Uneven development in the EU
Processes of core-periphery relations*

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Introduction

The tale of cohesion and convergence constitutes an important element of the legend of European integration in Western Europe after World War II. Peripheral countries and regions would economically converge towards the level of the core, leading to social cohesion in a soft power block that was labelled as a ‘peace project’. In peripheral countries, promises of convergence and cohesion offered a perspective of a brighter future, especially if such ‘modernization’ was coupled with a more democratic future, such as in the fascist dictatorships of Greece, Portugal and Spain. The liberal ideology of the Western integration model that would become the European Union (EU) successfully established a narrative that it institutionalised and resembled a general ‘European’ heritage and ‘European’ core values of ‘liberty and solidarity, tolerance and human rights, democracy and the rule of law’, as Olli Rehn, then EU commissioner for enlargement, put it in 2005 (quoted in Weissenbacher 2007, 36). In the early 1990s, this liberal ‘Europe’ had a strong appeal in countries of the imploding state socialist integration model – the Council of Mutual Economic Assistance (COMECON) and in the wealthier regions of Yugoslavia.

In our contribution, we take a look at the real structures behind the EU integration narrative of cohesion and convergence from the point of view of critical political economy. We will argue that it is uneven development rather than cohesion and convergence that reflects the structural imbalances that seem to have haunted the EU from the early days. Such claims are not simply the benefits of hindsight following from current disintegrative tendencies as manifested in the emergence neo-national movements across the EU (Becker 2018a and b). We start our considerations with theoretical and method-related accounts based on regulation theory and the dependency paradigm. We then offer a typology of core-periphery relations in the EU before briefly revisiting the history of integration. The years before the crisis appear like a calm before the storm. ‘Pseudo booms’ in countries of the EU periphery seemed to confirm the benefits of the common European currency. However, as the section on the post-crisis years

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emphasises, the structural imbalances of the EU economy had remained untouched. This crisis seems to mark an important caesura in the attitude towards the EU. When the EU turned 50 in 2007, German chancellor Angela Merkel (quoted in Weissenbacher 2007, 36) proclaimed that ‘for centuries Europe was an idea, no more than a hope for peace and understanding. Today, we, the citizens of Europe, know that that hope has been fulfilled’. A few years later the ‘citizens of Europe’ would observe the reality of ‘Berlin consensus’ (Becker and Weissenbacher 2014) when ‘Europe’ showed no solidarity with its fellow citizens in Greece. In the wake of the crisis, the core-periphery dimension has received increasing attention in critical debates on capitalism in the EU (e.g. Stockhammer, Durand, and List 2016, Gräbner et al. 2018), particularly focussing on the Eurozone (Álvarez, Escalonilla, and 2013, Lapavitsas et al. 2012, Nölke 2016). Our contribution fits into these broader debates and, in particular, tackles dependency relations in the EU and extends the analysis beyond the Eurozone.

European core and peripheries: Theoretical and methodological considerations

For our typology of a European core-periphery system, we will draw on the regulation and dependency approaches. The regulation approach provides a framework for analysing accumulation with a middle degree of abstraction while the dependency approach helps to analyse asymmetric relationships. The two overlap particularly in regard to asymmetric insertions into the international division of labour.

Authors in the framework of the dependency paradigm stress that peripheral countries can achieve capitalist industrial development within their political-economic dependencies of core countries. In global capitalism, however, they deemed impossible ‘development’ in a broad sense (which they also saw confirmed by persistent inequality and poverty in core societies). Global capitalism was ever more dominated by transnational companies (TNC) which were deep-seated in core countries. What Latin American dependency scholars observed in the 1960s would be taken up by European dependency scholars for the European core-periphery system in the 1970s: While mainstream economic science continued furthering the idea of a ‘free market’, TNCs in their realm integrated decision making processes in the manner of a planned economy that also decided on the distribution of the technology they produced. Core states supported TNCs in the ‘neo-mercantilist’ (Sunkel 1972, 291) global economy because their status was linked by what Arrighi and Drangel (1986:26) called a ‘symbiotic relationship’. The new international division of labour could bring industrialisation to the global periphery. The high income countries deindustrialised in the sense of both (a) a concentration on advanced technological production (high in R&D and productivity, low in employment) and (b) a tertiarization of their economies (Weissenbacher 2018a and 2019a). This set the stage for a new quality in the distinction of core-periphery characteristics. As we will show by the example of the EU, peripheral countries could achieve overall industrial convergence without ‘development’ (Weissenbacher 2018a).

Regulation theory provides an analytical framework for the different forms of accumulation. It makes a basic distinction between predominantly financialised and predominantly productive accumulation (Becker 2002, 74ff.). Productive accumulation can occur in manufacturing or in activities that are strongly linked to land rent such as agriculture, mining, real estate, construction and housing, tourism. In the core economies, manufacturing tends to be strong in at least some technologically advanced industries and is backed up by significant research and development activities. If manufacturing is relevant in the periphery, it tends to be at least partially controlled by foreign capital and depends on external technology. The capital goods sector in peripheral economies is usually relatively weakly developed (e.g. Ominanmi 1986, 119ff.). Industrialisation...
that relies on foreign direct investment (FDI) and technology can be characterised as dependent industrialisation. In large parts of the periphery, land rent based activities play a key role in the economy because the land rent and the territorialised character of these activities provide a form of indirect protection (Becker and Weissenbacher 2015, 4). In the present EU, it is particularly real estate, housing and construction as well as tourism that play a crucial role for part of the periphery (in particular the Mediterranean).

