



Austerity forever

The European Union's new model of economic governance, including the Euro Pact, is a model of prolonged austerity.

September 2011

The EU's response to the economic crisis is setting member states on course towards a model of permanent austerity, including widespread attacks on social rights. To prevent any resistance, the model being put forward by the EU aims at minimising or even totally getting rid of democratic interference. This is clear from an overview of the legislative initiatives which have been adopted since the eurocrisis began, or which are expected to be adopted imminently.

The changes have hit people like a sudden storm. In the span of less than two years, the European Union has set itself on track to implement a common economic and fiscal policy that is dominated by a range of measures, some legislative, intended to make member states stick to austerity programmes and to attack hard earned social rights.

The loan packages to Ireland, Greece and Portugal, and the demands that go with them, have put these countries under de-facto administration from Brussels and the IMF. In Greece, wages are being slashed by an average of 20 per cent in the public sector, 150,000 public employees face redundancy, and infrastructure like ports, and publicly-owned companies are being privatised. Purchasing power of the lowest salaries has been brought back to the level of the 1980's. In Portugal, the government has been forced to commit to a deficit reduction from 9.2 per cent of GDP in late 2010 to 3 per cent in 2013. Three years with massive cuts. Meanwhile, to avoid a similar loan programme, the Spanish government has adopted an equally tough austerity programme – rapid deficit reductions, wage cuts, and attacks on job security and pensions.

A model of prolonged austerity

There are good reasons not to see this as a sheer conjuncture that will soon pass and be over in a few years time. Not only are these austerity policies contested as a solution to the crisis, they've been tested by history in the thirties, and proved disastrous. Yet, despite the anger being provoked across Europe by the loan packages, the EU is moving rapidly to a model of prolonged austerity for all member states.

The Europact, the surveillance of member states' budgets under the so-called 'European Semester', and the six pieces of legislation on 'economic governance' likely to be adopted in late

September 2011, are all part of the same complex of rules and agreements. Put together, these pieces make up a model for future economic policies for the European Union. Austerity and attacks on social rights are the basic ingredients, pushed through via undemocratic and opaque procedures. There have been protests – from trade unions and other social movements, as well as from a range of different civil society organisations. But the new model is complex - it takes time to take in the many new initiatives, and understand how they're interconnected. Putting this massive new EU economic governance machinery in place within a very short time-span has steamrollered the nascent opposition against austerity across the European Union.

But although the the model's basic foundations may soon be in place, the final word has not been said, and widespread and fierce resistance can be expected. That should become clear from looking into the full economic governance package, how it will make citizens pay for problems caused by banks and speculators, and why it brings us no closer to a solution to the crisis.

Spinning the roots of the crisis

For months now, key players in the EU-institutions have tried to spin the roots of the crisis to legitimise the reforms.

“Do you remember what caused the financial crisis?” a video produced by the European Parliament in May this year asked. “Housing bubbles burst and banks had to be bailed out,” it continued. So far, so good. But then it went on to claim that the crisis comes from bad public finances: “For years, EU governments had been bending the financial rules and building on shaky ground,” a woman's voice says in a lively tone. “EU institutions had tried to stop them, but governments wouldn't listen.”¹

The rules referred to are the rules underpinning the Economic and Monetary Union – The Growth and Stability Pact (or just the Stability Pact). Under these, member states are obliged to keep the deficit on state budgets below three per cent of GDP and debt under 60 per cent. So, according to the Parliament, what we have is a crisis caused by public finance and public debt.

This interpretation is in line with a statement made by German Minister of Finance Wolfgang Schäuble on 16th August: “It's actually undisputed among economists worldwide that one of the main causes – if not the main cause – of the turbulence – not just now, but already in 2008 – was excessive public debt everywhere in the world.”

Dangerous response - slow strangulation

But the consensus that Schäuble suggested does not exist. US economist Paul Krugman disputes the public debt myth in no uncertain terms: “.. let's look at the full list of countries that got into trouble because of high debts accumulated before the crisis, as opposed to those that have developed large deficits as a consequence of the crisis.

