

Core-Periphery Relations in the European Union – Power and Conflict in a Dualist Political Economy*

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The core-periphery paradigm was conceived in the 1960s and early 1970s as one of the various theoretical explanations of the phenomenon of socio-economic development and especially underdevelopment. These theories were generally related to the Third World, designed mainly in Latin America and generalised by I. Wallerstein in his book *The Capitalist World Economy (1979)*; they did not say too much about the future of “developed” societies. They grew out of the theories of economic growth and societal modernisation derived from Western thinking and experience. At that time, there was consequently little concern about the question of whether or not development theories or paradigms should or can at all be applied to the case of Europe. The advanced countries of the West, it was assumed, had arrived.

This has changed since the value system of Western modernity has been biased by developments like the oil crisis, the decline of some key industrial sectors, the emergence of uncontrollable financial markets and, most particularly, the successive enlargements of the European Community, originally designed for highly industrialised countries, to include less advanced new member states with differing economic, political and cultural structures. Increasing heterogeneity and inequality led to the emergence of differing political and economic development patterns and respective national interests.

One of the first attempts to apply this paradigm to the case of Europe was the project of the European Association of Development Training and Research

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Institutes (EADI) to analyse the implications of the accession of Greece, Portugal and Spain for the future of the European integration process (cf. Seers-Schaffer-Kiljunen: *Underdeveloped Europe* (1979), Seers-Vaitsos: *Integration and Unequal Development* (1980), Seers-Vaitsos: *The Second Enlargement of the EEC - Integration of Unequal Partners* (1982). Since that time, further successive enlargements particularly involving Eastern European countries, and political, economic and financial crises, have significantly increased the divergence of responses to common challenges by individual member states and have therefore revealed possible and actual conflict potentials.

As stated in the introductory note, this volume of contributions by 17 authors takes a comparative and theoretical approach using a variety of case studies. It examines how mounting economic, political and cultural divergences have transformed the European Union and how these crises have both exacerbated tensions in centre-periphery relations within and outside the Eurozone. Accordingly, a rather pessimistic conclusion is drawn: the EU as a supranational organisation may have reached its limits in terms of multilevel governance.

Most of the contributions focus particularly on the asymmetrical relations between the economically stronger core countries (e.g. Germany, Austria, Netherlands, and Finland) and those of the periphery (e.g. Greece, Portugal, Spain, Italy) within the context of the Eurozone crisis. Brigid Laffan emphasises that, especially in the case of Greece, the manner in which this problem has been managed was modelled on a German paradigm, since the crisis was never just about sovereign debt, but rather about a mismatch between the banking sectors of the creditors from the core and the lenders from the periphery. The article concludes that the asymmetry of power between the core and periphery has made it very difficult for the peripheral states to obtain sufficient political capacity to secure an alternative policy mix. Angelos Sepos outlines the theoretical foundations of the core-periphery paradigm and their applicability to the economic and political power relations in the European Union, concluding that the creation of a full-fledged symmetrical, cooperative EU federal model, rather than more differentiated integration, could help the Union to bridge the divide. Taking account of the actual state of the Union, such an argument seems to be, most regrettably, wishful thinking rather than a pragmatic way towards a feasible solution. The article of Christian Schweiger takes a more realistic position in analysing the national interests and differential integration patterns of the three strongest member states: Germany, France and the United Kingdom. It points out the fundamentally different strategic approaches of these countries to the financial crisis and the subsequent divergence that even under profound crisis conditions they display tendencies to defend their national interests and the perceived competitive advantages of their domestic political economies. All of this seems to

be true even in the case of the current refugee crisis, which, of course, could not have been anticipated when this article was written.

The following chapter by Stefan Auer stresses the interesting aspect of the different political cultures in the way how the crisis is supposed to be managed. He states that there were no value-neutral solutions to the euro crisis, and the myriad of measures adopted appear to have largely reflected the preferences and interests of Germany. In fact, the euro was intended to be a German-type currency. The author quotes Mario Monti as saying that for Germany “economics is a branch of moral philosophy”. According to protestant ethics, fiscal sinners are to be punished and the righteous have nothing to apologise for, whereas in the countries influenced by Catholicism sins can always be forgiven if the sinner repents. In countries of orthodox faith such as Greece there is not even a need for forgiveness.

