German GDP figures highlight downward trajectory of global economy

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17 August 2011

Economic growth in Germany, which had been largely powering limited economic growth in the European Union, ground to a virtual halt in the second quarter of this year, according to figures released Tuesday by Germany's statistical office.

Germany's gross domestic product (GDP) rose by a mere 0.1 percent in the three months to June compared to the previous quarter, which registered growth of 1.3 percent. The first quarter's growth was downgraded from an earlier estimate of 1.5 percent.

The second quarter GDP figure was well below the forecast of economists, who had predicted a reading of 0.5 percent. It was the weakest quarterly result since the first three months of 2009, when Germany was coming out of its worst recession since World War II.

German business sentiment fell to a nine-month low in July, while investor sentiment fell to its lowest point in two-and-a-half years. Domestic orders for capital goods fell 15.1 percent in June, and foreign and domestic orders for consumer goods also declined.

The virtual collapse of economic growth in Germany is in line with broader international trends. Eurostat, the European Union's statistical office, reported Tuesday that GDP across the 17-nation euro zone rose by only 0.2 percent in the second quarter, as compared to a 0.8 percent increase in the first three months of the year. It was the weakest quarterly reading since mid-2009.

Industrial production in the euro area fell 0.7 percent in June compared with May. European manufacturing growth weakened in July, and economic confidence slumped to the lowest level in almost a year.

On Friday, France reported zero growth in the second quarter; Britain has reported a mere 0.2 percent increase; the Netherlands, 0.1 percent; Spain, 0.2 percent; Portugal, zero growth; Italy, 0.3 percent. In Russia, economic growth weakened for the second straight quarter.

The US last month reported second quarter growth of 1.3 percent, sharply below expectations, and downgraded its first quarter growth to 0.4 percent, resulting in net growth for the first half of 2011 of 0.8 percent. This compares to a growth rate for 2010 of 3 percent.

There are no serious prospects that Japan or the emerging Asian economies of China and India will provide the impulse for global growth. Japan on Friday reported that its GDP contracted by 0.3 percent in the second quarter—a result that was taken as a positive sign since it was better than the consensus forecast of economists. Hong Kong's economy shrank for the first time since the eruption of the global financial crisis in the April-June period.

Both China and India are seeking to cool down their economies, which are facing increasing inflation and the growth of speculative bubbles, largely as a result of the US government's cheap dollar policy. China recorded an inflation rate of 6.5 percent in July, a three-year high. It is allowing its currency, the yuan, to rise in relation to the dollar and other currencies in an attempt to tighten credit and stem the rise in prices.

The global slowdown both underlies and exacerbates the wild gyrations on financial markets and the mounting sovereign debt and banking crises. It coincides with the spread of the European sovereign debt crisis to Italy and even France, and the first-ever downgrade of US debt.

The global economy is moving into a new stage of the slump that followed the Wall Street crash of September 2008, under conditions where the dollar-anchored world currency system has been irreparably destabilized, the common European currency is being undermined by intra-European imbalances and national antagonisms, and the entire architecture of post-World War II economic relations is visibly disintegrating.

It is no longer possible to credibly maintain that the economic crisis that erupted nearly three years ago was merely a temporary downturn, followed by a genuine and

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sustainable recovery. Policymakers are being forced to acknowledge that the massive bank bailouts and austerity programs have resolved none of the underlying problems and that the economic situation is deteriorating.

Last week, the US Federal Reserve Board withdrew its previous forecast of a relatively rapid return to normal growth and pledged to keep interest rates at near-zero for at least two more years. The Bank of England similarly reduced its growth forecasts for 2011 and 2012, and its governor, Mervyn King, broadly hinted that he would not raise interest rates over that period.

Comparisons to the Depression of the 1930s are proliferating, along with grim warnings from governments, policymakers and commentators. “We are entering a new danger zone,” World Bank President Robert Zoellick said Sunday during a visit to Australia. He added that world leaders need to take strong action “both short- and long-term to restore confidence.” But he remained vague as to what these measures should be.

“The second quarter marks a turning point in the German business cycle,” said Unicredit analyst Andreas Rees, adding: “The period of exuberant growth is now behind us.” Christoph Schmidt, a member of Germany’s panel of economic advisers, told Reuters, “We are far from nearing the end of the crisis. Germany cannot decouple from the rest of the world.”

Joseph Stiglitz, a Columbia University professor, former chief economist at the World Bank and Nobel prize winner, published a column in the August 10 *Financial Times* in which he concluded, “A long malaise now seems like the optimistic scenario.”

Bill Gross, the founder and co-chief investment officer of the investment management firm Pimco, published a column in the *Washington Post* on August 12 in which he warned that “policymakers from a fiscal perspective are pointing us toward recession and the destructive 1930s instead of a low-growth but still breathing US economy of the 21st century.”

Nouriel Roubini, the economist and professor at New York University’s Stern School of Business, has published recent columns arguing that there is a 50 percent chance of a “double-dip recession” and last week acknowledged in an interview with *wsj.com* that Marx’s analysis of capitalism’s contradictions was correct.

“Karl Marx had it right,” Roubini said. “At some point capitalism can self-destroy itself. That’s because you cannot keep on shifting income from labor to capital without having excess capacity and a lack of aggregate demand. We thought that markets work. They are not working.”

As one improvised measure after another fails to stem the slide toward full-scale depression and a new wave of bank failures and sovereign defaults, the sense of perplexity, helplessness and fear mounts within the ruling class. To cite some recent headlines in major newspapers: “Global Crisis of Confidence” (*Wall Street Journal*, August 13); “Financial Markets at Their Wits’ End” (*Financial Times*, August 13); “Geithner, Bernanke Have Little in Arsenal to Fight New Crisis” (*Washington Post*, August 14).

They all agree, however, on seeking to extricate themselves from the crisis by carrying out the most ferocious attacks on the working class. Liberals and conservatives, followers of John Maynard Keynes and Milton Friedman alike, are unanimous on the need to attack the basic social reforms of the previous century and drive back the living standards of the vast majority of the world’s people.

In addition to ever more brutal cuts in social programs, what is being prepared is a new assault on jobs and wages. E.On, Germany’s largest utility, said last week it might need to cut as many as 11,000 jobs after suffering the first loss since it was created a decade ago from the privatization of state-owned utilities.

In an article published Monday by the *Financial Times* headlined “US industrials prepare for risk of double dip,” the newspaper cited Michael Larsen, chief financial officer of Gardner Denver, a maker of pumps for the oil and gas industry, who said, “We got the team together and we prepared a list of the plants that we are going to go after, and we have a number in terms of headcount reduction that we are ready to pull the trigger on if we do see a slowdown in orders.”

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