

European crisis sets off slide to global slump

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The European financial crisis is creating an economic vortex which is threatening to drag the rest of the world economy into a deepening slump.

Three years after the so-called Great Recession was officially declared over in the United States—by which time in previous recoveries economic expansion would have been well advanced—the latest data show that US manufacturing has begun to contract.

Contrary to the predictions of many economists, the Institute for Supply Management's survey on economic activity showed a decline in its index from 53.5 in May to 49.7 in June, the lowest level since mid-2009. With a result below 50 indicating contraction, the number was described as a "terrible result," indicating that the American economy is being adversely impacted by the euro zone financial crisis.

In Europe, manufacturing activity has declined every month since August 2011. Significantly, in Germany, the euro zone's largest economy and the least affected by the crisis so far, figures for June showed manufacturing activity declining at its fastest rate since June 2009.

On Monday it was reported that the euro zone jobless rate rose to 11.1 percent in May, the highest level in the history of the single currency. Once again, unemployment rose in Spain, where the jobless rate is almost 25 percent. In Greece and Spain youth unemployment is around 52 percent.

The worsening situation in the European economy—it is expected to officially enter recession later this year—has prompted predictions from many quarters that the European Central Bank (ECB) will reduce its base interest rate to below 1 per cent when it meets later this week. The Bank of England may also engage in further "quantitative easing," injecting more funds into the financial system, given that the outlook for both the UK and the world economy is worse than forecast only a

few months ago.

But such measures will do little or nothing to alleviate the situation. Despite the ECB's injection of more than €1 trillion into the European banking system in the past six months, figures show that virtually none of this cash has gone into new investment projects. It has been used almost exclusively by the banks for financial market operations, most often involving the purchase of government bonds.

Given the crucial role it has played in sustaining world growth over the past four years, the downturn in China is of no less importance than the gathering slump in Europe and the worsening outlook in the United States.

Export orders are reported to be at their lowest level since March 2009 and the official purchasing managers' index (PMI) fell to 50.2 last month, down from 50.4 in May and only just above the 50 mark which indicates stagnation. The privately-run survey conducted by the banking conglomerate HSBC showed its PMI for China falling to 48.2 after seasonal adjustment, its lowest level since November last year.

In another indication of economic contraction, China's National Bureau of Statistics reported that electricity production grew by only 1.7 percent in April and May, compared to an average annual growth rate of 12 percent over the past decade.

The Chinese government is under pressure to introduce further stimulus measures along the lines of those that have played a crucial role in sustaining the economy since the onset of the global financial crisis in 2008. But there cannot be a repeat of such measures. This is because the massive expansion of credit ordered by the central government led to a real estate bubble and the construction of large-scale infrastructure projects that are now appearing in the form of bad or doubtful debts on the balance sheets of the state banks.

The latest trends in the world economy confirm the

analysis made by the *World Socialist Web Site* that global capitalism is not experiencing a downturn from which there will be a “recovery,” but has entered a breakdown.

In this situation, nothing is of greater political importance for the ruling classes than the maintenance of the poisonous fiction that there is some alternative to mass unemployment and depression if only the right policies are adopted. This is the significance of “A Manifesto for Economic Sense” issued by *New York Times* columnist and leading Keynesian economist Paul Krugman and published in the *Financial Times* last week.

According to Krugman, the “world’s advanced economies remain deeply depressed in a scene all too reminiscent of the 1930s”. The reason for this terrible state of affairs is that the wrong policies of that decade are being employed again. “As a result of their mistaken ideas,” Krugman writes, “many western policy makers are inflicting massive suffering on their peoples.”

This is an economic version of the “bad man” theory of history always employed by the ideologists of the ruling elite whenever the historic crises and contradictions of the capitalist system, which they defend, threaten to plunge mankind into a catastrophe.

The idea that the world economy could be rescued if only governments and the financial powers—that-be would listen to the wise counsel of Mr. Krugman is quickly refuted if we consider what would happen if his proposals were adopted.

Any reversion to real stimulus spending measures—not bank bailouts—in the US or in another advanced capitalist economy would see the immediate eruption of a currency and financial crisis, leading to further mass unemployment and a deepening of the attacks on the working class. In the 1930s, the Roosevelt “New Deal” did not bring about a “recovery”—that began only with the outbreak of World War II. But today, even Roosevelt’s limited economic experiments are ruled out because of the historic decline in the global economic position of the United States.

For the international working class, the way out of the deepening global economic crisis begins with the rejection of illusions advanced by Krugman and others. To prevent a repeat of the catastrophes of the 1930s and

even worse, the working class in every country must take up a political fight to overthrow the profit system and establish workers’ governments that will undertake the reconstruction of the world economy on socialist foundations.

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