



# Rediscovering the European periphery

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**The Political Economy of the European Periphery**  
**UCD Geary Institute**  
**UCD, Belfield, Dublin 4**

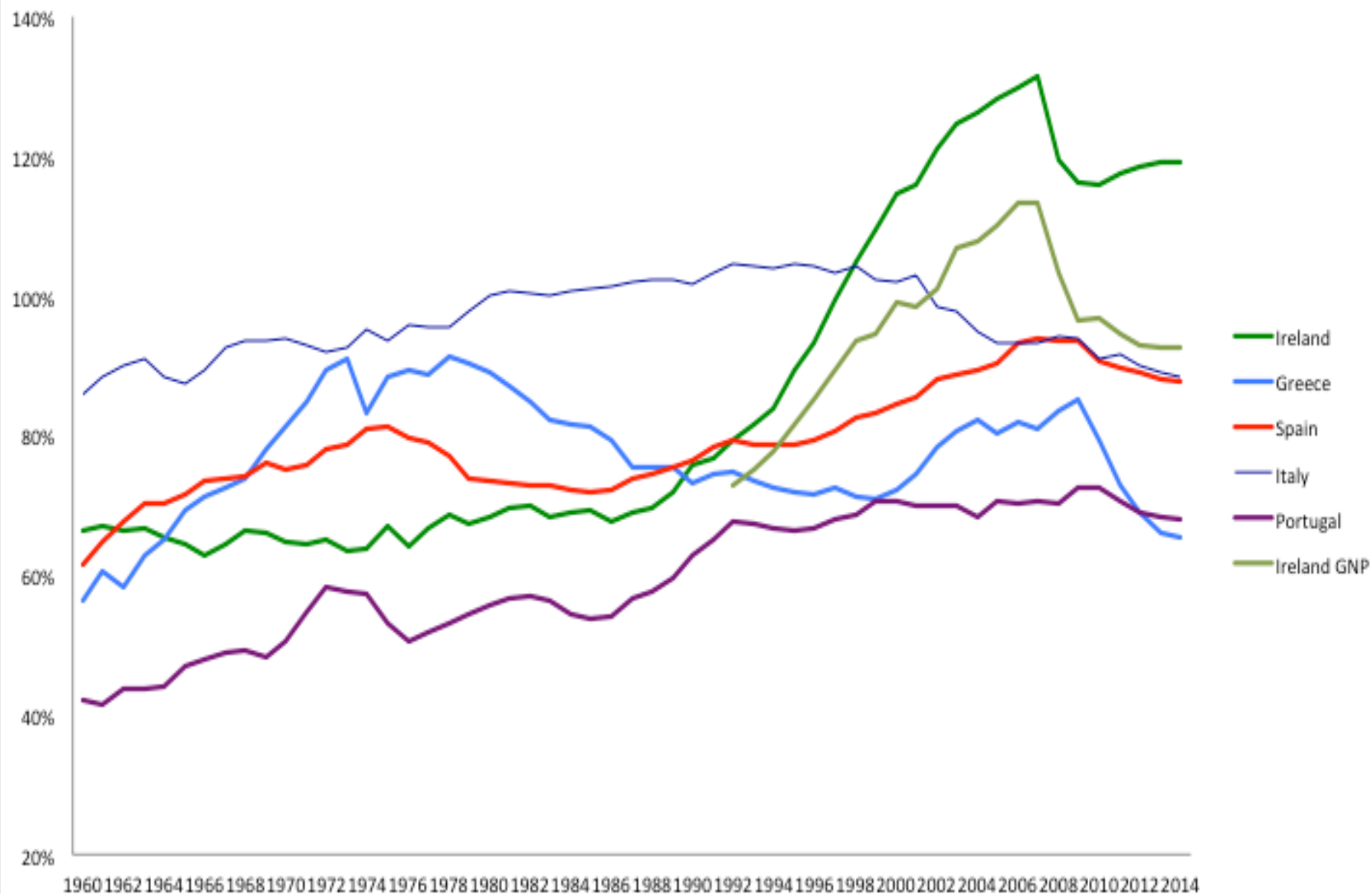
# Why core and periphery?