The thesis of the chapter by José M. Magone is that Southern European countries had an idealised image of the European Union and there was a general belief that the very fact of being members would resolve their political and economic problems. Accordingly, there was a tendency to be the passive receivers of democratisation and modernisation packages instead of being pro-active in solving their own problems. This certainly may be true for Greece and most of the Eastern European candidate countries, but as this reviewer recalls, Spain and Portugal negotiated thoroughly on accession for more than eight years, while at the same time making serious efforts to restructure their domestic economies to become able to satisfy the conditions of international competitiveness. On the whole, however, European integration has contributed to greater stability and democratic accountability in these countries. The EU turned out to be a *vincolo esterno* in order to modernise and democratise society.

Three Hungarian authors contributed to this volume. The chapter by Attila Ágh deals with the special case of the Eastern European new member states. The author rightly points to the fact that the whole debate on differentiated integration has so far been restricted to “technical” aspects, side-lining the politics and policy dimensions, whereas democracy backsliding has become a widespread phenomenon in some member states resulting in an increasing democracy gap within the EU. Some of the new member states have produced reduced, formal-legal, low-performing democracies with poor governance and non-sustainable social progress. Accordingly, the expectation that the collapse of communism and the victory of Western liberalism would make for swift convergence between the eastern and western parts of Europe has turned out to be an illusion. The author concludes that it should be the task of the EU institutions to push the new member countries more energetically towards convergence with mainstream European values and developments. It may of course be questioned whether such efforts by

the EU could prove to be even counterproductive by strengthening nationalistic tendencies in the countries affected.

A similar approach is taken by Oliver Kovács in his contribution on Hungary's agony over Eurozone accession, as he emphasises that mere fulfilment of the accession criteria in mathematical terms does not guarantee successful integration afterwards. It is equally essential to refocus on the role of the state and its institutional settings. Based on a series of comparative statistical indicators, the article shows that Hungary's seemingly dynamic growth trajectory in the period 2000–2006 was mainly driven by rising indebtedness while the period 2009–2012 was characterised by expenditure-based fiscal consolidation combined with unconventional economic policies leading to mounting uncertainties. Poor performance in innovation, autocratic nationalism and macroeconomic populism do not enhance the good governance required for sound socio-economic development. Beyond pure numerical economic targets, important qualitative aspects such as trust, credibility, and responsible public management should be better integrated into economic analyses and policies.

The central thesis of the chapter by Bela Galgoczi is that the problem of competitiveness of the Southern and Eastern countries in the periphery of Europe cannot be adequately analysed and solved by reference to factors such as diverging labour costs. Non-price aspects such as export structure, productivity and quality, which are largely ignored by adjustment policies, play a crucial role in overall economic performance. Given the lack of effective adjustment mechanisms in the Eurozone, the surplus-deficit gap evolved into a more complicated creditor-debtor relationship. The distortions in terms of basic economic structure were not addressed. But if convergence is exclusively driven by purely economic processes, the result will not be durable and balanced.

A series of case studies highlights the specific problems, challenges and responses in the individual countries of the European periphery. In her paper, Anna Visvizi presents a thorough and concise analysis of the Greek crisis and the role of the so-called Troika. She emphasizes that the effective implementation of economic adjustment programmes requires a broad political consensus and programme ownership cannot be limited to the ruling government itself but needs to stretch across the entire political spectrum. The chapter by Bernadette Connaughton deals with the special case of Ireland which was once regarded as the most successful peripheral country, but due to the financial crisis had to adopt rigorous austerity measures. Although the crisis was unleashed by the global credit crunch, it was strongly aggravated by "home-grown" governance and policy failures. The structural adjustment programme yielded fairly successful results, but Ireland remains vulnerable and the government must be ready to take measures to address potential future risks. Two further case studies by José M. Magone are included in