The tendencies towards financialisation usually strengthen when the productive accumulation slackens. In that case of increasing uncertainty, capital is looking for flexible and liquid forms of investment. Financial investment has these characteristics (Arrighi 1994, 221ff., Harvey 1984, 304, 324). Capital looks for new fields of financial investments. Countries in the periphery offer higher interest rates. Thus, they are increasingly lucrative and promising destination for financial activities. Their financialisation tends to be fuelled by capital inflows. It can be characterised as dependent financialisation (Becker et al. 2010). Financialisation can take several forms. Particularly in many of the core economies, ‘fictitious capital’ (Marx 1979, 482ff., 510) – that is shares, bonds, etc. – plays a key role. In the case of fictitious capital, it is not only revenues (dividends, interests) that play a key role, but also the price increase of the financial assets themselves. During a blossoming period of financialisation, strong inflation of financial assets can be observed. This, in turn, creates the ingredients of a coming financial crisis (Lordon 2008, 97). The other form of financialisation is based on interest-bearing capital. In that case, interest rates differentials are of key importance. Over the past three to four decades, financialisation has reached beyond the ‘traditional’ participants of financialisation, that is capital and the upper middle class. Significant segments of the lower middle class and workers have been integrated into financialisation through the commercialisation of pension systems and through consumption and housing loans (dos Santos 2009).

The differentiation between inward-looking, export-oriented or import-dependent accumulation processes is important too (Becker 2002, 70ff.). Since the 1970s, the accumulation of the EU core economies has been characterised by an active extraversion, that is the export of goods and capital. It is useful to distinguish between the different forms of capital – productive capital, money capital, etc. Significant capital export, in particular, in the form of foreign direct investment that shapes the productive patterns and company strategies in destination countries is a key characteristic of dominant economies (Baran 1962, 177ff., Beaud 1987, 76ff.). Dominated economies are usually characterised by dependence on key goods, in particular capital goods and technology, and capital (Beaud 1987, 100). Many of the dominated economies are characterised by the emigration of labour and, in differing degrees, by the reliance on labour remittances as source of foreign exchange (Delteil 2018). In the focus on the asymmetric relations and their historical economic and political emergence, there is an overlap between the regulation and dependency theories.

In analysing dependency in regard to capital accumulation, four dimensions are presently crucial (adapted from Magnin, Delteil, and Vercueil 2018):

- **Commercial dependence**: This aspect refers to the dependence on imported goods. Dependent economies rely in particular on imported machinery. Each investment spur entails a significant increase in imports. Domestic consumption might also rely significantly on imported goods or, at least, inputs.
- **Productive capital and more broadly FDI**: Foreign capital is able to shape investment and productive patterns through foreign direct investment. FDI has been highlighted as an outstanding feature of dependency in the EU, particularly regarding industrial development (see, for example, Myant 2018, Delteil 2018). However, FDI not only plays a crucial role in dependent industrial development. Particularly in Eastern Europe, foreign capital
controls the banking sector as well. Thus, it has a crucial role in defining financial strategies and access to credit (Frangakis 2009, 71ff., Myant and Drahokoupil 2011, 259ff.). This is one aspect of dependent financialisation. The other one is the reliance on external refinancing.

- **Finance:** (Semi-) peripheral economies try to finance current account deficits by resorting to foreign debt. Financial inflows might, however, be primarily related to the financial sphere. Thus, capital in core countries might be looking for new outlets for financial investment and higher interest rates. This might entail dependent financialisation in (semi-) peripheral economies.

- **Labour migration and remittances:** Some peripheral economies are highly dependent on remittances for their foreign exchange revenues (Myant and Drahokoupil 2011, 312). Particular forms of accumulation and dependency – that is patterns of uneven development – are backed up by social and legal norms and forms of state intervention.

### Key patterns of EU core and peripheral economies

Core economies tend to be characterised by both a relatively high per capita gross national income (GNI) and an actively extraverted economy, that is ideally both by a positive current account and a positive net FDI stock. Semi-peripheral and peripheral economies are characterised by a lower GNI per capita and a passively introverted economy, that is with import dependence in key sectors, a negative current account and negative FDI stock (Becker 2002, 70ff., Weissenbacher 2018a). In line with the theoretical framework, we will highlight three key dimensions of accumulation: Financialisation, the role of manufacturing and the role of FDI.