- Eurozone crisis: PIGS
  - Greece, Spain, Portugal, Ireland
  - European sovereign debt crisis, 2010
- Earlier: Cohesion Four
  - Less-developed, 1980s
- Something in common...
  - Despite divergent growth patterns in the meantime
  - 'Peripheral' status heightened by EMU, crisis



## GDP per capita relative to EU15 from 1960, PPS 2012, AMECO



# Some narratives about the crisis, part 1

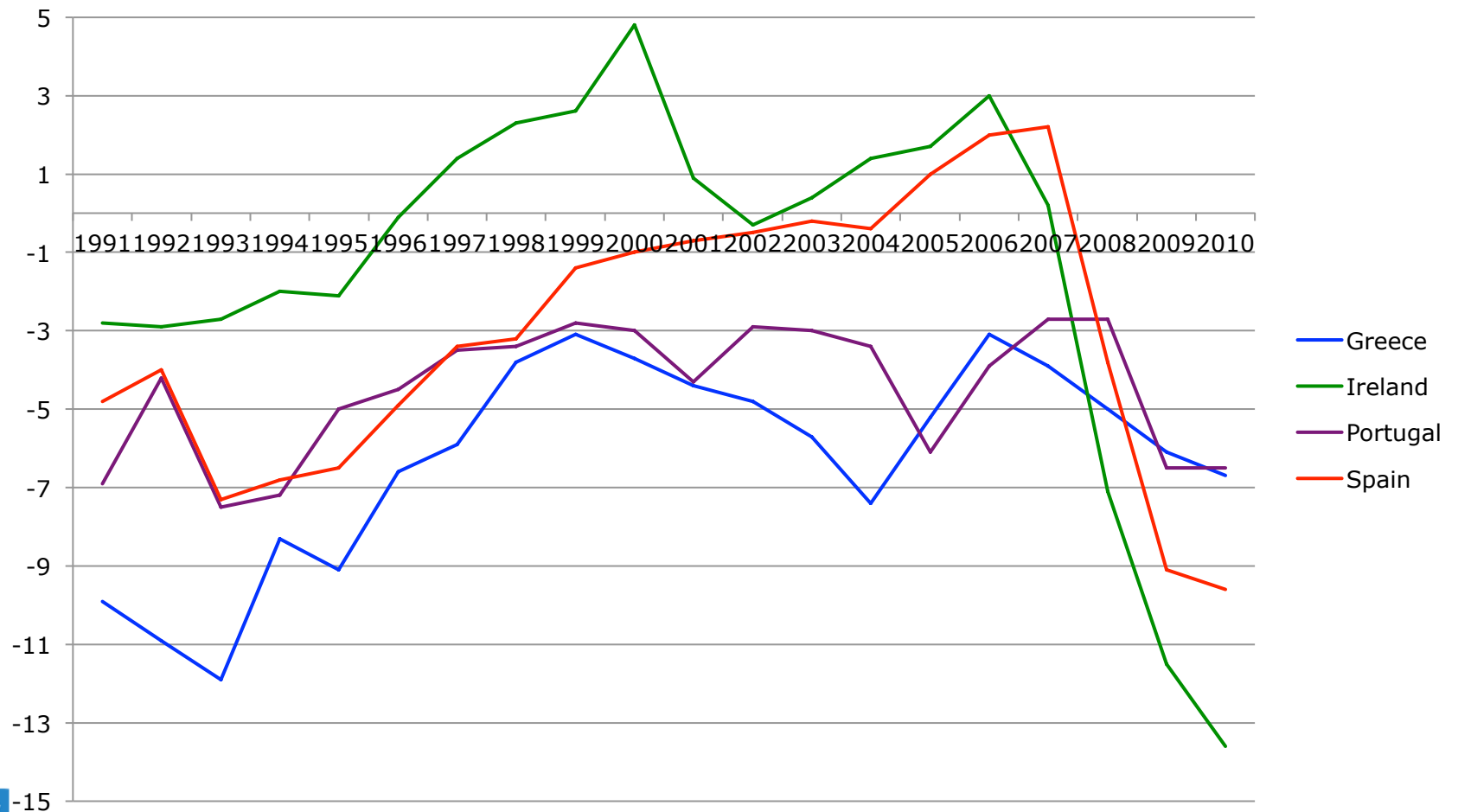
- Bad domestic politics in the periphery
  - ‘Fiscal profligacy’: public finances
  - ‘Bad banks’: regulation
  - ‘Over-paid’: cost control and balance of payments



BUT

- Sequence is wrong
- Over-explains common problems
- Under-explains
  - Why the periphery?