Here's the full list: Greece.

Spain and Ireland had low debts and budget surpluses on the eve of the crisis,”²

And even in the Greek case – it should be added - it's far from clear that public debt was the main cause. Greek debt did indeed go up quickly in the years preceding the crisis, but it was first and foremost private debt that was on the rise³.

Krugman laments that Schäuble is not alone. “The fiscalization of the crisis story — the insistence, in the teeth of the evidence, that it was about excessive public borrowing — has become an article of faith [...]. And that faith has done and will do untold damage.”

One example of such untold damage is the fact that those with the least money are being made to pay dearest. But it's something else too. If all 27 EU member states adhered to austerity policies, the result would most likely be a continuing and deepening crisis. In fact, it could become a repetition of 'The Great Depression' of the thirties. Then, the withdrawal of money from circulation via the lowering of wages and cuts in government spending led straight to shrinking demand. Prices fell (the opposite of inflation – deflation), factories closed, government spending fell – a vicious circle. A 'slow strangulation' in the words of US economist Mark Weisbrot⁴.

Adam Posen, a member of the Bank of England's policy committee concurs. He has warned that policy makers are about to repeat the mistakes of the thirties. "The train is heading toward us and we should be able to agree to turn the switch", he said to journalists in September 2011.⁵ Yet, the rhetoric on public debt as a cause to the crisis, may leave us stranded on the tracks rather than save us from the impact. And the fact is that the biggest chunk of current public debt stems from private debt. The European Parliament as well as Schäuble simply got it wrong.

An indispensable key to understanding the crisis is to see how unfettered competition in the eurozone left Ireland, Portugal, Spain, Greece and Italy as the losers. When the private sector in these countries started losing terrain to German companies, the government could do little to remedy the situation. The rules of the Economic and Monetary Union preclude massive public investment, and the common currency made it impossible to devalue the currency to make local products cheaper and regain competitive edge. With real wages stagnant in Germany, and price hikes in the periphery putting an upward pressure on nominal wages (not necessarily real wages), the private sector turned to borrowing. The common eurozone interest rate was too high for Germany and too low for the periphery. There, in the periphery, it was easier to reap a profit from speculation in eg. real estate than to put investments to productive use – a situation conducive to speculative bubbles. Not the full story, for sure, but enough to say that the common currency pulled the eurozone apart, leaving the periphery's finances on shaky ground. And when credit was squeezed in the aftermath of the financial crisis, economies in the periphery plummeted.⁶ This kind of scenario – divergence rather than convergence in the Eurozone – was foreseen by many analysts a decade ago. But few imagined it would become so serious.

A corporate agenda

Why all this nonsense about the public debt, then?

For several reasons. For a start, criticism of the very foundations of the euro – a key driver of EU integration – is taboo in Brussels. Don't expect to see many MEPs, Commissioners or member state governments admit that the common currency has proved a disaster for large parts of Europe. Secondly, most in the EU institutions – especially the European Commission - see a neoliberal strategy, including liberalisation of public services, austerity and low wages, as the way forward for the EU and have done so for many years – in the name of 'international competitiveness'. Thirdly, there's the powerful political pressure groups in Brussels – the big business lobby.

For more than a decade, the big business lobby organisations have worked to ensure that member states promote labour law reform, privatisation of public services, cuts in social expenditure and pension reforms. The Lisbon strategy – an overarching strategy for the European Union – adopted in March 2000 was seen by the business lobbies as a major step forward, but it lacked strong enforcement measures. The new set of rules on economic governance will add the strong enforcement that business has been demanding for years. Smelling victory, organisations such as BusinessEurope have been busy making sure that the new system of economic governance will live up to their requirements. And according to the research done by Corporate Europe Observatory, they've been quite successful every step of the way⁷.

The European Roundtable of Industrialists – the famous and infamous lobby group made up of chief executives from large European transnational corporations – for its part, saw a striking resemblance to its own ideas when the Europact was adopted:

"Today's Pact contains many elements that will bring the attainment of ERT's Vision for a competitive Europe in 2025 closer," the exclusive club for chief execs said in a statement⁸.