For the European core-periphery relations, Weissenbacher (2018a, 84) proposes Germany as a yardstick. With German GNI (at prices per capita [PPS]) pegged at 100, the core would be above 80% of the German level, the semi-periphery is between 61% and 80% and the periphery is below 60% (see the indicators of the current decade in Table 16.1). Germany as the leading core country in Europe differs from the United States because it retained a comparatively higher industrial base. As one can see in Table 16.1 (column 2), however, the share of manufacturing production in GDP has ceased to constitute a general core characteristic in the EU. The data on peripheral Romania and Hungary and semi-peripheral Czech Republic (higher than those of Germany) show that there is industrialisation (industrial convergence) without GNI convergence. Only if qualified (in column 3: Manufacturing of machinery and equipment as share of total manufacturing) a more traditional picture of ‘industrialized countries’ can be produced for some of the core countries. But also in column 3, France is behind the Czech Republic, Hungary and Slovakia, countries very strongly involved in the industrial commodity chains of Germany. Column 3 seems to also qualify the Italian status (upward) and the exceptional Irish case (downward).

On the side of core countries, the data support the thesis that it has been no longer necessary to retain a large manufacturing sector within a country’s own jurisdiction in order to maintain a core status. Of course, that may change again (e.g. in the era of US president Donald Trump): There is no invariance on what constitutes a core characteristic (for theory, method and further interpretation see Weissenbacher 2018a and 2019a). In recent decades, ‘controlling’ TNCs and their commodity chains have become important to maintain a core status. Columns 4 and 5 show trans-border activities of companies in the EU28 area, export of FDI stock for most core countries and a comparatively high turnover of companies pursuing manufacturing activities in other EU28 countries. Malta and Luxembourg are extreme cases (see Weissenbacher 2018a, also for the other special cases Ireland, Cyprus and the Netherlands). Finally, distribution of power in the political economy may be seen in the ‘control’ of the 100 largest global non-financial TNC:
Table 16.1 Indicators of a core-semi-periphery-periphery typology in the EU (Germany = 100)

<table>
<thead>
<tr>
<th>Country</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<td>...</td>
<td>−57</td>
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<td>...</td>
<td>−89</td>
<td>116</td>
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<tr>
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<td>...</td>
<td>−98</td>
<td>101</td>
</tr>
<tr>
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<td>83</td>
<td>28</td>
<td>8</td>
<td>−97</td>
<td>75</td>
</tr>
<tr>
<td>Hungary</td>
<td>52</td>
<td>101</td>
<td>59</td>
<td>19</td>
<td>−71</td>
<td>96</td>
</tr>
<tr>
<td>Lithuania</td>
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<td>86</td>
<td>21</td>
<td>...</td>
<td>−66</td>
<td>59</td>
</tr>
<tr>
<td>Estonia</td>
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<td>70</td>
<td>26</td>
<td>...</td>
<td>−153</td>
<td>118</td>
</tr>
<tr>
<td>Greece</td>
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<td>15</td>
<td>5</td>
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<td>3</td>
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<tr>
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<td>59</td>
<td>26</td>
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<td>−136</td>
<td>191</td>
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<tr>
<td>Czech Rep.</td>
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<td>112</td>
<td>58</td>
<td>5</td>
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<td>−100</td>
<td>331</td>
</tr>
<tr>
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<td>...</td>
<td>...</td>
<td>−3444</td>
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<tr>
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<td>36</td>
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<td>97</td>
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<tr>
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<td>49</td>
<td>64</td>
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<td>50</td>
<td>38</td>
<td>125</td>
<td>142</td>
<td>137</td>
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<tr>
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<td>86</td>
<td>195</td>
<td>117</td>
<td>147</td>
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<td>40</td>
<td>105</td>
<td>−14</td>
<td>177</td>
</tr>
<tr>
<td>Germany</td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
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<td>17</td>
<td>88</td>
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<td>84</td>
<td>157</td>
<td>228</td>
<td>126</td>
</tr>
<tr>
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<td>101</td>
<td>76</td>
<td>81</td>
<td>225</td>
<td>95</td>
<td>189</td>
</tr>
<tr>
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<td>61</td>
<td>99</td>
<td>198</td>
<td>220</td>
<td>214</td>
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<tr>
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<td>104</td>
<td>52</td>
<td>85</td>
<td>...</td>
<td>357</td>
<td>253</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>143</td>
<td>24</td>
<td>77</td>
<td>1996</td>
<td>−141</td>
<td>312</td>
</tr>
</tbody>
</table>


Notes: Germany = 100, average over years, data sorted by first column, grey: Enlargements from EU15 to EU28.

Column 1: GNI at current prices per capita (PPS, 2010–18).


Column 3: Manufacturing of machinery and equipment n.e.c., NACE_R2: Share of value added in manufacturing total (%), 2016 except Ireland (2014).

Column 4: Outward Activities in Manufacturing of TNC in the EU28 Area, Turnover in Euro millions at current prices per capita (PPS) in 2014. Czech Republic and Portugal: Average of 2013 and 2014 (very divergent data), no data for Bulgaria, Croatia, Estonia, Latvia, Lithuania, Malta, Cyprus, the Netherlands, Romania.

Column 5: Net FDI Stock (negative numbers indicate imports), Millions of Current US Dollar per capita, 2010–16.

