European economy contracts as stock markets soar

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On the same day, March 6, that figures were released underlining that Europe is in deepening recession, European stock markets soared to their highest levels since August 2008.

On Wednesday the EU statistics agency released figures confirming that GDP in the euro zone dropped by 0.6 percent in the final quarter of 2012. Euro zone GDP contracted throughout 2012, but the 0.6 figure was the highest for any quarter, indicating that the contraction of the European economy is accelerating.

The decline at the end of 2012 is the deepest since the first quarter of 2009, i.e., the dramatic decline registered in the immediate aftermath of the international banking crash of 2008.

Economic contraction was most pronounced in those countries that have felt the full brunt of the austerity policies of the European Union and the International Monetary Fund.

Fourth quarter GDP in Italy, the third largest euro zone economy, shrank by 0.9 percent. Separate figures from the Italian National Statistical Institute revealed that the Italian economy shrank by 2.4 percent in 2012 compared to one year previously. This was the worst rating for the country since 2009 and the ninth time in 11 years that Italy's growth has lagged behind that of the European Union as a whole.

The Spanish economy contracted by 1.4 percent in 2012, the country's second worst annual slump since 1970 when dictator Francisco Franco was still in power. Once again the rate of contraction was most pronounced in the fourth quarter (0.8 percent) and the Spanish economy is expected to shrink further in 2013. Retail sales in the country have fallen for 30 straight months, reflecting the slump in domestic demand as spending cuts bite and unemployment soars.

According to government forecasts, the Irish economy is headed for a record 5 percent slump this year as construction and consumer spending shrink. Unemployment in Ireland is at a 15-year high and the country's budget deficit is expected to increase to more than three times the European Union limit.

The British economy shrank by 3 percent in the last three months of 2012 and is expected this year to go into its third recession in four years.

Frontrunner among European nations with a shrinking GDP remains Greece, which is now in its sixth year of recession. Its economy has contracted by over 20 percent in the past six years and is expected to contract by a further 4.5 percent this year. On the basis of its economic data a leading investment company recently downgraded Greece from a developed to an emerging economy.

The Greek unemployment rate of 27 percent is the highest in the EU with an estimated 62 percent of young Greeks out of work. The Greek government is currently under pressure from the EU and IMF to eliminate a further 25,000 public sector jobs this year towards reaching its target of laying off around 150,000 public employees by 2015.

The recession is not restricted, however, to smaller, peripheral countries. One of the clearest indicators of the extent of the recession in Europe was the slump in economic activity last year in the continent's two largest economies, Germany and France. Against all official expectations the German economy shrank by 0.6 percent in the third quarter of 2012 and the French economy by 0.3 percent.

The slump in the German economy reflects above all the collapse of consumer demand in Europe for German exports. Not only is recession spreading from the periphery to the core of Europe, it is also increasingly affecting core industries. In response to the slump in demand for autos in Europe major auto companies and also steel concerns are currently intensifying their plans to shut plants, slash jobs and drastically rationalise production.

The accelerating malaise of the European economy combined with growing political instability in Greece, Italy, Portugal and Spain is once again forcing up the purchase price for government bonds for these countries, pushing up their levels of debt and threatening a renewed outbreak of the euro zone crisis.

As noted above, on the same day figures confirmed the disastrous state of the European economy, stock markets across the continent soared to levels comparable to their highs before the 2008 banking crash. The French CAC 40 added 2.1 percent, the German DAX rose 2.4 percent, and the UK's FTSE 100 gained 1.4 percent.

The rise in the European markets came on the same day that the Dow Jones Industrial Average crashed through its previous high, dating back to 2007.

Noting that indices rose on all of the 18 Western European markets except Greece, the *Irish Independent* began its report on the stock market orgy: "It was a day for markets that must have left investors drunk with joy."

The boom in European stock markets is often described by financial commentators as an indication of its "disconnect" with the state of the real economy. In fact, the ballooning value of both the European and US stock markets is based on the same process—a massive redivision of wealth from the public purse, via the crushing of living standards for tens of millions of workers through austerity programs in order to divert billions into the vaults of the banks and corporations.

The extent of this process is underlined by the Swedish economics journalist Ylva Elvis Nilsson, who writes that the European banking sector grew in size by more than 85 percent during the past decade and in 2011 had assets estimated at €45 trillion (US$59 trillion)—equivalent to a massive 350 percent of combined EU GDP.

The state of the European economy was the main subject at the recent Reuters summit on the future of the euro zone at the end of last month. Speaking on behalf of the EU European Commission, President Jose Manuel Barroso emphasized that austerity measures had to be intensified. Referring to the result of the Italian election, which saw a massive vote against austerity and the EU, he called upon European leaders to stay the course and "not give in to populism."

Barroso made clear that the EU elite is determined to ignore both the burgeoning social catastrophe in Europe and the results of popular elections in order to press ahead with austerity. He posed the question: "Should we determine our economic policy by short-term electoral considerations or by what has to be done to put Europe back on the path to sustainable growth?" only to respond: "For me the answer is clear."

Barroso's austerity mantra was predictably echoed by the German finance minister, Wolfgang Schaüble, speaking at the same conference. Schaüble declared there would be setbacks, but, "We need to continue on this path."

Another speaker at the conference warned that the most likely "setback" was a growing tide of popular rebellion against the European elite. The incoming chief of Germany's ZEW economic research institute, Clemens Fuest, told the conference: "There is really the current plausible scenario for a break-up of the currency union. It may very well be that in these countries at some point the population will say 'we don't believe things will get better'."