European recession deepens, unemployment climbs

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17 August 2012

Four years after the most serious economic crisis in Europe since the Second World War, the continent is once again sliding deeply into recession. The latest figures from the European Union (EU) Eurostat agency reveal that between April and June of this year, the combined economies of the 17 states constituting the Eurozone declined by 0.2 percent compared to the first three months of 2012.

According to Eurostat's so-called "flash estimate", a similar decline was recorded across the 27 nations of the European Union. When compared to the same period last year, Eurozone GDP has shrunk by 0.4 percent. The new data on economic decline follow the release last month of figures revealing that unemployment in the Eurozone had reached a record level of 11.2 percent.

The German economy, the continent's largest, grew by 0.3 percent in the second quarter. Based on its large export industry, Germany has been able to maintain economic growth in recent months. However, as austerity measures take effect across Europe and major markets in Asia recede, it is only a question of time before the current crisis hits Germany full force. The country has already experienced a series of closures and bankruptcies of major companies and, significantly, the second quarter growth had no positive impact on the jobs situation.

Meanwhile, the rest of Europe is either floundering, or plunging farther into recession. The French economy has failed to record any growth in the past nine months and budget cuts planned by the government are expected to exacerbate the economic situation in the coming period. The Socialist Party government of President François Hollande has pledged to slash the public sector deficit by 3 percent of GDP, or €33 billion, next year.

No less than six countries in the Eurozone ran up significant declines in economic output in the second quarter of 2012: Greece, Portugal, Italy, Spain, Belgium and Finland. The first three have all been subjected to harsh austerity programs by the EU as part of the bailout of European banks.

The Greek economy continues to plummet. Its economy has been shrinking since late 2008 and declined by an additional 6.2 percent during the past year. The second so-called bailout of Greece agreed by the "troika" (European Commission, International Monetary Fund and European Central Bank) last February was based on forecasts of an economic contraction of 4.5 percent for 2012. Now this figure is expected to be closer to 7 percent.

The second worst economic showing was made by Portugal, whose economy shrunk by 1.2 percent between April and June this year. This means Portuguese GDP has now declined by a total of 3.3 percent in the past year. On the same day the Eurostat figures were released, the Portuguese statistics office announced that unemployment in the country had reached a record 15 percent.

Europe's third and fourth biggest economies, Italy and Spain, shrunk by 0.7 and 0.4 percent respectively, in the second quarter. Italy's economy has now been contracting for at least a year, while the ongoing recession in Spain has driven up employment in that country to a post-Franco era and European Union record of 24.6 percent.

Britain recorded the third successive quarter of its second recession in the past four years. Figures released last month by the Office for National Statistics revealed that the decline of the UK economy is accelerating. The 0.7 fall recorded in the second quarter of 2012 exceeded the worst expectations of economic pundits.

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While the European economy is spiralling ever deeper into recession, another recent report drew attention to the growing crisis of the European banking system. According to a report issued last week by the Price Waterhouse Group, European banks have acquired a growing mountain of bad debt totalling around 1.05 trillion euros by the end of 2011.

For the past two years, European banks have been encouraged to buy up the bad debts of ailing economies in southern Europe by the European Central Bank. At the start of this year, the ECB made over a trillion euros available in cheap loans for such purchases.

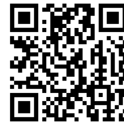
The current estimated total of bad loans is double the 2008 figure. The most rapid rates of growth in bad loans have been recorded by banks in Italy, Spain and Greece. The massive rise in bad debt in the vaults of European banks has in turn led to a marked downturn in interbank lending. In June, these interbank transactions reached their lowest level since the outbreak of the financial crisis in 2007.

It was the collapse in interbank lending in 2008 that prompted governments in Europe and around the world to pump trillions into the international banking system. In September of last year, the president of the European Commission, José Manuel Barroso, admitted that: “In the last three years, member states—I should say, taxpayers—have granted aid and provided guarantees of €4.6 trillion to the financial sector”.

Now the banks are anticipating another huge infusion of funds from the ECB—funds guaranteed in the last resort by the European working population. *Der Spiegel* cites Thomas Mayer, chief economist at Deutsche Bank, who notes that the European taxpayer has been left with the financial risks of a break-up of the Eurozone and declares: “Since private capital is no longer flowing, the central bankers are stepping into the breach”.

The response of the troika and the German government to the growing economic and social devastation in Europe is to tighten even further the austerity vice. This will be the message communicated to Greek Prime Minister Antonis Samaras when he visits Berlin for talks with Chancellor Angela Merkel next week.

The German government is also preparing for the possibility of Greek state bankruptcy and that country’s exit from the Eurozone. German Economics Minister and Vice Chancellor Philipp Rösler told Spiegel Online: “We don’t want Greece to become insolvent but, if necessary, we could cope with the consequences.”



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