Column 6: Consolidated private sector debt as percentage of GDP, Millions of national currency, average of 2010-2016. (Debt securities and Loans held by the sectors non-financial corporations and households, and non-profit institutions serving households without transactions within the same sector).
In 2016, half of them were considered to have an EU country as its home base. 15 have the UK as their ‘home economy’, followed by France and Germany (11 each), Spain (3), Ireland and Italy (2 each), and one each in Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden (Weissenbacher 2018a, 91).

We now examine systematically the characteristics of accumulation in core and (semi-)peripheral EU economies. The first group is those that meet the criterion of core countries according to this cut-off point. Regarding the combination of financialisation and manufacturing, they display an enormous heterogeneity. Germany has one of the highest shares of manufacturing in the EU. The trade balance and current accounts show a strong and tendentially increasing surplus. Taking the debt of the private sector/GDP ratio as first approximation of financialisation, the German ratio of 99.3% (Eurostat 2018) is the lowest among the Eurozone countries. The German economy is, however, characterised by high capital exports. Thus, German financialisation is strongly export-oriented. The Austrian economy displays similar features. A second group of core countries – Scandinavian countries, Ireland and Belgium – is characterised by relatively strong manufacturing sectors and strong financialisation, particularly private indebtedness. The share of manufacturing in global value-added reaches at least 60% of the German level (Weissenbacher 2018a, 104, table 4). The level of private indebtedness is particularly high in Ireland (280.5% of GDP) and Denmark (213.5% of GDP in 2016; Eurostat 2018). A third group of core countries shows a relatively small manufacturing sector and strong financialisation. This is the case of the UK, the Netherlands and Luxembourg – with Luxembourg being an extreme case of relative de-industrialisation since the 1990s. The finance centre Luxembourg displayed the highest ratio private debt/GDP – 342.8% in 2016 – in the EU (Eurostat 2018). In the UK, the industrial sector is not only small, but also weak. The UK shows a chronic substantial current account deficit as it is rather typical of a peripheral economy. France and Italy do not fall in any of those sub-groups of the core. France belongs into the core group with a relatively small manufacturing sector – only 50% of the German in the years 2010–2016 (Weissenbacher 2018a, 104, table 4), but its private debt level is higher. It could be rather characterised as financialised economy. Italy is at the limit between core and semi-periphery. Its economy is regionally extremely heterogeneous. Its share of manufacturing in value-added was 69% of the German level in the years 2010 to 2016 – thus considerably higher than in France (ibid.). Its ratio of private debt/GDP of 113.5% is one of the lowest among the core countries (Eurostat 2018), its public debt is, however, one of the highest. Thus, financialisation has different features from most of the core countries.

Regarding the EU semi-periphery and periphery, an industrialised and a de-industrialised sub-group can be distinguished. There are significant differences regarding the degree of financialisation among the semi-peripheral and peripheral EU countries. In the post-socialist countries, the ratio of private debt to GDP tends to be lower than in the old capitalist semi-periphery of Europe. In the socialist economies, the banking systems had functions different from capitalist economies. Consumer and household loans played no role at that time. The scope of private households to incur debts tended to be fairly limited in the 1990s. Thus, the rapid rise of private household debt in the 2000 started from very low levels (Becker and Četković 2015, 81, table 5). This produces the lower private debt to GDP ratio that still prevails today.

The group of the EU semi-periphery is very heterogeneous. It consists of two small off-shore financial centres and tourist destinations, Cyprus and Malta, the very unevenly developed and industrialised Spain, Central East European countries with very high levels of financialisation, countries characterised by strong dependent industrialisation, such as Slovenia and the Czech Republic, as well as Slovakia, which is at the limits of semi-periphery and periphery. If one abstracts from the very small off-shore economies of Malta and Cyprus, the size, but also the profile of manufacturing seems to play a role for semi-periphery/periphery differentiation.
For the Visegrád countries, Slovenia, Lithuania and for the (much more peripheral) Romanian economy, the share of manufacturing in gross value-added is relatively close, in some cases even a bit higher than in Germany. With the exception of Lithuania, their industrial economies are closely linked to the German export manufacturing complex through FDI and trade links (see Poplawski 2016, 20ff.). Their banking sector is foreign controlled (Frangakis 2009, 72, table 3.14, Raiffeisen Research 2017). Their ratios of private debt to GDP have been mostly considerably below the German level and are the lowest in the EU. It is only Hungary and Slovenia that reached a private debt to GDP level that is comparable to Germany. While table 1 (column 6) presents an average of 2010-2016, the post-crisis development of the ratio of private debt to GDP displays diverging trajectories. It showed a continuing increase or at least a tendency to increase in Slovakia, Czech Republic and Poland, which still had a relatively modest debt and only limited domestic foreign exchange credits. In economies with a high share of domestic foreign exchange loans (Romania, Lithuania), relatively high debts (Slovenia) or both (Hungary; Eurostat 2018, Becker 2014), this ratio significantly declined. In the combination of a high share of manufacturing in value-added and a relatively low ratio private debt to GDP, the core countries of Germany and Austria share common characteristics with their industrial periphery in (Central) Eastern Europe. Differently from the core, the countries of the industrial (semi-) periphery display a negative FDI stock. Key sectors of their economy are controlled by foreign capital.