1. The European Semester

To understand how the new model works – or will work – it's necessary to go through the individual elements, starting with the new system of surveillance for member states' budgets, known as the European Semester.

The European Semester was the first piece in the puzzle to be adopted. In fact, it happened very quickly. The proposal was published in Spring 2010, and had been adopted by the Council by September, only a few months later⁹. Under this new procedure, member states will have to show their draft national budgets to the Commission and the Council for the coming year in April. After the Commission has scrutinised the documents, it will draft comments for the Council to consider. In July, the Council will give "policy guidance" to all member states.

The Commission will base its advice on an 'Annual Growth Survey' that is to be released every January. In this year's survey the Commission mainly emphasised the 'need' for pension reforms in member states – and the 'need' for labour market reform¹⁰. The Commission's country-specific advice was released in early June and left no doubt about its intentions. Most countries were asked to implement labour law reforms in order to pave the way for lower wages, and to scale back on pensions, either by reducing opportunities for early retirement or by raising the retirement age¹¹. The Council voted by a qualified majority vote on recommendations for all member states on 12th July, and by and large supported the Commission's recommendations¹². Surprising? Not really. The governments in the Council are accountable to their own electorate, not to electorates in other countries. And if they stick to their own self-interest, tough reforms in other countries are – they think - to their own benefit. Not that solidarity is an in-built impossibility, but at the moment it seems unlikely.

Wages and pensions at stake

The recommendations include a hint to Spain to strictly apply "the existing deficit and debt control mechanisms for regional governments", and to adopt further measures "to accelerate the deficit reduction"¹³. It includes an encouragement to France to "continue to review the sustainability of the pension system and take additional measures if needed", and to keep the minimum wage down 'to support job creation'. For Italy, one recommendation is to weaken employment protection, and Belgium is encouraged to consider scrapping wage indexation.

Clearly major issues are at stake here. The question is to what extent this will influence decision making at the national level. It is quite ground breaking in itself that the Commission and the Council will discuss state budgets, in most cases well before a final draft is presented to national parliaments. At the moment the outcome of the European Semester will be non-binding budgetary and policy recommendations. The European Semester is the building block at the centre of all the reforms. It provides a procedure to deal with the other elements of the model of economic governance. Taken alone, though, the semester doesn't include sanctions. But several other building blocks do – and they will be linked to the semester.

2. The Euro Pact, the political compass

The most widely known document in the complex is the Euro Pact, which was adopted at a European Council meeting – an EU summit – on 24th March 2011. At the outset it was an initiative by German Chancellor Angela Merkel and French President Nicolas Sarkozy and for a while it looked as if it would be an inter-governmental instrument, a kind of declaration of political will to be implemented through dialogue and peer pressure. In the short time of a month it became much more than that.

The wording in the Euro Pact is remarkably clear. The solution to the crisis lies in austerity and low wages. To achieve ‘competitiveness’ member states must “review the wage setting arrangements, and, where necessary, the degree of centralization in the bargaining process”, and “ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages)”. In other words, the power of labour in wage setting arrangements must be curbed, and wages in general have to be lowered or kept low. Furthermore, to promote ‘sound public finances’ member states should first and foremost turn to “sustainability of pensions, health care and social benefits”, in other words cuts in social expenditure.

On top of this, signatory member states commit to translating “EU fiscal rules as set out in the Stability and Growth Pact into national legislation”.

In the weeks before the vital European Council meeting on 24th March, the meeting that was to adopt the pact, the business lobby group BusinessEurope made several efforts to influence the pact. Maybe most importantly BusinessEurope successfully lobbied for the Commission to play a strong role in the implementation of the Euro Pact.

“The Euro Pact is a political agreement on strengthening of integration. The six legislative proposals on economic governance are about how to implement it,” said the federation’s secretary general Philippe de Buck when the pact was adopted, stressing how the pact was to be integrated into the wider model of economic governance as a sort of a political compass to guide the Commission and the Council¹⁴.

This will prove to be very important. It means that the Euro Pact will not be an isolated document but will be implemented through a host of legislative, binding measures that are due to be adopted in September 2011.