this volume: the case of Spain and that of Portugal. Both papers present a thorough, informative analysis of the respective problems and the measures taken to address them. As for Spain, this country was able to escape the intervention of the Troika, but despite major reforms some structural problems in the Spanish economy still remain unresolved. One important difference compared to the cases of Greece and Portugal is that Spain is a much larger economy and its banking sector is more robust and more embedded into international networks. With regard to Portugal, this country, once a “good pupil of the EU”, is hit by major social and political crisis. The debt problem was merely a symptom of an economy and society that has proved to be basically weak. In an interesting analysis of the Italian case, Marco Brunazzo and Vincent della Sala conclude that the traditional perception of Italy as a central state of the EU has eroded in recent decades, the country now has the ambiguous position of being at the same time part of the centre and part of the periphery. In his paper on the balance of Poland’s ten years of membership in the EU, Maciej Duszczyk reports on the dynamic economic growth and significant investments over the last decade thus narrowing the development gap between Poland and the core countries of the Union. Nevertheless, if Poland wants to play the role of a core country, it should reaffirm its willingness to accede to the Eurozone. Finally, in the case of Cyprus, the paper of Thorsten Kruse shows in detail that the causes of the financial crisis were manifold and the approach employed by international creditors to resolve this crisis were quite different from the measures implemented in other affected European countries. After the Greek “haircut” and on the way towards insolvency a so-called bail-in was designed as a mechanism to recapitalise the banking sector and thus prevent final bankruptcy. Nonetheless, the island’s economy has to be restructured and diversified, and the enormous debt must be carefully reduced.

The last three chapters of the volume deal with the global impact of the European crisis. In an interesting paper focusing on the Union’s changing role in the world, Carolin Rürger quotes the former Belgian minister Mark Eyskens in saying that the EU is an economic giant, a political dwarf and a military worm. However, when the economic giant tumbled, it also lost its newly gained political ambitions. The financial, economic and sovereign debt crisis has affected not only the core-periphery relations within the EU, but also the Union’s global role in the world. Centrifugal tendencies additionally hinder common external action. The dilemma of EU foreign policy remains: “all member states, both core and periphery, would like the Union to wield the joint weight of the 28 states, however, the willingness of each member state to cooperate with the other 27 is much more limited.” As a consequence, Europe is on the road from the global core towards the global periphery.

A similar question is raised by Edward Yencken in his article on the impact of the Eurozone crisis on third-country perceptions of the EU, although his conclusion seems to be less pessimistic. He admits that the crisis has had a significant impact in negatively influencing external perceptions of the EU as an international actor. Certainly, the crisis may bring tensions into the Union's relations with third countries, the crisis is unlikely to substantially alter the extent to which the EU is perceived to be an important global player. The EU-Australia relationship is an example that the Eurozone crisis has failed to disrupt bilateral cooperation.

In the last chapter, the three editors of the volume try to summarise the findings and to draw, within the realm of the possibilities, overall conclusions. Successive enlargements led to a Union of highly developed economies and a Southern and Eastern periphery of economically significantly weaker member states. Since the EU is not to become a "Transfer Union", cohesion policy is serving as a means for Europeanisation and modernisation which proved to be unable to bridge the gap. The core countries profited the most from the integrated market, and the global financial crisis hit more severely the weaker member states thus exacerbating the core-periphery rift within the Union. Paradoxically, the experience of the crisis makes it even more difficult to enhance solidarity. Enhanced transfers require trust, and trust is a scarce commodity in the EU. The chapter concludes with the assertion that only the future will tell if a new compromise between stability and flexibility will emerge and bear fruit over the long run.

This volume is certainly a useful and well-edited book, although it does not contain radically new arguments. Nevertheless, it reinforces earlier findings and, partially, old wisdom. The European Community once designed for six member states at a comparable level of both economic development and political interests has, through a long series of enlargements, become a quasi-imperial supranational entity with all the advantages and disadvantages of an overcharged empire which is now challenged by the particular problems and conflicts among its individual members. There is no doubt about the fact that economic strength and political power are, to a significant extent, unevenly distributed in the European Union but is too late to blame the European institutions (not so much the Commission rather the Council) for the decisions to enlarge the scope of integration and to extend their sphere of influence.

The British-American historian Paul Kennedy has, in his monumental work *The Rise and Fall of the Great Powers*, demonstrated that boundless overstretching and subsequent significant economic and political divergences within an empire can become the main causes of increasing vulnerability and possible final decay. In case of the European Union, such a development would be more than a historical tragedy that should, by any means, be avoided.

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