The group of countries of the de-industrialised semi-periphery and periphery is geographically more dispersed and heterogeneous. It consists of the Mediterranean countries (Spain, Portugal, Croatia and Greece, plus the two financial centre islands Cyprus and Malta), the Baltic countries Estonia and Latvia plus Bulgaria. The post-socialist countries had built up large manufacturing sectors during the era of state socialism, but suffered from severe de-industrialisation in the 1990s (Becker, Ćetković, and Weissenbacher 2016, 54ff.). In the capitalist Mediterranean countries, manufacturing had never assumed the same importance as in the state socialist semi-periphery. Here relative de-industrialisation occurred after EU accession. Compared with Germany the ratio private debt to GDP was the highest from 2010 to 2016 in Portugal and Spain. In Greece, private debt was lower than in those two Southern Eurozone countries, but Greece had a relatively higher public debt. Thus, the patterns of indebtedness differ between the Southern Eurozone countries. The post-socialist de-industrialised periphery displays higher private debt to GDP ratios than the post-socialist industrialised (semi-) periphery. Up to the crisis, financialisation was key to the growth model. The externally financed credit-boom came to an end with the crisis that commenced in 2008. In the post-crisis years, the Mediterranean countries became increasingly reliant on tourism. Regarding the net FDI stock, the post-socialist de-industrialised periphery is much more dependent on investors from abroad. The de-industrialised periphery is linked to different parts of the core (France, partially Germany for the Mediterranean periphery, Scandinavia for the Baltic states).

Thus, we can distinguish different types of accumulation regimes in both EU core and (semi-)periphery which entail different configurations of asymmetric relations between EU core and (semi-)peripheral economies.

**Core-periphery and EU-integration in a nutshell**

A dependency perspective considers historical and spatial effects on development paths. Historically, uneven development in Europe has been a fact for a matter of centuries rather than decades (Weissenbacher 2007). Historical core-periphery relations have been reinforced by the dynamics that have driven the Western European integration process. Plundering and exploiting
European countries and their populations had fed the reconstruction and modernisation of the German economy in the wake of World War II. Thereafter the Cold War enabled German governments to get rid of most obligations relating to reparation payments and war debts under the umbrella of the US (for an overview see Weissenbacher 2019a). This cleared the way for the narrative of German postwar economic virtue. A decade after the war, Germany was successfully able to push ordo-liberal regulations into the Treaty of Rome, and prevent policies of a more developmental nature. The institutional arrangement of European integration was economically ordo-liberal, politically conservative and anti-communist. The reconstruction boom in Western Europe and the strong stance of its conservative state capitalist regime enabled the Italian government to ignore the liberal inclination of the European Commission. It implemented policies for the Italian South, the only larger peripheral region within the original six members of the Western European communities (see Weissenbacher 2019a).

The situation changed with global crisis and the first enlargement of the European Community (EC), both of which happened at the same time in 1973. The EC was unprepared to deal with either of them. Two new member states – Ireland, a peripheral country, and the UK which had experienced crises in its old industrial regions’ – needed regional development policies. Also in the 1970s, the European dependency school (EDS, Weissenbacher 2018b) started observing and analysing structures of dependent and uneven development in Europe and the EC. The second southern enlargement, Greece 1981 and Portugal/Spain 1986, and integration of unequal partners, took place in the wake of the second global economic crisis after World War II. With the postwar boom over, the admission of countries with significant soci-economic diversity into the common integration acted as a stimulus to the development of particular balancing policies. EDS authors suggested a balancing industrial policy for peripheral countries, but solidarity ended where competition began. There was no interest on the part of core industries to nurture competition at eye level. Consequently, redistributive funds – similar to those found within the regional policy regimes of nation states – were suggested, but never fully materialised. To be sure, re-distributive funding was not seen as convergence policy but rather as an alleviating instrument. Without meaningful development policies (regional production and linkages), funds for the periphery would again strengthen core industries (and increase imports to the periphery). Many saw some sort of selective spatial closure as necessary in order to keep penetrating influences from the periphery. Within the prevailing framework, more integration could easily lead to ‘neocolonial’ scenarios. Monetary integration in particular would take away remaining domestic policy options (exchange rates, capital controls) to deal with uneven trade relations. More integration would increase the asymmetry, Dudley Seers argued in 1980 (Weissenbacher 2019a, chapters 5 and 6). Deficit countries would have to adopt deflationary policies, remaining short term policies would involve lowering the level of employment and controlling wages in order to reduce the costs of production and purchasing power. This subordination of peripheral countries to core countries’ policies became known by the euphemism ‘domestic devaluation’.

