The global economy is slowing down. What can governments do about it?

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A decade after the crash, many nations are still on emergency monetary policies, even before a new downturn strikes. Central banks are getting twitchy. On average, recessions have come along once a decade since the mid-1970s and the nadir of the last downturn occurred almost a decade ago.

The Nobel prize-winning economist Paul Krugman has predicted that there will be a recession in America by the time Donald Trump comes up for re-election at the end of next year.

The darkening outlook for global growth is putting pressure on the US president to resolve hiS Trade dispute with China. When the White House announced its first tranche of protectionist measures almost a year ago, hopes were high that the world economy had at last shrugged off the long hangover from the financial crisis and deep slump of 2008-09. In the months, before Trump went toe-to-toe with China's president, Xi Jinping, it was expanding strongly and the International Monetary Fund was talking about a synchronised upturn. A year later – and with the 1 March deadline for a fresh round of US tariffs fast approaching – the mood has changed. All of which raises three big questions:

1. What is happening to the global economy?

Official statistics in the US have been delayed as a result of the Federal government shutdown, but when the figures for growth in the fourth quarter of 2018 are finally released this week, they are expected to show that the world's biggest economy has joined in a slowdown that is affecting Europe, China and a slew of other strategically important countries.

If the second half of 2018 provided isolated evidence that global growth had peaked, the data since the turn of the year has been unambiguous: all of the world's major economies look weaker than they did 12 months ago. Britain grew by just 0.2% in the final three months of 2018, as did the Eurozone. And Italy is suffering its fifth recession in two decades.

Spending by American consumers in December was weak, but perhaps of more significance was the sharp pull-back in manufacturing in January, which fits with a picture of declining factory output elsewhere. In the winter of 2008, crashing industrial production and a contraction in trade flows were signs of the depth of the global slump. Ominously, both are again weak.

For countries heavily dependent on exports as a source of growth – China, Germany, Japan and South Korea – falling demand for their goods is bad news.

Globalisation has increased the tendency of one economy to be synchronised with all the others: there was a generalised upswing in the 1990s when China was a destination for western foreign investment, a growing market for exporters of commodities and industrial machinery, and the source of cheap goods that kept inflation and interest rates low.

But the flipside of this model is that everybody suffers together when times are tough. While spectacular by western standards, China's growth of 6.6% in 2018 was the slowest since 1990, and weakness intensified as the year wore on.

China has been a key export market for Germany, which has only barely escaped falling into a technical recession – defined as two successive quarters of negative growth. The latest snapshot of manufacturing in Japan pointed to a contraction in factory output.

Announcing the International Monetary Fund's for the world economy in Davos last month, the fund's managing director, Christine Lagarde, said that while a recession was "not around the corner", the risks of a sharper decline in activity had increased. Policymakers should make greater efforts, Lagarde added, to prepare for a slowdown.

2. What steps are being taken?

In December, the US central bank raised interest rates, possibly for the last time this decade. Considered by many economists to be a huge mistake, the increase, to between 2.25% and 2,5% was an act of pride, coming as it did after a series of tweets from Trump urging the Federal Reserve to pause.

Trump's tweets were deemed to be the work of a bully, and in its determination to defend its independence the Fed ignored the fact that, on this issue, the president might have had a point.

When its policymakers met again in January, there was an almost complete U-turn. No longer would the Fed be making three quarter-point rate rises this year. It would also do more to keep intact the stimulus programme it adopted in the wake of the banking crash – a process known as quantitative easing (QE), which the Fed has reduced from $4.5tn to $4tn over the past couple of years.

"They will have a permanently gigantic balance sheet," said Ward McCarthy, chief US financial economist at investment bank Jefferies. "They always said it would be larger than pre-crisis, but earlier commentary suggested it would be significantly smaller."

Mario Draghi, the head of the European Central Bank (ECB), is staring at the same data as the Fed. His message to the world has been: as someone who was less bullish in the good times, I have less reason to be panicked today.

At his January press conference, he said the ECB was not yet ready to reverse its policy, set out in December, of stabilising its stimulus package. He said its stock of loans would stay at 2.6 trillion Euros Yes, he was gloomier about prospects for the Eurozone economy, but no, he wasn't ready to change course yet.

In Rome, the coalition government comprising the far-right League and radical M5S wanted him to loosen the purse strings and keep pumping out cheap money, while the German government wanted the ECB to follow the Fed's previous policy. Draghi looked calm taking the middle road.

In Tokyo, the Bank of Japan has remained immune to all talk of normalising monetary policy, 10 years after the banking crash. It has continued to expand its lending and in the past week hinted that it might even accelerate the policy to prevent Japan falling into recession.

China, meanwhile, has taken a series of steps to boost spending and lending in an effort to counter the forces bringing about a dramatic slowing of consumer spending and business investment.

Pantheon Macroeconomics' chief Asia economist, Freya Beamish, and senior Asia economist Miguel Chanco said last week that the People's Bank of China had surreptitiously cut interest rates by using complex financial instruments. "We think the [central] bank would like to make the effective rate cut overt .Trade talks, for now, are making that difficult," they said.

3. What if these measures are not enough?

Central banks and finance ministries had better hope that the action taken so far will be enough to avert a recession because they will soon run out of conventional policy options.

In 2008-09, the response to the financial crisis was fivefold: the central banks cut interest rates aggressively; they pumped cheap money into their economies through QE; finance ministries bailed out the banks with taxpayers' money; governments ran bigger budget deficits as a way of boosting growth; and international cooperation kept trade flowing.

But today interest rates are still either zero or just about zero in most of the developed world; QE has been subject to the law of diminishing returns and has proved politically controversial; the public appetite for another round of bank bailouts is nonexistent; government debt levels are much higher than they were a decade ago; and economic nationalism is on the rise.

Krugman said in a Bloomberg interview: "We're clearly in worse shape. We came into the last crisis with interest rates well above zero, we came into the last crisis with debt substantially lower than it is now … and we came into the last crisis with substantially better leadership … Our current treasury secretary [Steven Mnuchin] is no Hank Paulson.

"I think we're in much worse shape. We probably don't have a crisis of that magnitude about to hit us – God help us if we do – but we're in much worse shape to deal with whatever shocks come along than we were 10 years ago."

Central banks and finance ministries would have some options in the event of another severe downturn. Vicky Redwood, senior economic adviser at Capital Economics, says rates could be cut to below zero, QE could be expanded and governments could run even bigger deficits than they currently have.

Serious consideration could also be given to the use of "helicopter money" – tax cuts and public spending that are paid for by a permanent increase in the money supply by central banks, almost as though the government were dropping money from the sky for citizens to spend.

But Redwood adds a cautionary note. "Policymakers are not powerless in the face of the next downturn. Indeed, we expect their tools to prove adequate to cope with a relatively modest slowdown. However, if there was a more severe downturn, we think that policymakers would be reluctant to undertake the more radical steps that would be required – with a weak policy response raising the risk of a prolonged slump."