3. The six-pack

The Stability Pact and social expenditure

Most of these measures are found in legislative proposals on ‘economic governance’. In September last year, the Commission published six pieces of draft legislation - sometimes referred to as “the six-pack”¹⁵. All have now been approved by the Council and a majority in the European Parliament. In this debate, the majority in the European Parliament pushed for as strong rules as possible¹⁶.

Four of these proposals concern the Stability Pact. Under discussion is mainly how to enforce the two key thresholds of the Stability Pact, ie that member states are obliged to keep deficits on state budgets below three per cent of GDP, and to keep debt below 60 per cent of GDP. According to the original rules, members of the eurozone are to be fined if they cross these two thresholds, but in practice the rules on sanctions have not been upheld. Rules were relaxed in 2005 following pressure from two countries in deficit – Germany and France. That is about to change in various ways.

Even when the present crisis does not have its roots in either the relaxation of the rules or in public debt, EU decision makers in the Commission, Council and the European Parliament see stronger rules as key to prevent future similar eurozone crises.

Most of the drastic changes has to do with the procedure against member states in breach of the two criteria of the Stability Pact, the 'excessive deficit procedure'. In brief, this is what's coming:

- * Fines or deposits can only be avoided if a qualified majority in the Council vote against imposing a sanction. This has to happen rapidly- within 10 or 20 days depending on the stage of the procedure. This amounts to 'semi-automatic' sanctions.

- * A new measure has been /is to be introduced to ensure that debts are paid off at a certain speed. The standard is to be five per cent of the difference between the debt and the 60 per cent limit - each year. For countries with a high debt, this could have serious consequences for state budgets for many years.

- * If a member state does not comply with the debt criteria, it can be fined.

- * Fines are to be up to 0.5 per cent of GDP - billions of euros.

On top of this, a number of new rules are to strengthen surveillance of the budgets. This includes an obligation to have "rules" in place eg. in national legislation, on "numerical fiscal rules that effectively promote compliance with their respective obligations" such as "compliance with the reference values on deficit and debt".

At a later stage – this was decided by the Council in November 2010 - member states outside the eurozone who cannot be fined under the Treaty will also be subject to sanctions¹⁷. This will not be in the form of a fine – that would contradict the Treaty. Instead deductions will be made from different kinds of EU support received by member states eg. agricultural support. A given member state will then have to support eg. farmers from its own funds. Not a fine in name, but to all intents and purposes, a fine.

Before sanctions are applied, member states will be under pressure to implement reform programmes – otherwise known as cuts. On what part of the budget we may ask? According to the Euro Pact: first and foremost on social expenditure – health, social benefits and pensions.

Macroeconomic imbalances and how to attack wages

In recognition that imbalances in the eurozone played a crucial part, the Commission proposed an initiative to counter what they call 'macroeconomic imbalances'. It does not, however, link this to the euro itself, but to member states' policies. To avoid these imbalances causing the same kind of damage in the future, the Commission says a new mechanism that will allow EU institutions to intervene at an early stage is necessary.

The procedure included under the two proposals in the six-pack on 'macroeconomic imbalances' is simple: to make sure that member-state economies do not build up an imbalance, indicators are chosen and thresholds defined. If a member state crosses the threshold, and if that state's government does not react quickly enough in the eyes of the Council and the Commission, it can be subjected to a procedure called 'the excessive imbalance procedure' under which it can be fined if it's a country in the eurozone, or receive a sharp criticism if it's not.

The qualitatively new element in this procedure lies in allowing the EU – mainly the Council and the Commission - to intervene in areas hitherto considered sensitive and the prerogatives of member state governments and parliaments, like determining priorities on state budgets, including the level of social expenditure. And exerting influence on the labour market, if for instance wage levels are defined as an indicator. The devilish thing about the proposals on macroeconomic imbalances is

that the indicators are to be defined only when the proposals come into force, and the Commission is set to play a key role in defining them¹⁸. This is practically a blank cheque for the very institution that has pushed hard for neoliberal reforms, and that has intimate relations with big business on these very issues.

