## **Europe plunging into recession**

Stefan Steinberg 4 January 2012

2011 was a year of austerity for Europe. At the behest of the European Union and the International Monetary Fund, stringent programs imposing cuts in wages, pensions and social services, combined with the decimation of jobs, were introduced by governments across the continent.

These austerity measures, designed to pay for massive bailouts of the banks following the financial crash of 2008, are now plunging Europe into new economic and social turmoil. This is confirmed by the most recent economic figures, which indicate that 2012 will be a year of renewed recession in Europe.

The first economic statistics for Europe issued in the new year show that manufacturing across the euro zone declined in December, the fifth consecutive month of decreased output. Overall economic growth in the 17-nation euro zone was anemic throughout the second half of 2011, increasing by just 0.2 percent between July and September. The performance of the 27 economies of the entire European Union was only slightly higher, at 0.3 percent. Since September the general trend has been downwards.

While Europe's biggest economy, Germany, recorded significant economic growth in the second half of 2011, other major economies such as Italy and Spain registered large falls in production.

French manufacturing has also suffered from the slump in demand across the continent. PSA Peugeot Citroën, Europe's second-biggest carmaker after Volkswagen, recorded a 29 percent fall in its December sales, while the country's second major car producer, Renault, registered a 28 percent drop. "Orders were down about 55 percent in December, which leads us to expect a car market contraction of 17 percent in the first quarter of 2012," said Renault sales chief Bernard Cambier.

In Britain, retailers announced disappointing figures for the Christmas period. Jonathan De Mello, the head of the CBRE retail consultancy, said that due to the slump in consumer spending, 30,000 to 40,000 retail jobs could disappear in Britain over the next 18 months.

During the recession of 2008-09, major British retailers such as Woolworths, Zavvi and MFI went into liquidation. According to the head of another British retail consortium, conditions are now even worse than at the end of 2008.

The trend toward recession has been confirmed by British economists. In a poll conducted by the BBC at the end of the year, 25 leading economists predicted recession for Europe in 2012. Only 2 of those polled dissented. A majority of the economists questioned also said there was a significant likelihood of a breakup of the euro zone.

A parallel survey of 83 economists conducted by the *Financial Times* concluded that 2012 will rival 2009 for economic weakness, with output in the UK suffering as a result of the continuing debt crisis in the euro zone. According to Sir Alan Budd, chairman of the Office for Budget Responsibility, the UK faces a "choice between extended misery if the euro survives and catastrophe if it doesn't."

While predicating recession in 2012, a large majority of the economists questioned by the *Financial Times* stressed their continuing support for the draconian austerity measures introduced by the British coalition government headed by Conservative Party Prime Minister David Cameron.

Reflecting the intensifying crisis in Europe, the euro slid to a ten-year low against the yen and a one-year low against the US dollar to end 2011 as the world's worst-performing major currency. International hedge funds stepped up their speculation against the euro in the last week of 2011. The slump in the fortunes of the euro came despite the action of the European Central Bank, which just a week previously provided European

banks with nearly half a trillion euros in the form of new credits.

European leaders went public at year's end to warn that there would be no let-up in the policy of austerity. Ignoring the disastrous social consequences for European workers of the cuts already imposed, Danish Prime Minister Helle Thorning-Schmidt, who took over the six-month rotating European Union presidency on January 1, declared, "The fat years are behind us. We must prepare ourselves for some lean years."

The message was drummed home by German Chancellor Angela Merkel, who warned in her New Year's speech that for Europe, 2012 would "no doubt be more difficult than 2011," adding that the continent faced its "harshest test in decades."

French President Nicolas Sarkozy was even more explicit, warning, "This extraordinary crisis, without doubt the most serious one since World War II ... is not over."

In Spain, the cabinet of the conservative People's Party meets Thursday to agree further measures aimed at slashing public spending. The new proposals will come on the heels of a €15 billion package of spending cuts announced just days ago and the declaration by the treasury minister that the country's budget deficit for 2011 is likely to be higher than forecast.

In Italy, the technocratic government of Mario Monti is under renewed pressure from the financial markets to implement further austerity measures following its recent €33 billion package of cuts to pensions and social spending. Following a brief dip in December, Italy's long-term borrowing costs have once again been driven up to the critical level of 7 percent.

Bourgeois political commentators have drawn their own conclusions from the crisis and are issuing warnings to the political elite to prepare for major class confrontations. In her prognosis for 2012, Princeton Professor Anne-Marie Slaughter wrote in Tuesday's *Financial Times* that austerity and the spread of poverty would provoke revolts in sub-Saharan Africa and further mass protests in Central Asia and South America.

"In the US," she wrote, "the Occupy movement will operate through rolling flashmob-type disruptions, but we should also see much more concrete actions such as defending against foreclosures—a tactic pioneered in Spain. In European countries that are choking on euro

zone-imposed austerity, protests are also likely to turn into coordinated civil disobedience, centered on a refusal to pay new or higher taxes. And the Middle East will continue to burn. ... Expect a very turbulent year."

There are already indications of growing resistance within the working class. In Greece, state hospital doctors started a four-day strike this week against the government's cuts to the state health system. Their strike has been joined by pharmacists and other workers in the health system.



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