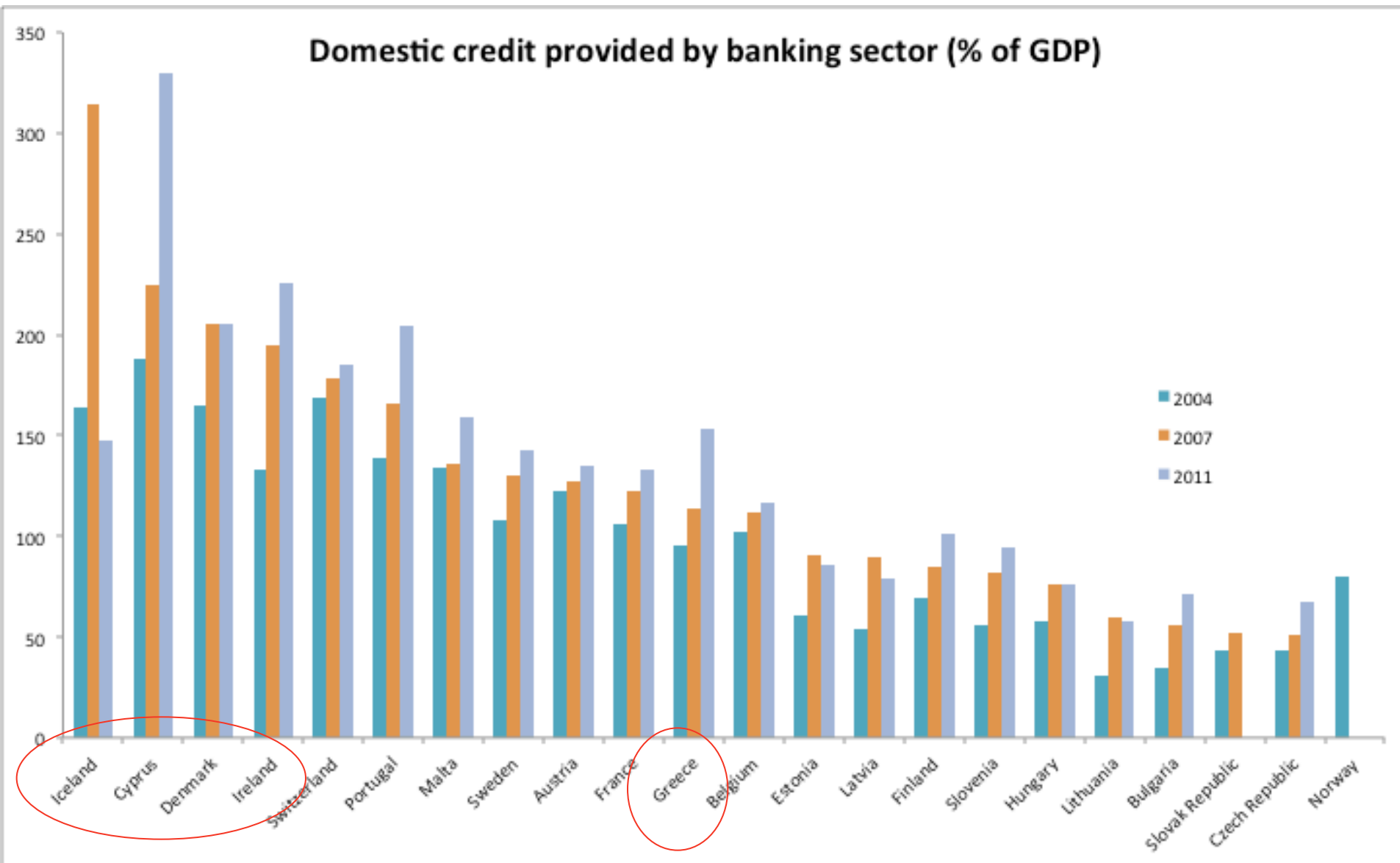
# Fiscal?