The Commission and the Council have given unmistakable hints as to what kind of imbalances they'd like to address with this procedure. Balance-of-payments (the sum of all public and private trades going in and out of a country - including loans, goods, investments), private and public debt, all qualify. And wages. When the Commission presented the proposals in September 2010, it made it abundantly clear that attacking wages was on its wish list. If wages – they claimed – were to be reduced in countries lagging behind in competitiveness – it would restore balance. A top civil servant told a German newspaper: “When wages in the public sector damage competitiveness and price stability, then the country will be requested to change this policy. And the wage development in the public sector does of course have a great influence on the private economy”¹⁹. Since then, the Council has been discussing precise threshold levels, and is ready to go once the proposal is adopted.

The EU to interfere in wage bargaining?

The question of EU interference in wage bargaining has sparked resistance. The trade union movement headed by the European Trade Union Confederation (ETUC) has protested on various occasions and it has been one of the key areas of debate in the European Parliament. The European Parliament has softened the text slightly and has made it a bit difficult to intervene directly in private sector wages, but the option to pressure a member state to lower wages in the public sector is still left completely open.

This begs the question: what kind of imbalances are they? As mentioned there was a clear process of divergence in the Eurozone in the first decade of the common currency, and this divergence is at the root of the crisis. But the imbalances can be addressed and assessed in very different ways. For instance, the Commission claims that wages in Greece, Ireland, Portugal and Spain and other ‘domestic imbalances’ are the culprits²⁰. A downward turn in competitiveness in these countries, compared to Germany, should supposedly be explained by lack of ‘wage adjustments’. However, a closer look reveals that real wages have remained stagnant in Germany for a very long time, thanks to measures imposed by the federal government, and an inflow of workers from Central and Eastern Europe²¹. Also, statistics show that in terms of real wages, developments in Germany and the ‘deficit countries’ are practically identical²². So, the argument should be turned around. Wages in Germany are kept low compared to the advantages Germany has in terms of competitiveness. Could it be that the Commission will acknowledge that this is a major contributor to imbalances, and that this should be corrected by raising wages in Germany?

No.

Both the Commission and the Council have stated on various occasions, that first and foremost it will be the deficit countries that will have to adjust²³. And in terms of macroeconomic imbalances, those countries are mainly Portugal, Ireland, Italy, Greece and Spain. While the European Parliament has insisted on some language in the legislation on ‘symmetry’, it has itself failed to agree on amendments that would prevent the Commission and Council from making this into yet another adjustment burden on deficit countries²⁴.

But will member state governments really accept the Council cracking down on wages? ²⁵ Even if some governments resist, the proposal will be voted on by a qualified majority vote, and will be enforced by a ‘reverse majority vote’ – leaving it up to hesitant or critical governments to find a simple majority against a measure that would force them to intervene in wage formation.

Attempts to meddle with member states wage bargaining systems have caused a stir in the past, even at the government level. Will the Council really accept this ground breaking development? Yes. In fact, the Council has already developed the thresholds to measure whether wage developments are unsatisfactory or not²⁶. And should any doubt remain, don't forget the Euro Pact and the commitment to attack labour laws and wages.

Conclusion 1: Reject the package

The final pieces will most likely fall into place this September. In mid September the Council and the Parliament majority agreed on the final details of the six-pack, so the final decision is just around the corner. The right wing majority (or centre-right, if you like) in the European Parliament strongly supports the full package, and believes that the crucial element is to give more power to the (unelected) European Commission. This is reflected in the video produced by the Parliament. It said:

“To put national finances back on track, the European Parliament wants a strong European Commission that governments have to listen to... Time to stick to the rules!”

There are different opinions in the Parliament, particularly on the Stability Pact reforms which have not been backed by the Socialists & Democrats, the Greens or the left-wing GUE-NGL group. But many Green and social democrat MEPs are happy to see the contours of a federal Europe on the horizon²⁷, and share a deep confidence in the EU institutions with the proponents of the whole package. They denounce the new rules on the stability pact²⁸, but at the same time offer strong support for the new mechanism on 'imbalances', hoping for this to be a tool to avoid a future crisis. But considering the agenda of the Commission and the Council – the two institutions in charge of the model, that is extremely dangerous.

