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Euro Zone Officially Tips into Deflation

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Figures released by Eurostat on Wednesday confirm that the euro area has fallen into deflation for the first time since 2009, when the region suffered the disastrous economic consequences of the 2008 financial crisis.

Consumer prices in the euro area fell by 0.2 percent in December 2014, compared to a 0.3 percent price increase in November. In Germany, Europe's biggest economy, inflation fell to just 0.2 percent, reflecting the universal impact of the current crisis.

According to Eurostat the main reason for the sharp 0.5 percent drop was the decline in energy prices, particularly oil, which has halved its price since June.

In addition to the US campaign to put pressure on Russia, the huge decline in the oil prices reflects the grip of recessionary tendencies worldwide. Financial commentators are already predicting that, due to what some of them have termed, "secular stagnation", i.e., long-term economic slowdown, inflation will fall below 2 percent in 2015 in all the G7 nations. The last time such a comparable fall in inflation took place was in 1932, in the middle of the Great Depression.

The onset of deflation in Europe will have disastrous consequences for the continent's working population, already suffering severely from years of austerity policies dictated by the IMF and European financial elite. In response to falling prices, consumer demand sinks, employers reduce wages, production levels are cut, unemployment grows, and the savings of ordinary workers are devalued.

A separate report issued this week revealed that mass unemployment continues to persist throughout the continent. According to the official figures, unemployment rose in Italy to 13.4 percent, in Portugal to 13.9 and France 10.3 percent. In Spain and Greece around a quarter of the workforce remain unemployed with youth unemployment highest in Spain (53.5 percent), and Greece, (over 50 percent). In fact the official Eurostat figures wildly underestimate the true extent of unemployment in Europe.

The main exception to growing unemployment was Germany, whose major exporting industries have been able to profit from the decline of the euro in recent months, adding several tens of thousands of jobs in December.

The banks and financial markets have largely reacted to the news of deflation in Europe with euphoria. They anticipate that the onset of deflation will tip the hand of European Central Bank head Mario Draghi to introduce his widely anticipated program of quantitative easing at an even earlier date. Following in the footsteps of the massive QE programs introduced by the central banks of the US, UK, and Japan Draghi has announced plans to increase the deposits of the ECB by one trillion euros in order to buy up government bonds.

All of Europe's main markets surged on the news. Thursday's issue of the German business newspaper *Handelsblatt* ran the headline, "DAX recovers. Investors banking on the ECB."

The ECB has the next meeting of its governing board on January 22 and the markets are intent on ensuring that Draghi commence his QE program on that day.

In anticipation of making substantial profits via the QE program, investors have been purchasing large quantities of government bonds, whose interest rates have plummeted to record lows.

German five-year bond yields dropped below zero for the first time ever, meaning that in effect investors are paying the German government to deposit their money for the rest of this decade. As one commentator writes in the British *Daily Telegraph*: "Nothing like this has been seen in European history since the 14th century…"

The major political consequence of the ECB's bond buying program will be the intensification of national conflicts inside Europe. Italy and France have joined the chorus of southern European countries, including Spain, Portugal, and Greece, who are in favor of the ECB bond-buying program combined with a more selective implementation of austerity policy.

For their part the German finance minister Wolfgang Schäuble and Jens Weidmann, the President of the Bundesbank and Germany's representative on the board of the ECB, have made clear that they are adamantly opposed to any program of quantitative easing.

They fear that a program of mass purchases of government bonds would lessen the pressure on other countries throughout Europe to implement drastic austerity measures and labour market reforms. In a recent interview with *Handelsblatt,* Draghi went on record that there was substantial German opposition inside the ECB to a bond-buying program.

Opponents of the ECB program and EU skeptics inside German political and financial circles have also made clear that they will challenge the legality of any move by the ECB to implement fiscal policy on a pan-European scale. They argue that any such policy is incompatible with the remit of the ECB.

The latest downturn in the European economy will intensify class tensions throughout the continent under conditions where the traditional political elites are increasingly discredited. Bourgeois commentators have already warned of political upheaval in 2015—a year in which national elections are due in no less than eight European countries. The first of these elections is due in just over two weeks' time in Greece, the country which has been at the eye of the European storm for the past five years.

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