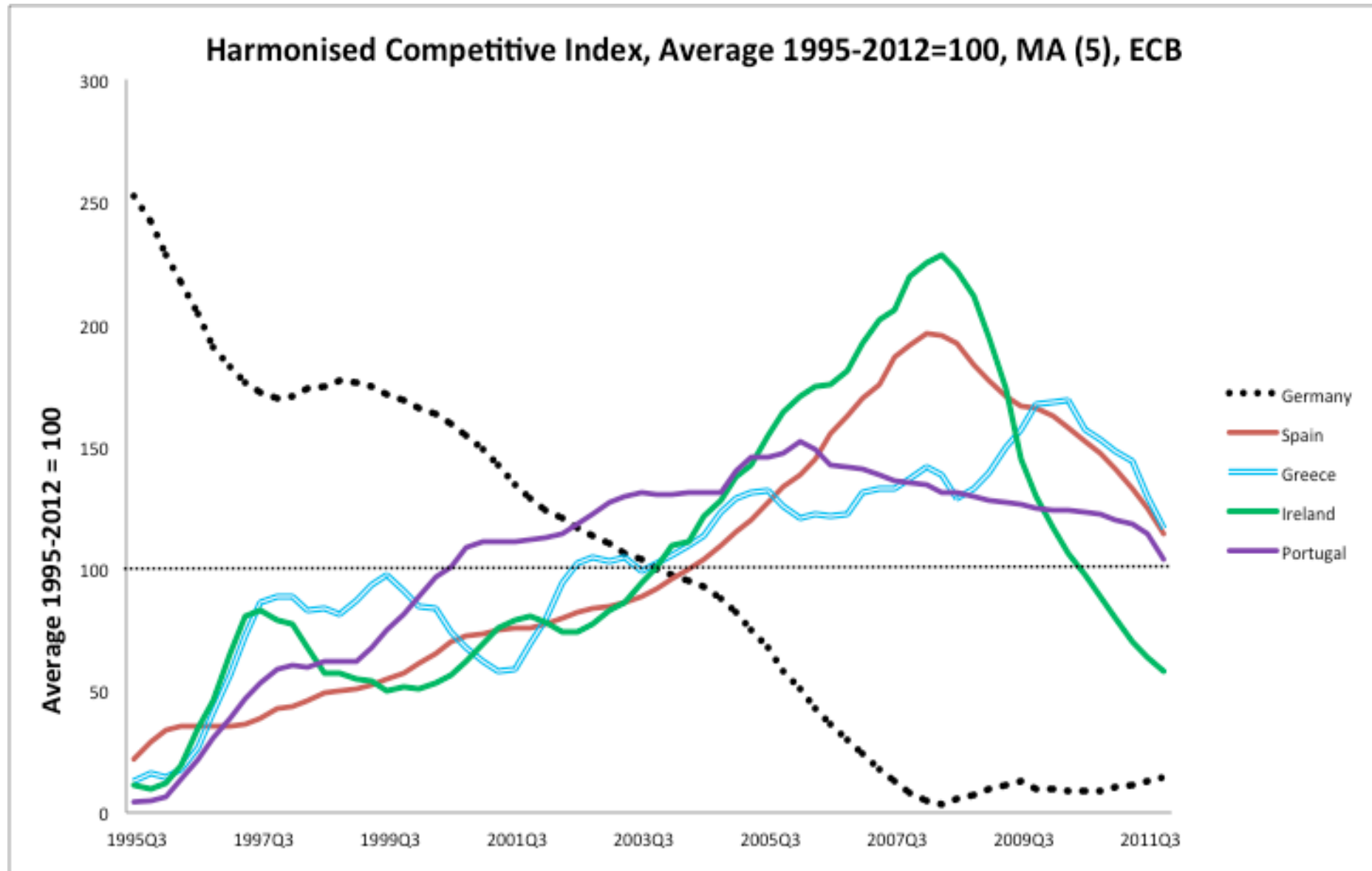
General government financial balances % nominal GDP