Germany’s supposed economic virtues, became the yardstick for EU monetary regulations. However, when the currency union started in 1999, Germany needed to bend the rules itself, because it had to digest the consequences of integrating Eastern Germany (also the first Eastern enlargement of the EU). The other former Comecon countries that were destined to accede the EU lived through a transformation crisis and entered the EU at the peripheral end of the hierarchy (Weissenbacher 2018a, 2019a). While the preparatory regulation procedure forced them to adopt the EU’s acquis communautaire, member states adapted to the Maastricht Treaty with its arbitrary indicators (60% of GDP maximum public debt, 3% of GDP budget deficit), rules that the EU in average was hardly ever able to obey (Weissenbacher 2019b). In a system of European commodity chains that was unable and unwilling to decentralise production...
and consumption in order to enable cohesion, the stabilizing effects of low interest rates led to investments into non-productive sectors in peripheral countries such as Greece and Spain (and to ‘pseudo booms’, see Becker and Weissenbacher 2014). Italy never recovered from the neoliberal reorganisation of its economy (see Weissenbacher 2019). Capital import from core banks (German among others) stimulated imports from the (German) core to the EU periphery. When the global crisis reached Europe in 2008, it became obvious that this situation had been precarious. Moreover, the new peripheries in Central and Eastern Europe replaced the Southern European peripheries within the commodity chains and as a source of low wage immigrants to the EU core. With the Eastern enlargement rounds of 2004 and 2007, the German centered industrial commodity chains manifested within EU integration. These countries turned out to be relatively more resilient to crisis. The impact of the post-2007 crisis on the EU economies was very uneven. Some extremely financialised economies in the core (UK) and the periphery (the Baltic States) were affected through financial channels very early and strongly. In autumn 2008, the other core economies were hit both through financial and export channels. The Central East European countries with high private debts and a high share of foreign exchange credits and with high current account deficits suffered from particularly sharp contractions in late 2008 and in 2009. Some non-Eurozone countries of this group were the first to take IMF loans with severe austerity programmes (Becker 2014). The main impact on the financialized and de-industrialised Southern European Eurozone periphery occurred only from 2010 onwards. It was here that the second wave of IMF/EU structural adjustment programmes was imposed. Thus, the crisis showed different patterns in core and periphery countries.

Post-crisis trajectories: Core-periphery and industrial-deindustrialised divides

The countries in the different sub-groups of core and (semi-)periphery have followed different though interlinked trajectories in the post-crisis period. During and after the crisis, Germany has emerged even more strongly as the dominant EU economy. The German economy recovered more quickly than the other EuroZone economies (Bischoff and Müller 2019, 29ff.). The post-crisis growth was primarily export-led. The German current account surplus even increased up to 8% in 2017 (Eurostat 2018). It has been basically two different sets of factors that favoured German exports. On the one hand, the price-related factors of the development of the euro exchange rate in combination with the prolonged wage depression and extremely low rate of inflation in the pre-crisis period favoured export growth. On the other hand, the German economy had an advantageous specialisation profile (machinery and cars; Bischoff and Müller 2019, 30). However, one of the key German manufacturing sub-sectors, the car industry, is set for major restructuring. German manufacturing is at the core of the EU regional commodity chains (Stöllinger et al. 2018: 20 ff, 28 ff.). Yet the geographic specialisation of German external trade has changed. Through the outsourcing of production, trade relations with Central Eastern Europe densified (Poptawski 2016, 15ff.). The trade relations with the de-industrialised Southern European periphery, where domestic demand was repressed by austerity policies, lost importance. Exports to some BRICS countries, particularly China with its high growth and investment, were particularly dynamic (Heine and Sablowski 2016, 18, table 7). Thus, one of the consequences of the crisis was that the Eurozone lost importance for German exporters. Domestic demand gained importance since wages grew more rapidly than in the pre-crisis years. As a consequence of the so-called Hartz IV reform, German wage relations continued to be highly stratified and the share of the population at poverty risk has even increased during the recovery (Bischoff Müller 2019, 59), polarising Germany between ‘enduring poverty and
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consolidated wealth’ (Spannagel 2018). Low Eurozone interest rates favoured stronger financialisation, particularly in the housing market. German capital exports – the other side of the high current account surplus – remained high. German banks, however, reduced drastically their positions in Southern Europe, the German central bank increased its positions through the TARGET system (Nölke 2016, 154). Thus, the interaction of German capital with the Southern Eurozone periphery has been reduced not only in trade, but also in finance. Smaller core economies which were closely linked to the German economy recovered relatively well, although with differentiations. Exports played a key role in the recovery. In both Austria and Belgium which are closely integrated into the German-centred industrial production networks, more right-wing oriented coalition governments with formations of the nationalist right as key coalition partners have taken initiatives aiming at weakening labour strategically and hollowing out the welfare state in order to accentuate the neo-mercantilist model (see Becker 2018b, 31ff.). Regarding the export-oriented financialisation of Austrian banks in Eastern Europe, they had to adopt a more cautious approach. The Austrian financial supervision authorities demanded that affiliates of Austrian banks in Eastern Europe rely less on external financing and more on the respective domestic deposits in their credit expansion (Kader 2018, 41).