Any struggle for welfare and social rights in Europe will have to fight the new system of economic governance if it's to be effective. At this stage, shortly before the decisions are made final, a rejection of the sixpack by MEPs – or by governments for that matter - could help to pave the way for a new democratic and socially just response to the crisis, even if chances to win the votes are slimmer than slim.

Conclusion 2: The beginning of a long battle

There may still be more to come. Over the summer of 2011 a lot of new and drastic proposals emerged from different players in the Council, including a proposal from the German Minister of Economy to create an unelected 'Stability Council' to oversee budget discipline and ensure that business interests are secured in the area of labour policies. The Dutch government has proposed putting indebted governments in the Eurozone under the control of a new Commissioner, and ensuring they can be expelled from the euro should they refuse to be governed in this way²⁹.

The reforms adopted or on their way amount to a form of shock therapy. With amazing speed, far reaching legislation is being put in place that puts crucial welfare policies in the hands of technocrats in Brussels. Circumstantial and opaque procedures are to be applied to force member states to cut down on welfare and attack wages and social rights. Confronted with a plethora of complicated behind-the-scenes negotiations and discussions, the victims will have few remedies to defend themselves. Most will not even understand the lingo used to navigate and steer the new model. Furthermore, the institution at the steering wheel, the Commission, is effectively an unaccountable institution, practically immune to public pressure - but easily influenced by big business lobby groups.

The big remaining question, then, is what the future holds for this model of economic governance, if its full potential is used. Since it was adopted within a short time span, leaving little space for

citizens to be consulted in a democratic debate, it has been built on weak foundations from the outset, democratically speaking. It cannot be assumed that it has significant popular backing. Will this go down easily, and will those in society who will have to pay, silently accept that welfare policies and social rights are curtailed? Or will this set in motion a wave of protests that will shake the foundations of the European Union and push through a democratic and socially just response to the crisis?

There's hardly any doubt that the coming years will be quite dramatic, the question is rather if opposition to the policies of the European Union will be effective. There's a big job to do for progressive forces in the short term: to find ways of empowering people who fight against austerity all over Europe to confront the challenge of neoliberal economic governance.

¹ The video of the European Parliament and an alternative version of the video produced by CEO can be accessed here: <http://www.corporateeurope.org/blog/do-you-remember-what-caused-financial-crisis>

² See Krugman's blog on the website of the New York Times, 25th of August 2011: <http://krugman.blogs.nytimes.com/2011/08/25/fiscalization-watch/>

³ In the decade preceding 2009, Greek public debt was almost unchanged (approx.. 100 per cent of GDP), see <http://www.voxeu.org/index.php?q=node/5062> . In the same period, it was private and not public debt that shot up. See Lapavitsas et. al: "The Eurozone between austerity and default", Research on Money and Finance, September 2010, page 20, <http://www.researchonmoneyandfinance.org/media/reports/RMF-Eurozone-Austerity-and-Default.pdf>

⁴ See Mark Weisbrot: "US and Europe: Slow strangulation is much more likely than financial catastrophe", The Guardian Unlimited, 17th of August 2011.

⁵ International Herald Tribune, 15th of September 2011.

⁶ On the imbalances in the eurozone see for instance Lapavitsas et. al: "The Eurozone between austerity and default", Research on Money and Finance, September 2010, <http://www.researchonmoneyandfinance.org/media/reports/RMF-Eurozone-Austerity-and-Default.pdf>

⁷ On the role of the business lobbies, see Corporate Europe Observatory's articles: "Corporate EUtopia" (January 2011), "Business against Europe" (March 2011), "Next step for the europact" (April 2011), and "An undemocratic economic governance" (May 2011) all can be found on www.corporateeurope.org

⁸ European Roundtable of Industrialists, press release, 11th of March 2011, <http://www.ert.be/DOC%5C09130.pdf>

⁹ To ensure a swift process, the Semester was adopted as a change to the statute of the Stability Pact.