# Banking sector regulation?



# Costs... are always relative



Source: ECB. Harmonised competitiveness indicators based on unit labour costs indices for the total economy

# Some narratives about the crisis, part 2

- European authorities are to blame
  - ‘Unfinished architecture’ of EMU
  - ‘No bailout’ AND ‘no exit’
  - Slow response to set up loan programmes
  - Focus on fiscal disciplines, not trade or financial
  - Pro-cyclical stance, since no fiscal transfers







BANX

**'I couldn't help noticing we didn't win  
the Nobel Prize for economics'**



**IRISH RESEARCH COUNCIL**  
An Chomhairle um Thaighde in Éirinn

BUT

- Doesn't explain origins of crisis
- Or why some countries fell harder than others



# The missing element of the story: European interdependencies

- Closer integration and the periphery
  - Opportunities
  - Vulnerabilities
- Trade
- Finance

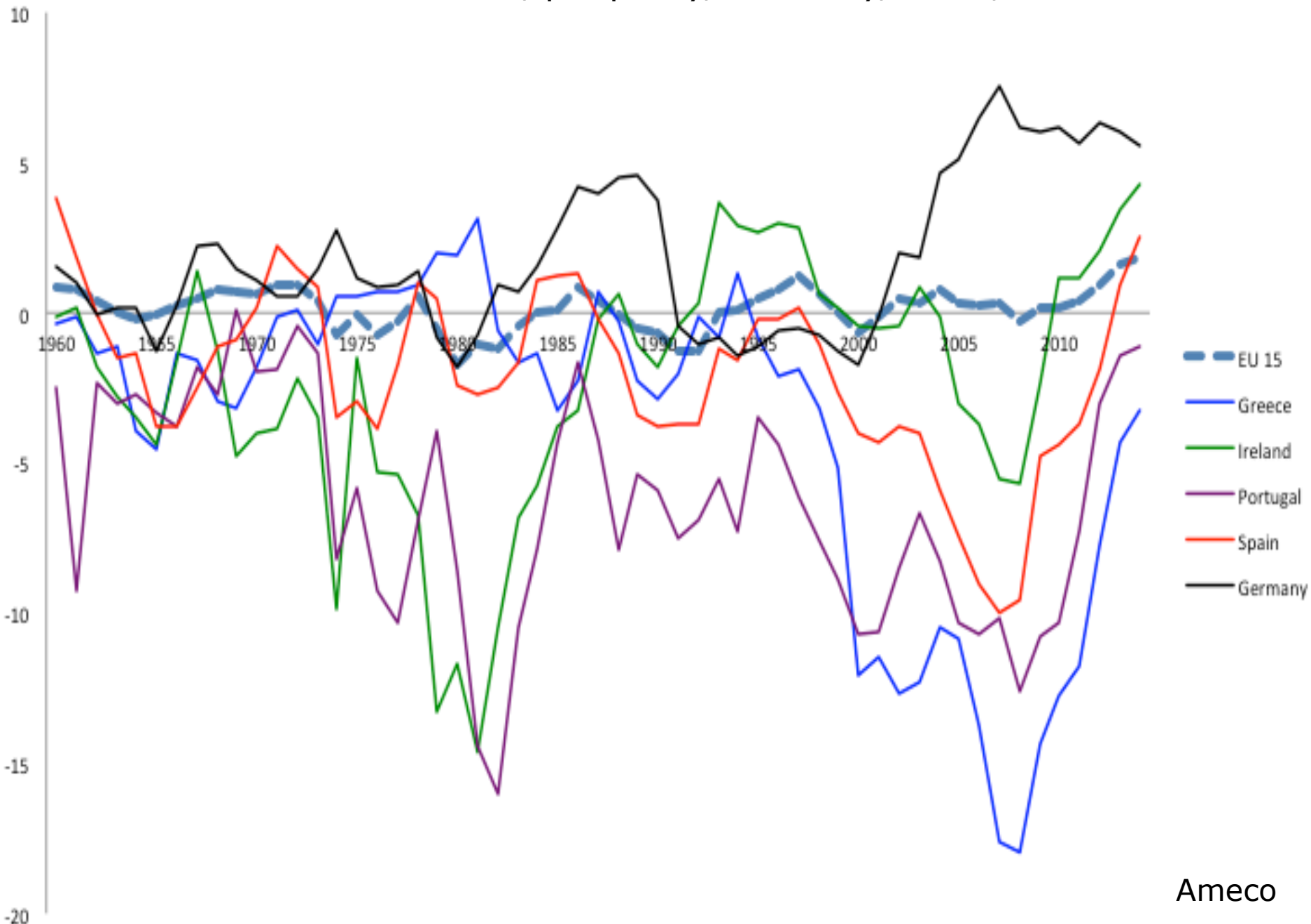


# Life on the edge of Europe: context

- Economic structure
  - Large agricultural sectors
  - Late industrializers (with partial exception of Spain)
- Challenges of growth: trade
  - Limited trade and export capabilities
    - Though Ireland went for FDI
