

When will the EU realise that deficit limits - legal, g...

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The FT's just sent out an email saying:

Three of the eurozone's five largest economies will bust through EU-mandated deficit limits this year as the bloc's recession continues to deepen, according to highly anticipated European Commission forecasts published on Friday. In addition to the anticipated breaches by France, Spain and the Netherlands, the currency union's third-largest economy, Italy, will come within a hair's breadth of missing the limit of 3 per cent of economic output, with a 2013 deficit forecasted at 2.9 per cent. The across-the-board misses come as the eurozone's economic picture continues to darken. Gross domestic product in the bloc is now expected to drop 0.4 per cent this year, down from a 0.3 per cent projection just six months ago.

And yet this is a non-story. It's only of relevance because an entirely arbitrary number which has no relevance in practice has been chosen as a deficit limit.

And it was chosen during a boom.

Now we're definitely in bust and automatic stabilisers in advanced economies mean that deficits will rise as a result. That is inevitable. It's night following day stuff. So of course deficit limits are broken unless people are to starve and suffer (as in Greece).

But worse, trying to comply with the arbitrary limit means the essential state funded investment needed to get us out of recession is not happening.

The answer is obvious - and it's time to scrap the deficit limit. It's not just meaningless. It's harmful.

If all things in life could be so easily solved.