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Europe tilts back towards recession

By Stefan Steinberg

15 November 2013

The latest figures released Thursday by the Eurostat statistics agency reveal that the euro zone is tilting back into recession. The euro zone had registered a single quarter of growth between April and June this year, following a record 18-month recession. Now this upward trend has been reversed with the two biggest economies on the continent registering sharp declines in growth in the third quarter.

Germany saw its growth drop from 0.7 percent in July to 0.3 percent in September, while the French economy, which only recently emerged from recession, tilted back into the negative with a 0.1 percent drop in economic activity.

The overall figure for the 17-nation euro zone was a miserly 0.1 growth in the third quarter—down from the 0.3 percent for the second quarter. The wider 28-member European Union economy also slowed in the third quarter. The Greek economy is expected to shrink four percent this year and Italy registered its ninth consecutive quarter of economic decline—the country's longest recession in the post-war period.

The latest numbers come just a week after a report revealed rapidly declining inflation in a number of Europe countries—pointing to the threat of deflation, that is, a prolonged collapse in prices—while unemployment across the continent remains at record high levels.

These statistics confirm that the austerity policies dictated by the IMF, European Central Bank in order to rescue the continent's financial elite is plunging all of Europe into an economic and social catastrophe. The austerity measures imposed three years ago, which lead to devastating economic and social decline in southern and eastern Europe, are now wreaking havoc at the heart of the continent.

The economic contraction in Germany and France is primarily due to a slump in exports from the two countries, as consumption shrinks in Europe and markets contract across the world.

The dire economic numbers for France compounds the political crisis of the French President Francois Hollande, whose popularity ratings have already sunk below those of his hated predecessor, Nicholas Sarkozy.

In addition to declining exports, French manufacturing production fell by one percent compared to the previous quarter while investment also declined for the seventh successive quarter. Last week the US rating agency, Standard & Poor’s, downgraded France’s credit rating.

Further pressure for the reform of the French economy came from a report by the Paris-based Organisation for Economic Co-operation and Development (OECD) commissioned by the French President. The OECD report claimed France was lagging behind, and criticized the country's business and political leaders for failing to implement the types of structural change undertaken by Italy and Spain.

The economic and social devastation in Italy and Spain—where youth unemployment are 40 percent and 60 percent, respectively, and wages and social benefits have been gutted—are being held up as a template for the assault on the working class throughout Europe.

Seeking to reclaim some sort of political credibility Hollande sought to use the latest Youth Unemployment summit in Brussels on Tuesday to imply that his government would make good on one of its main election promises: measures to overcome the country's soaring youth unemployment rate of over 25 percent.

Claiming that what was at stake was the "future of an entire generation," Hollande emerged from a short meeting with the German chancellor and other EU leaders to announce a package of measures which will do nothing to resolve the problem of mass youth unemployment in Europe. The agreed sum of 45 billion euro is drawn mainly from existing EU budgets, while the EU council president, Herman Van Rompuy, has already declared that unemployment is expected to increase in the euro zone and the EU in 2014 and 2015.

The explosive nature of the crisis in France was most explicitly revealed in extracts published in *Le Figaro* this week from the last report of regional police chiefs on the social situation in France's departments.

The report states that France is "a society prey to tension, exasperation, and anger" It goes on to cite popular rejection of "the legitimacy of taxes"—that is, the new tax increase on working people passed by Hollande's Socialist Party—and refers to a "mixture of latent discontent and resignation which is expressed in eruptive fashion."

The report warns of the danger of a social explosion taking place outside of the control of the trade unions. According to the report, “demands are increasingly advanced outside the trade union framework, through more radical actions: hunger strikes, long-term factory occupations or blockades, etc.”

Despite the latest disastrous economic figures and the specter of social struggles across Europe, the right-wing and social-democratic parties currently negotiating to form a coalition in Berlin are intent on pressing ahead with their austerity program at home and abroad.

The intensification of the crisis is in turn fueling profound divisions inside Europe. A week ago the executive of the European Central Bank delivered a split vote on the issue of a further cut in the banks’ main lending rate. The two German delegates on the board, supported by four Northern European allies, voted against the cut on the grounds that the measure would undermine the drive for budget cuts and structural reform.

And at the start of this week France, Italy and a number of southern European countries added their own criticisms of Germany's large export surplus to the sharp admonition delivered to Berlin a week ago by the US Treasury.

On Wednesday EU commissioners agreed to hold an enquiry into the German export industry, and the former Italian prime mister Romano Prodi has called for a Mediterranean Pact to be struck between Italy, Spain and Portugal to pressure Germany to release more funds to bail out southern Europe.