  - Persistent balance of payments issues
- Challenges of growth: money
  - Competitiveness losses, periodic devaluation
  - Currency volatility after 1971
  - Quest for stability through links with hard currency
    - Credibility to secure interest rates
    - But investor confidence may not last



Current account balance, periphery, Germany, EU15, 1960-2012



# Life on the edge of Europe: toward EMU

- Incentives flowing from European integration:
  - First advantageous
  - Then perverse
    - Accession, Single European Market
    - Maastricht Treaty and preparation for Euro
    - European Monetary Union



# 1990s

- The periphery countries passed all Maastricht tests with flying colours
  - Interest rates
  - Deficit
  - Debt
- Even Greece did very well
- External incentives, domestic buy-in, supportive international conditions



# Perverse effects of EMU

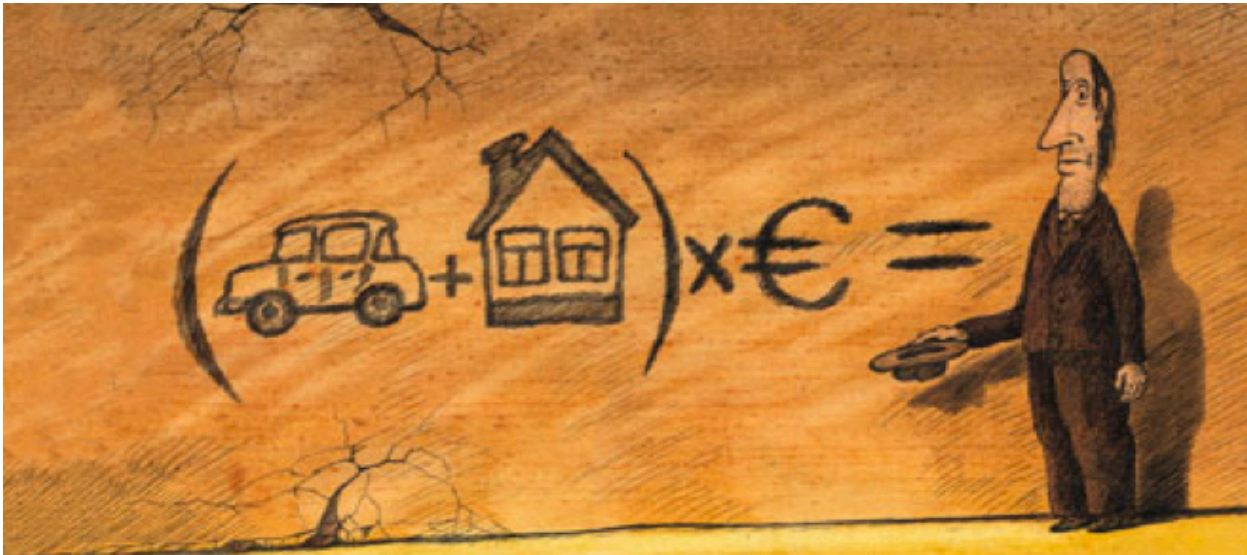
- Convergence on low interest rates
- Growth in periphery, slump in core
- Massive flows of capital from core to periphery
  - Quick-buck non-tradables, especially construction
  - And consumption
- Typical financial volatility...
  - ... in developing countries