¹⁰ European Commission; "Annual growth survey: advancing the EU's comprehensive response to the crisis", January 2011, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0011:FIN:EN:PDF>

¹¹ See the Commission's recommendations here:

http://ec.europa.eu/europe2020/tools/monitoring/recommendations_2011/index_en.htm. See also Leigh Philips' analysis of the recommendations here: <http://euobserver.com/9/32462>

¹² The Council's recommendation to member states can be accessed here:

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/123611.pdf

¹³ Ibid.

¹⁴ NOTAT, 1st of April 2011, <http://notat.slid.dk/visartikel.php?artikelnr=4834>

¹⁵ The original proposals from the Commission can be accessed here:

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

¹⁶ The full position of the European Parliament was adopted in June 2011. The result can be seen here:

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20110623+SIT-02+DOC+WORD+V0//EN&language=EN>

¹⁷ Report of the 'Van Rompuy task force', "Strengthening economic governance in the EU", 21st of October 2011, page 5. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf

¹⁸ In the original proposal of the Commission both indicators and thresholds were to be defined by the Commission itself with no intervention from any outside party. This was initially disputed by the Council, but it's not clear at the moment what the final agreement on this point looks like.

¹⁹ Die Welt Online, 27th of September 2011.

²⁰ This is the clearest explanation of the divergence on the Commission's website: "The divergence trend has been driven primarily by domestic economic imbalances, including the poor adjustment of wages to a slowdown in productivity, excessive credit growth and housing bubbles." See at http://ec.europa.eu/economy_finance/een/017/article_8897_en.htm

²¹ Karl Brenke; "Real wages in Germany. Numerous years of decline", Weekly report 28/2009, German Institute for Economic Research, http://www.diw.de/documents/publikationen/73/diw_01.c.342371.de/diw_wr_2009-28.pdf

²² This is clear from OECD statistics on real-income per employee which shows an identical development in Germany, Ireland, Spain, Portugal in the run-up to the crisis – though with Greece above the rest. See for instance Demetrios Nicolaides; "The socio-political impact of the single currency in Southern Europe", May 2011, http://ucy.academia.edu/DemetriosNicolaides/Talks/50249/The_Socio-Political_Impact_of_the_Single_Currency_in_Souther_Europe_The_Crisis_of_Cohesion_in_the_Euro_Area

²³ See The Council stated this in the report of the Van Rompuy task force. Report of the 'Van Rompuy task force', "Strengthening economic governance in the EU", 21st of October 2011, point 33, page 8.

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf

²⁴ <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20110623+SIT-02+DOC+WORD+V0//EN&language=EN>.

²⁵ Corporate Europe Observatory; "Business against Europe", March 2011.

²⁶ According to detailed information to the Danish Parliament from the Danish Ministry of Finance, the threshold levels discussed are a maximum of 9 per cent rise in nominal wage costs per unit over three years for Eurozone member states, 11 per cent for non-eurozone member states. This can be read in a document dated 1st of April 2011:

<http://www.ft.dk/samling/20101/kommissionsforslag/kom%282010%290527/bilag/2/978182.pdf>

According to the document, the scoreboard and indicators are to be addressed when the legislative proposals are finally adopted. The work on wages has continued in the Council. A document from July –from the Commission to the Council - contains detailed information on wage developments and wage bargaining systems: European Commission; "Assessing the links between wage setting, competitiveness and imbalances", July 2011, <http://gesd.free.fr/wagecomp11.pdf>

²⁷ A recent example includes Green MEP Sven Giegold's welcoming of Chancellor Merkel and President Sarkozy's idea to create an economic government in the eurozone, armed with the right to sanction member states. See the press release from the 22nd of August 2011: <http://www.gruene-europa.de/cms/default/dok/388/388671.htm>

²⁸ See also the press release of Green MEP Philippe Lamberts; <http://www.greens-efa.eu/fr/eu-economic-governance-4362.html>

²⁹ EUObserver, 8th of September 2011. <http://euobserver.com/19/113552>