European Commission autumn forecast: overoptimistic and in denial

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If you are thinking of embarking on reading the European Commission's Autumn economic forecast (191 pages), released today, you may want to read the first sentence and then think hard whether you shouldn't save yourself the trouble – especially if you remember last autumn's prognosis. The report opens with the apparently bland

> *The ongoing post-financial crisis correction continues to weigh heavily on economic activity and employment in the EU.*

But this is completely wrong.

The euro area grew by 2% in 2010 and by 1.4% in 2011. Unemployment was falling. Europe was emerging from crisis. The fact that the euro area is now once again in recession (-0.4% in 2012) and, according to the Commission, will stagnate in 2013 is due to the restrictive economic policies imposed by European governments, not least at the behest of the European Commission itself. Its forecast is too optimistic: I consider a further contraction similar to the current year to be more likely, but that is debatable. What is not is that the Commission is in denial about the mistaken policies that it was foremost in championing. Take this sentence (p. 2):

> *Domestic demand continues to be held back by the legacy of the crisis of 2008-09 as households, banks and sovereigns are simultaneously reducing their leverage.*

This statement is factually correct but elides the fact that household and financial sector deleveraging was inevitable, but that it was a fatal policy blunder to insist on governments deleveraging (i.e. pursuing austerity policies) at the same time.

What is particularly worrying is that the Commission sees the euro area largely back on track in 2014, forecasting growth returning to the rate achieved in 2011. This is supposed to come about because of the "far-reaching policy measures announced over recent months" that will "lead to a gradual restoration of confidence across the EU" (p.1).

Before deciding whether you want to share the Commission's confidence that current policies will produce positive results in 2014, even if they cause contraction this year and stagnation next, you might want to consider the institution's forecasts made exactly one year ago. In its Autumn 2011 forecast the Commission predicted, after a dip in 2012 (0.5%), a return to strength in 2013 (1.3%). I submit that it is no coincidence that these are almost exactly the same figures that it is now forecasting for 2013 (0.1%) and 2014 (1.4%).

Always look on the bright side of life … about 18 months down the road.

(Update: Minor linguistic errors corrected, 08.11)