# Sudden shock

- Flight of capital to 'quality', ie to 'core'

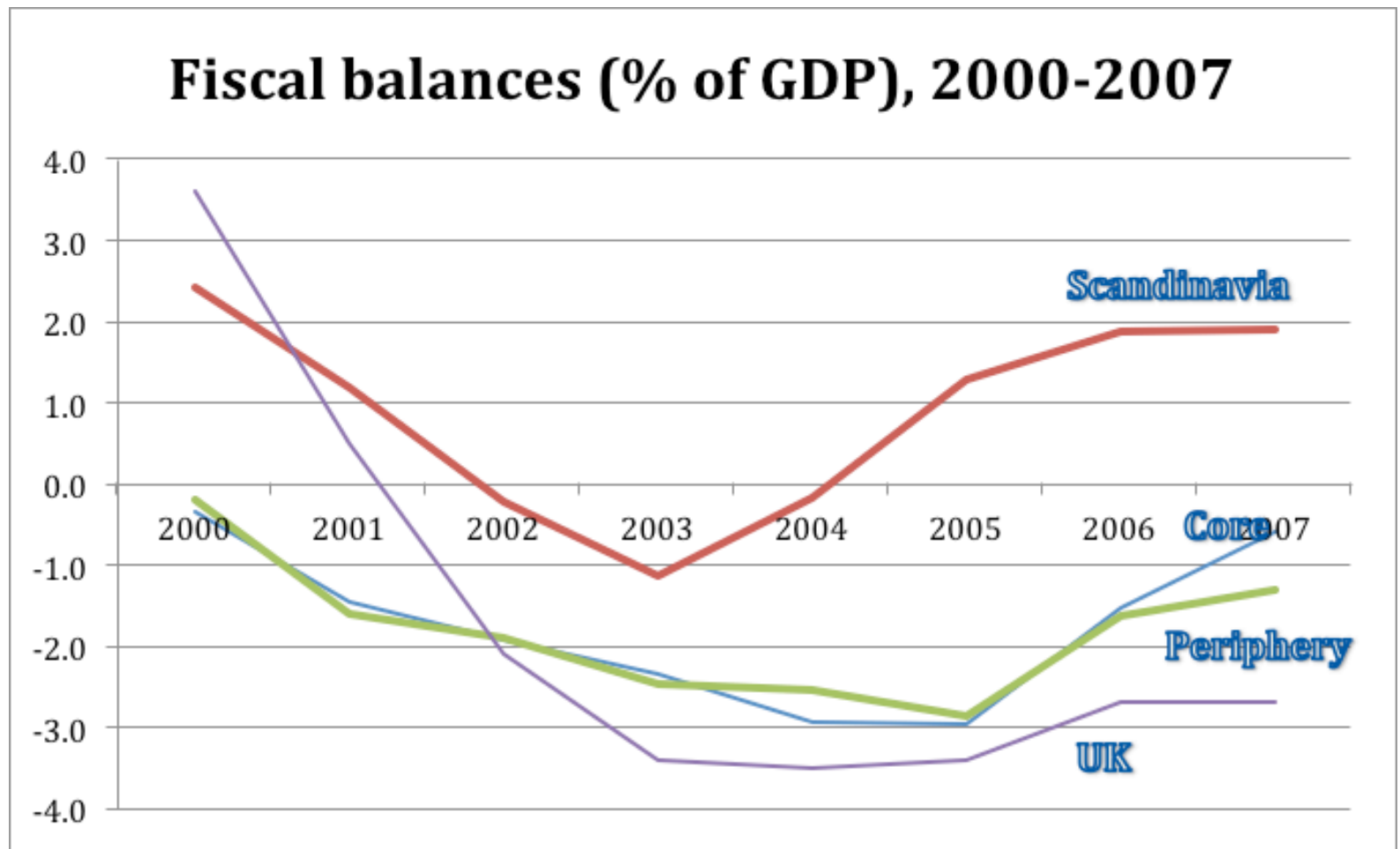


- 'Periphery'
  - Newly plausible analytical category
  - Not just North-South