The both industrialised and highly financialised Nordic economies recovered relatively well – more so the regional centre Sweden, much less so the Finnish economy which has been negatively affected by the weakening of its main key transnational company, Nokia, and the crisis of its important neighbour Russia. The Swedish manufacturing sector remained important. In specific areas, mainly telecommunications and IT, Swedish firms rather accentuated their role (Therborn 2018, 12). Financialisation tendencies became stronger. The already extremely high household debts increased again after the crisis which is reflected in an increasing ratio of household credit to disposable income (Belfrage and Kallifatides 2018, 892, table 7). The relative size of the financial sector is already comparable to Switzerland or the Netherlands, as Belfrage and Kallifatides (2018, 886) point out. Stockholm has emerged as a regional financial centre which dominates banking in the Baltic countries (Belfrage and Kallifatides 2018, 884). Thus, such as in Austria and Belgium, Swedish financialisation is partially extraverted. ‘Private-equity firms, the most aggressive form of finance capital, are exceptionally well developed in Sweden: in proportion to GDP they rank second in Europe after the UK’ (Therborn 2018, 12). As a consequence of both, the industrial model and financialisation, social inequality has increased in Sweden and the labour force has become more stratified (Belfrage and Kallifatides 2018, Therborn 2018).

GDP in the highly financialised core economies recovered more or less comparably to the industrialised core economies. Due to the one-sidedness of their accumulation regimes, however, they suffer from a high structural vulnerability to crisis. In the UK and the Netherlands, the stabilising of the financial sector imposed a heavy burden on government budgets. Post-crisis policies were restrictive in both countries. In the UK, the real wage development from 2007 to 2018 was the second weakest among the core countries in the EU (EuroMemo Group 2019, 8, table 1). The main economic links of the UK with the other EU countries are financial. The involvement of the UK in industrial regional commodity chains is highly dispersed – except for the link to Ireland (Stöllinger et al. 2018, 31, table 5). It is significant that – beyond London – the GDP per capita in most British regions is below the EU-average (Eurostat 2018). Thus, the UK owes its status of a core country literally to the financial and service centre London. Its economy is extremely heterogeneous.

The highly – though not as extremely as the UK – financialised French economy displays a similarly polarised spatial pattern. The region around Paris is almost the only region with a GDP above the EU average (Eurostat 2018). This is again due to the status of Paris as a financial and service centre. The high Italian polarisation is due to the extremely uneven
Industrial development – massively deepened during and after the crisis. In both countries, manufacturing has suffered from Eurozone membership. Both countries share a common trait that they play a relatively strong role in industrial regional commodity chains in Southern Europe. Both economies are linked to the German industry as well. For France, the industrial links to the Benelux countries also play a significant role. Italian links play a significant role in the commodity value chains for some East European countries (Stöllinger et al. 2018, 31, table 5). In line with the neo-mercantilist EU and German policies, both French and Italian – nominally centre-left – governments (Hollande, Macron, Renzi) systematically ‘flexibilised’ the labour market and sought to weaken labour (see Syrovatka 2016, Les économistes attérres 2018, 99ff., Weissenbacher 2019b). Though the French governments have taken steps that weaken the labour side, the post-crisis recovery has been primarily based on domestic demand. Thus, the welfare and social provision of the past still play a role in stabilising the French economy. The contribution of exports to GDP growth became even more negative during the recovery (see Ducoudrê et al. 2016, 93ff.). In the Italian case, a French type of support of the welfare state for domestic demand is lacking – and exports suffer from the Eurozone arrangement (Simonazzi 2014). Italy is one of only two EU countries that had not recovered the 2007 GDP in real terms in 2018 (EuroMemo Group 2019, 8, table 1). While Italy is not yet counted among the semi-peripheral countries of the EU, it is clearly on its way. In France and – even more – in Italy, the increasingly accentuated EU neo-mercantilist strategy is at odds with sustaining domestic demand and the Eurozone membership accentuates the external constraints.

The industrial and the de-industrialised periphery show significant differences. The economic recovery of the industrialised periphery relied to a significant extent on the export sector. In this, the nexus to the German industry played a crucial role. The Visegrád countries, Slovenia and Romania are deeply and in a subordinate position integrated in the German-centred industrial commodity chains (Stöllinger et al. 2018, 29ff.). Wage recovery was slow after the crisis. It was only with a reduction of unemployment and, partially, heightened trade union militancy that wages picked up more rapidly after 2016. The scope for wage increases and real industrial upgrading is limited within this production model (Myant 2018). For the smaller economies, the industrial specialisation is narrow which is reflected in the foreign trade figures, particularly the trade with Germany. At least for the Visegrád countries, trade with Germany is highly concentrated in the car industry. In the case of Hungary, Slovakia and the Czech Republic, more than 40% of both exports to and imports from Germany fell into the category of the car industry in 2014. (Poplawski 2016, 25). For the smaller countries, this implies a highly vulnerable manufacturing and export structure. In the wake of the crisis, FDI to the region has diminished and become more volatile (Hunya 2015, 41ff., Hunya and Schwarzappel 2017, 41, tables I/2 and I/3). FDI has accentuated pre-existing regional inequalities and has been highly concentrated in the capital cities and some regions in the western parts of the countries. FDI has been even more regionally uneven since the crisis (Medve-Bálint 2015).

