

Economic Stagnation in Europe. Towards a Deflationary Spiral?

Several New Reports on the EU Economy

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A number of new reports confirm that the European economy continues to stagnate and is threatened with a deflationary spiral.

The latest Purchasing Managers' Index (PMI), which measures the future purchasing plans of key companies in the euro zone, registered a downturn in June for two of the continent's key economies. The PMI index estimate for June hit a six-month low of 52.8, with both services and manufacturing branches declining.

Europe's second biggest economy, France, registered a PMI of 48. Any figure under 50 represents a contraction. The June figure means that the French private sector has now contracted for four of the last six months. The PMI figure for Germany, while above 50, was also down. A separate statistic for Germany, the Ifo business climate index, also fell in June to its lowest level since December 2013.

Following years of economic decline in many countries throughout Europe as a result of the harsh austerity policies dictated by the European Union, European Central Bank and the International Monetary Fund, the growth recorded in Europe's biggest economy, Germany, was regarded as a positive exception to the continental trend.

The latest figures, however, confirm that the economic crisis is increasingly shifting from the periphery to the core of Europe.

France is Germany's single biggest trading partner, and its contraction has a negative affect on Germany's leading export industries. Another factor cited by the business press for the slowdown in Germany, however, is the continuing crisis in Ukraine, which threatens the country's energy supplies and its extensive interests in eastern Europe. Moreover, the crisis in Iraq has pushed up the price of oil and increased costs for many industries.

The latest figures contradict a series of media reports and declarations by economic institutions that the European economy was emerging from recession. In its April economic report, the OECD declared: "The euro area economies, including those most heavily hit by the crisis, appear to be turning the corner after many years of low and uneven growth."

In fact, the European Central Bank has already downgraded its modest estimate for growth in the euro zone in 2014 to just 1 percent. The downgrade came after figures released at the start of this month revealed that inflation across the euro zone had fallen to 0.5 percent in May, down from 0.7 percent in April. The figure for inflation considered by the ECB to be

compatible with economic growth is 2 percent.

In a separate report released on June 16, the Center for Economic Policy Research declared that the “extremely weak economic developments since early 2013” indicate that the euro zone recession was not over.

While austerity cuts into spending throughout the continent, levels of private and public debt continue to soar. Unemployment throughout Europe remains at the highest levels since figures have been collected. The extent of the social devastation in Europe was most recently recorded in the June [report](#) from the International Labour Organisation.

Every intervention by the European Central Bank, such as its recent [decision](#) to introduce a negative interest rate, has only encouraged the hedge funds and major investors to engage in even more risky forms of speculation. It is this process of providing cheap money to speculators that has driven up stock markets, such as the German DAX, to record levels in recent weeks.

There is nothing accidental about this process

At the heart of the economic developments in Europe is a massive redistribution of wealth from the working population to a tiny elite of millionaires and billionaires who have been able to massively expand their portfolios over the past five years.

The latest discussions in Brussels over future economic policy and the haggling over a new president for the EU commission are directed at intensifying this process.

The European finance and political elite are intent on imposing in France and Italy the type of political reforms to the labour market that were introduced by a Social Democratic Party government in Germany a decade ago. The Agenda 2010 program introduced by Gerhard Schröder resulted in a massive cheap wage sector that has driven down wage levels and maximized profits for German companies and banks.

In addition, the Agenda 2010 program slashed German government spending as a ratio of GDP. Now, the same process is to be undertaken in France, Italy and throughout the continent.

Behind all the current platitudes from European leaders on the need for jobs and growth, the European Commission is preparing a fresh round of even more devastating attacks on the working class.

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