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European Union

# Core vs Periphery in the EU

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**From 1980 to 2004 joining the European Union was quite popular among large sections of the populations in concerned countries. Portuguese, Greek and Spanish citizens regarded their countries' participation in the European integration both as a guarantee of democratic stability (indeed all three of them were emerging from a period of dictatorship [1]) and as a real opportunity to improve living conditions (there were significant transfers from richer countries in the EU towards the new members from the Mediterranean region during the first years of their adhesion [2]).**

Their joining the euro zone during the 2000s was also well received since it went together with increased consumption levels, albeit financed on credit. Something similar occurred among countries of the former Eastern bloc: there too, people saw joining the EU as a guarantee of democratic stability, a perspective of transfers, the possibility to move around within the Union, perhaps even of finding a better paid job in the West, and access to credit to finance consumption. However, very soon, the transferred amounts were drastically reduced and some productive sectors, particularly farming, were badly affected by competition with much more industrialized and competitive West European agrobusiness.

The years 2008-2010 marked a turning point in the perception European peoples have of the EU. Many became quite critical, which was largely a result of the European Commission accumulating neoliberal measures while claiming to promote the notorious 'free and undistorted competition', to which were added from 2009-2010 the crisis of the euro and the deep impact of the economic crisis.

## Core and Periphery within the EU

The hierarchical relationship at global level with a 'Core' consisting of the US, the EU and Japan (the Triad) and a Periphery consisting of so-called 'developing' countries is reproduced within the 27 member states of the EU. The Core consists here of the most powerful countries among which Germany and France, but also the UK, Italy and the former Benelux (the Netherlands, Belgium and Luxembourg). The Periphery is subjected to decisions made by this hegemonic Core and mainly consists of countries lying to the south and east of the EU, not forgetting Ireland to the West. At the more limited level of the euro zone (16 countries), [3] the same distinction resulted in the acronym PIGS (Portugal, Ireland, Greece and Spain), that has prompted outrageously racist puns.

The EU's refusal to develop genuinely common policies to help new members reduce their economic drawbacks compared with the Core is largely responsible for structural discrepancies that work against the process of European integration.

Over the last ten years Germany (as well as the Netherlands and Austria) has developed a neo-mercantilist policy: it has increased its exports particularly within the EU and the euro zone by reducing workers' wages. In September 2010 in Germany 7.3 million wage earners only had a small part-time job paid 400 (four hundred) euros a month. [4] So its competitiveness has clearly increased compared with its partners, particularly countries such as Greece, Spain, Portugal, but also Romania, Bulgaria or Hungary (which do not belong to the euro zone). Those other countries had to face a growing trade deficit towards Germany and other countries of the Core. Their current balance-of-payment deficits reflect surpluses in countries of the Core, especially Germany. Such financial deficits, which can be either private or public, have to be compensated for by external contributions: foreign investments or debts, i.e. loans. The current balance deficit can be traced for the most part to private deficits, a majority of which

were financed by loans from banks of the Core, for investments were relatively limited (except in the case of Spain) or were neutralized by significant capital outflow in the guise of TNCs taking their profits home. In some Eastern European countries (Hungary, Slovakia and the Czech Republic) such profit repatriation (capital outflow) have been definitely more significant than investments (capital inflow). [5]

It can thus be argued that the debts to be paid by countries of the Periphery are essentially due to the behaviour of the private sector within the EU. Unable to compete with the Core, companies of the private sectors have contracted debts with banks of the Core but also with internal agents as the economy of these countries is increasingly controlled by the financial sector since they joined the euro zone. Consumption boomed in those countries and in some of them (Spain, Ireland, Hungary, Romania, Bulgaria) a real estate bubble finally burst.

Higher and higher interest rates paid by countries of the Periphery for new loans contracted since the crisis started will further drain capital from the Periphery to the Core (to the private financial institutions that buy debt securities issued by countries of the Periphery or governments of the Core that are involved in 'aid plans' by lending money at 5.2% interest rate in the case of Greece). Germany, France and Austria, for instance, borrow at 2% and lend at 5.2%. This is a highly profitable move. Financial markets demand double or triple interest rates compared with 2007-2008 and the borrowed amounts are impressive. The money lent by countries of the Core to Greece, Ireland or Portugal is paid back to private banks in countries of the Core, and interest rates with these banks are 10% or more. There is indeed a drain on resources from the Periphery to the Core.

On the other hand, given the productivity edge of Germany and of other countries of the Periphery, financial drain also occurs through trade exchanges according the mechanism of unequal exchange Marx describes in *Das Kapital*: Capitals invested in foreign trade can yield a higher rate of profit, because, in the first place, there is competition with commodities produced in other countries with inferior production facilities, so that the more advanced country sells its goods above their value even though cheaper than the competing countries. [ . . . ] The same may obtain in relation to the country, to which commodities are exported and to that from which commodities are imported; namely, the latter may offer more materialised labour in kind than it receives, and yet thereby receive commodities cheaper than it could produce them. [6]

Democratic foundation of another European Union based on solidarity

Several provisions in the treaties that preside over the EU, the euro zone and the ECB have to be cancelled. For instance, we must do away with articles 63 and 125 of the Lisbon Treaty that prohibit any move of capitals as well as any aid to a state in difficult circumstances. We should also do away with the Stability and Growth Pact. And replace the current treaties with new ones in the context of a genuinely democratic constituent process so as to achieve a pact of solidarity among peoples that is mindful of both employment and the environment.

We must thoroughly revise the monetary policy as well as the status and practice of the ECB. The inability of the political power to force the ECB to create money is a heavy handicap. When it set the ECB above governments and thus above the peoples, the EU made a disastrous choice: it subjected man to money instead of the other way round.

A Europe based on solidarity and cooperation must allow us to turn away from competition, which draws all standards down. The neoliberal logic has resulted in the crisis and proved a failure. It pushed social indicators down: less social protection, fewer jobs, less public services. The minority that benefited from the crisis did so by tramping on the rights of others. Those who are guilty are rewarded while victims have to pay! We must change this untenable logic, on which all founding texts of the EU are based, with the Stability and Growth Pact in the lead. More than ever, we must strive toward another Europe, based on cooperation among states and solidarity among peoples.

## Core vs Periphery in the EU

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This new democratized Europe must strive to establish non negotiable principles. It must uphold and improve social and fiscal justice, make choices that will raise the standard of living of its inhabitants, engage in arms reduction and a radical decrease in military spending (including withdrawing European troops from Afghanistan and leaving NATO), choose sustainable energies so as to avoid nuclear power, and refuse genetically modified organisms (GMO). Furthermore, Europe must resolutely put an end to its "besieged fortress" policy regarding candidates for immigration, so that it can become a partner trusted for its fairness and true solidarity towards the peoples of the South.

*Translated by Christine Pagnouille.*

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[1] Salazar's and Caetano's regimes in Portugal (1933-1974), Franco's dictatorship in Spain (1939-1975), military junta in Greece (1967-1974).

[2] Belonging to the EU was definitely less popular in rich countries of the north of Europe (UK, Scandinavian countries)

[3] In 1999 the euro zone included eleven countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. They were joined by Greece in 2001, Slovenia in 2007, Cyprus and Malta in 2008, Slovakia in 2009, and Estonia in 2011.

[4] Frédéric Lemaître in Le Monde, 17 May 2011

[5] Ozlem Onaran, "Fiscal Crisis in Europe or a Crisis of Distribution?", Department of Economics, SOAS Discussion Paper n°18, 2010.

[6] Karl Marx, Vol. III, Part III, Chapter V, [Foreign Trade](#).