While the economies of the industrial periphery share common traits in regard to the development of the export sector, the development of financialisation shows contrasting trajectories. In Slovakia, the Czech Republic and Poland, financialisation has continued in the post-crisis period. In these countries, banks could rely to an important extent on deposits for their credit activities, and the role of foreign exchange loans had been limited. The low interest rates have stimulated the loan growth in the post-crisis period. This is particularly true for the Eurozone country Slovakia. Despite attempts of the Slovak National Bank to slow down loans to households, the growth of household loans was the most rapid in the Eurozone and Central Eastern Europe in 2018 (Národná banka Slovenska 2018, 21). To the contrary, bank loans either decreased or oscillated between stagnation and decrease in Slovenia, Hungary, Romania and
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Lithuania (Raiffeisen Research 2017, 35ff.). Banks in Slovenia had relied very heavily on external refinancing in their pre-crisis credit expansion. Pre-crisis financialisation in Hungary, Romania and Lithuania had been characterised by heavy reliance on external refinancing and a high share of foreign exchange loans. Their financialisation model was heavily shaken by the crisis and could not continue as before.

The financialisation of the de-industrialised semi-periphery and periphery suffered a rupture during the crisis as well. Banks from the core countries – particularly Germany and France – disengaged from the Southern Eurozone periphery. Banks in the southern Eurozone periphery had to rely on official, that is ECB, support (Barkbu et al. 2016, 72ff.). As a consequence, lending to the private sector declined (Barkbu et al. 2016, 71, Figure 3.13). The de-industrialised countries outside the Eurozone experienced a similar drying up of external refinancing. The ratio of private debt to GDP has declined in the post-crisis period (Eurostat 2018).

Without the pre-crisis type of access to external finance, the countries of the de-industrialised semi-periphery were pressed into austerity policies which were to reduce domestic demand and imports. The main contribution to the drastic reduction of current account deficits came from the import side. Some countries – such as Latvia, Greece and Portugal – imposed extreme austerity as part of IMF–EU programmes during the crisis. The new economic governance of the Eurozone institutionally limits policy spaces and constrains domestic demand in the Southern Eurozone countries. The case of the left-orientated government in Portugal which has proclaimed an anti-austerity agenda shows how narrow the policy spaces for less restrictive policies are in the Eurozone periphery (Lopes and Antunes 2018). Informally euroized periphery, such as Croatia, has hardly any spaces for more expansionary, counter-cyclical policies (Radošević and Zdunić 2018). Wages were turned into a key mechanism of deflationary policies. The strongest wage cuts have been registered in countries of the Mediterranean periphery (Greece, Croatia, Portugal; EuroMemo Group 2019, 8, table 1).

The systematic weakening of the domestic market eroded manufacturing even more. Even in a more strongly industrialised semi-peripheral economy, such as Spain, exports increased, but the export profile worsened (Garcia and Paz 2018, 64 ff.). Spain’s post-crisis recovery relied almost exclusively on services, not on the industry (Ducoudré et al. 2016, 98, Figure 16.6). Tourism has become an even more crucial sector for the semi-peripheral and peripheral Mediterranean economies. Thus, tendencies of peripheralisation and structural regression can be observed in the de-industrialised semi-periphery and periphery. When the recovery occurs, it tends to reproduce past patterns. In the Croatian case, growth has again been based on consumption, commerce and construction – exactly the ‘same bases’ as in the pre-crisis period (Marić 2019, 7). The growth model of the de-industrialised periphery tends to be rather inward-looking and suffers the neo-mercantilist orientation of the present EU strategy.

Conclusion

There is more than just one core-periphery divide in the EU. Both the core and the (semi-) periphery are characterised by industrialised and de-industrialised sub-groups. Over the last 20 years, the industrialised core around Germany has forged particularly close links to industrial (semi-) periphery in Central Eastern Europe. The sub-ordinate integration of the Central East European economies into the German export manufacturing complex lies at the very heart of this asymmetrical relations. While the industrial EU periphery proved to be more resilient to the crisis than the de-industrialised periphery, the sub-ordinate and dependent character of its industrialisation has not changed. Economic sectors are controlled by West European capital.
Technological dependence is high, and relatively low wages are a basic feature of the industrialisation model. Both France and Italy have suffered from relative de-industrialisation since the formation of the Eurozone. Their economies are moving closer to the periphery. Both economies have relatively close links with the de-industrialised Southern periphery. The Mediterranean growth model that had relied on high capital inflows in the pre-crisis years, could not be continued in the wake of the crisis. Austerity policies weakened domestic demand and inward-looking manufacturing.

The importance of tourism which often is a key sector of peripheral economies has gained an even higher profile in the Mediterranean economies. Thus, peripheralisation has even deepened in the de-industrialised periphery. The neo-mercantilist, pro-export bias of EU policies does not fit the structural features of the Mediterranean de-industrialised periphery (Nölke 2016, 152). As a consequence, the Southern Eurozone countries lost importance for German exports but still kept their roles in holding the exchange rate of the euro at a low level (and thus supporting Germany’s competitive stance in orienting towards third country markets outside the EU, above all China). The highly financialised UK economy is rather at the margins of the production networks of the EU and has become more marginal in that regard over time. The main nexus of the UK economy with the EU countries has been financial. The development pattern within the EU has become even more divergent in the wake of the crisis – not only between core and peripheral economies, but also within core and periphery. Thus, tendencies of economic fragmentation are at work in the EU. And the prevailing economic policies deepen them.

References


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