sentiment shapes activity Although it is often said that 'confidence can turn on a dime', this should not be taken as diminishing the role of sentiment in shaping economic activity and in turn the path of business cycles. The power of confidence was patently demonstrated in late 2008 with the collapse of Lehman Brothers and the subsequent slump in global consumer and business sentiment. This was accompanied by an unprecedented collapse in global trade volumes, industrial production, investment and importantly risk-taking. It is estimated that in the major developed economies, including Australia and New Zealand, consumer spending contributes up to two thirds of aggregate demand, based on income levels or changes, buying and spending trends, and underlying economic conditions. If we consider credit and liquidity to be the life-blood of the economic system, then it is reasonable to regard confidence as the oxygen that sustains the system. So heightened economic anxiety and languishing confidence will have manifest impacts on the health and wellbeing of the economy, often determining whether or not it can reach and sustain its long term potential rates of growth. Recent experience indicates that there are several important consequences of low and declining levels of confidence, including: unusually high household and business savings rates, including the hoarding of capital by financial and nonfinancial firms subdued nominal income growth and tepid private sector credit growth widespread household deleveraging declining business investment spending and weak employment growth dominance of short-term thinking and absence of longer-term strategic activity risk of a decline in the economy’s structural growth rate and associated deterioration in productivity growth. Therefore, economies facing 'crises of confidence' may find if this prevails it will undermine productive capacity and prove to be 'growth limiting'. In this event, it could lead to deterioration in living standards as the base of economic activity gradually contracts and the willingness and capacity to engage in risk-taking is curtailed. Looking forward, the continuing desynchronised global business cycle and the likelihood that macroeconomic policy shifts will also vary over the next 12 months suggest that global consumer and business confidence will remain fickle. For policymakers this suggests that communication and announcement effects will continue to be crucial in managing confidence effects in economies. In contrast, investors and firms need to remain vigilant for unexpected shifts in confidence and/or the development of unsettling negative feedback loops.

Lack of growth cascades – Extinction

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According to Professor Stanislaw Drozdz (2018) of the Polish Academy of Sciences, “a global financial crash of a previously unprecedented scale is highly probable” by the mid-2020s. This will lead to a trickle-down meltdown, impacting all areas of human activity.

[graph omitted]

The economist John Mauldin (2018) similarly warns that the “2020s might be the worst decade in US history” and may lead to a Second Great Depression. Other forecasts are equally alarming. According to the International Institute of Finance, global debt may have surpassed $255 trillion by 2020 (IIF, 2019). Yet another study revealed that global debts and liabilities amounted to a staggering $2.5 quadrillion (Ausman, 2018). The reader should note that these figures were tabulated before the COVID-19 outbreak. The IMF singles out widening income inequality as the trigger for the next Great Depression (Georgieva, 2020). The wealthiest 1% now own more than twice as much wealth as 6.9 billion people (Coffey et al, 2020) and this chasm is widening with each passing month. COVID-19 had, in fact, boosted global billionaire wealth to an unprecedented $10.2 trillion by July 2020 (UBS-PWC, 2020). Global GDP, worth $88 trillion in 2019, may have contracted by 5.2% in 2020 (World Bank, 2020). As the Greek historian Plutarch warned in the 1st century AD: “An imbalance between rich and poor is the oldest and most fatal ailment of all republics” (Mauldin, 2014). The stability of a society, as Aristotle argued even earlier, depends on a robust middle element or middle class. At the rate the global middle class is facing catastrophic debt and unemployment levels, widespread social disaffection may morph into outright anarchy (Maavak, 2012; DCDC, 2007). Economic stressors, in transcendent VUCA fashion, may also induce radical geopolitical realignments. Bullions now carry more weight than NATO’s security guarantees in Eastern Europe. After Poland repatriated 100 tons of gold from the Bank of England in 2019, Slovakia, Serbia and Hungary quickly followed suit. According to former Slovak Premier Robert Fico, this erosion in regional trust was based on historical precedents – in particular the 1938 Munich Agreement which ceded Czechoslovakia’s Sudetenland to Nazi Germany. As Fico reiterated (Dudik & Tomek, 2019): “You can hardly trust even the closest allies after the Munich Agreement… I guarantee that if something happens, we won’t see a single gram of this (offshore-held) gold. Let’s do it (repatriation) as quickly as possible.” (Parenthesis added by author). President Aleksandar Vucic of Serbia (a non-NATO nation) justified his central bank’s gold-repatriation program by hinting at economic headwinds ahead: “We see in which direction the crisis in the world is moving” (Dudik & Tomek, 2019). Indeed, with two global Titanics – the United States and China – set on a collision course with a quadrillions-denominated iceberg in the middle, and a viral outbreak on its tip, the seismic ripples will be felt far, wide and for a considerable period. A reality check is nonetheless needed here: Can additional bullions realistically circumvallate the economies of 80 million plus peoples in these Eastern European nations, worth a collective $1.8 trillion by purchasing power parity? Gold however is a potent psychological symbol as it represents national sovereignty and economic reassurance in a potentially hyperinflationary world. The portents are clear: The current global economic system will be weakened by rising nationalism and autarkic demands. Much uncertainty remains ahead. Mauldin (2018) proposes the introduction of Old Testament-style debt jubilees to facilitate gradual national recoveries. The World Economic Forum, on the other hand, has long proposed a “Great Reset” by 2030; a socialist utopia where “you’ll own nothing and you’ll be happy” (WEF, 2016).In the final analysis, COVID-19 is not the root cause of the current global economic turmoil; it is merely an accelerant to a burning house of cards that was left smouldering since the 2008 Great Recession (Maavak, 2020a). We also see how the four main pillars of systems thinking (diversity, interconnectivity, interactivity and “adaptivity”) form the mise en scene in a VUCA decade.

Environmental

What happens to the environment when our economies implode? Think of a debt-laden workforce at sensitive nuclear and chemical plants, along with a concomitant surge in industrial accidents? Economic stressors, workforce demoralization and rampant profiteering – rather than manmade climate change – arguably pose the biggest threats to the environment. In a WEF report, Buehler et al (2017) made the following pre-COVID-19 observation: The ILO estimates that the annual cost to the global economy from accidents and work-related diseases alone is a staggering $3 trillion. Moreover, a recent report suggests the world’s 3.2 billion workers are increasingly unwell, with the vast majority facing significant economic insecurity: 77% work in part-time, temporary, “vulnerable” or unpaid jobs. Shouldn’t this phenomenon be better categorized as a societal or economic risk rather than an environmental one? In line with the systems thinking approach, however, global risks can no longer be boxed into a taxonomical silo. Frazzled workforces may precipitate another Bhopal (1984), Chernobyl (1986), Deepwater Horizon (2010) or Flint water crisis (2014). These disasters were notably not the result of manmade climate change. Neither was the Fukushima nuclear disaster (2011) nor the Indian Ocean tsunami (2004). Indeed, the combustion of a long-overlooked cargo of 2,750 tonnes of ammonium nitrate had nearly levelled the city of Beirut, Lebanon, on Aug 4 2020. The explosion left 204 dead; 7,500 injured; US$15 billion in property damages; and an estimated 300,000 people homeless (Urbina, 2020). The environmental costs have yet to be adequately tabulated. Environmental disasters are more attributable to Black Swan events, systems breakdowns and corporate greed rather than to mundane human activity. Our JIT world aggravates the cascading potential of risks (Korowicz, 2012). Production and delivery delays, caused by the COVID-19 outbreak, will eventually require industrial overcompensation. This will further stress senior executives, workers, machines and a variety of computerized systems. The trickle-down effects will likely include substandard products, contaminated food and a general lowering in health and safety standards (Maavak, 2019a). Unpaid or demoralized sanitation workers may also resort to indiscriminate waste dumping. Many cities across the United States (and elsewhere in the world) are no longer recycling wastes due to prohibitive costs in the global corona-economy (Liacko, 2021). Even in good times, strict protocols on waste disposals were routinely ignored. While Sweden championed the global climate change narrative, its clothing flagship H&M was busy covering up toxic effluences disgorged by vendors along the Citarum River in Java, Indonesia. As a result, countless children among 14 million Indonesians straddling the “world’s most polluted river” began to suffer from dermatitis, intestinal problems, developmental disorders, renal failure, chronic bronchitis and cancer (DW, 2020). It is also in cauldrons like the Citarum River where pathogens may mutate with emergent ramifications. On an equally alarming note, depressed economic conditions have traditionally provided a waste disposal boon for organized crime elements. Throughout 1980s, the Calabria-based ‘Ndrangheta mafia – in collusion with governments in Europe and North America – began to dump radioactive wastes along the coast of Somalia. Reeling from pollution and revenue loss, Somali fisherman eventually resorted to mass piracy (Knaup, 2008). The coast of Somalia is now a maritime hotspot, and exemplifies an entwined form of economic-environmental-geopolitical-societal emergence. In a VUCA world, indiscriminate waste dumping can unexpectedly morph into a Black Hawk Down incident. The laws of unintended consequences are governed by actors, interconnections, interactions and adaptations in a system under study – as outlined in the methodology section. Environmentally-devastating industrial sabotages – whether by disgruntled workers, industrial competitors, ideological maniacs or terrorist groups – cannot be discounted in a VUCA world. Immiserated societies, in stark defiance of climate change diktats, may resort to dirty coal plants and wood stoves for survival. Interlinked ecosystems, particularly water resources, may be hijacked by nationalist sentiments. The environmental fallouts of critical infrastructure (CI) breakdowns loom like a Sword of Damocles over this decade.

Geopolitical

The primary catalyst behind WWII was the Great Depression. Since history often repeats itself, expect familiar bogeymen to reappear in societies roiling with impoverishment and ideological clefts. Anti-Semitism – a societal risk on its own – may reach alarming proportions in the West (Reuters, 2019), possibly forcing Israel to undertake reprisal operations inside allied nations. If that happens, how will affected nations react? Will security resources be reallocated to protect certain minorities (or the Top 1%) while larger segments of society are exposed to restive forces? Balloon effects like these present a classic VUCA problematic. Contemporary geopolitical risks include a possible Iran-Israel war; US-China military confrontation over Taiwan or the South China Sea; North Korean proliferation of nuclear and missile technologies; an India-Pakistan nuclear war; an Iranian closure of the Straits of Hormuz; fundamentalist-driven implosion in the Islamic world; or a nuclear confrontation between NATO and Russia.