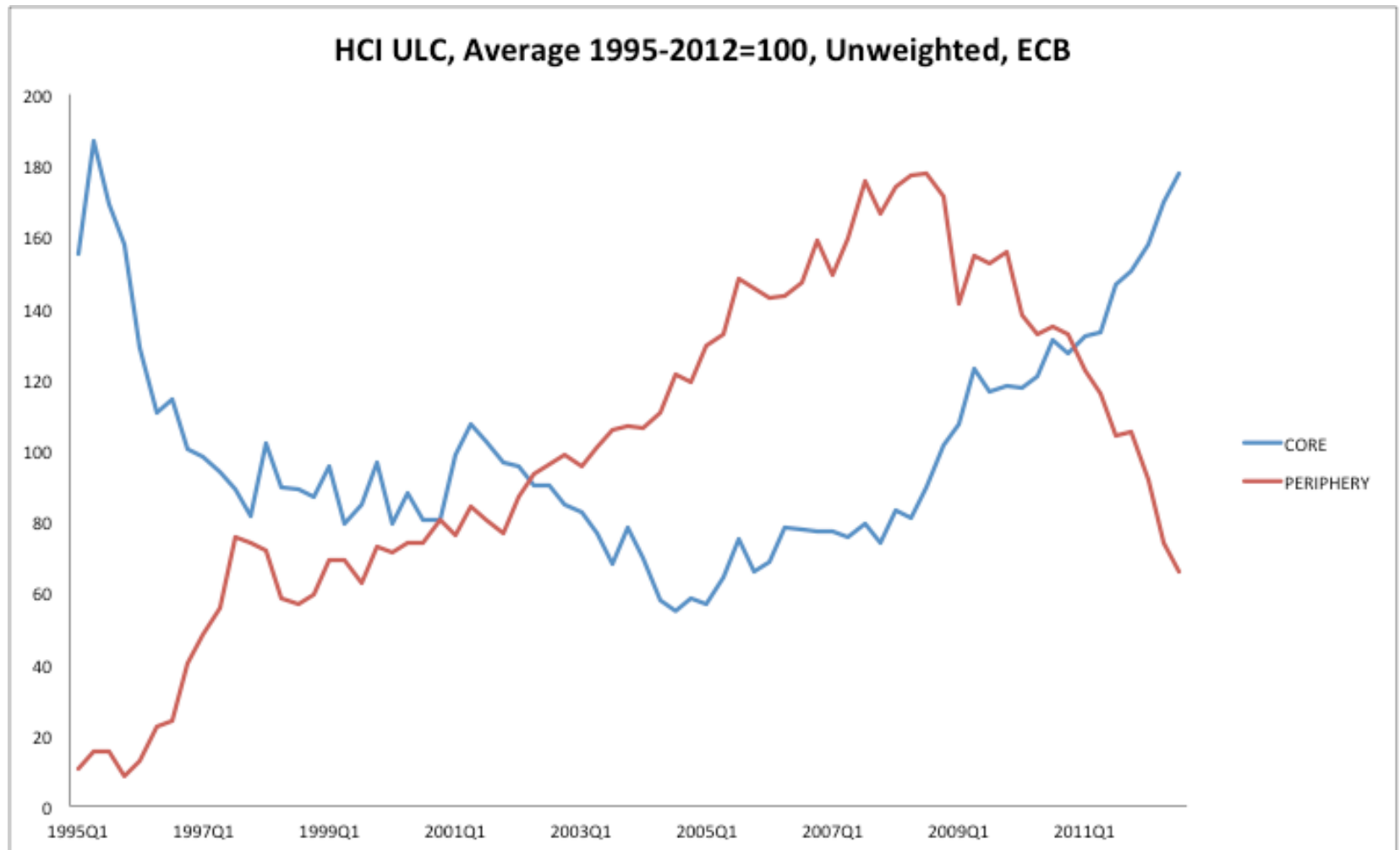
- EMU drastically limited countries' response options
- Little scope for coordination across periphery
  - Distancing for credibility



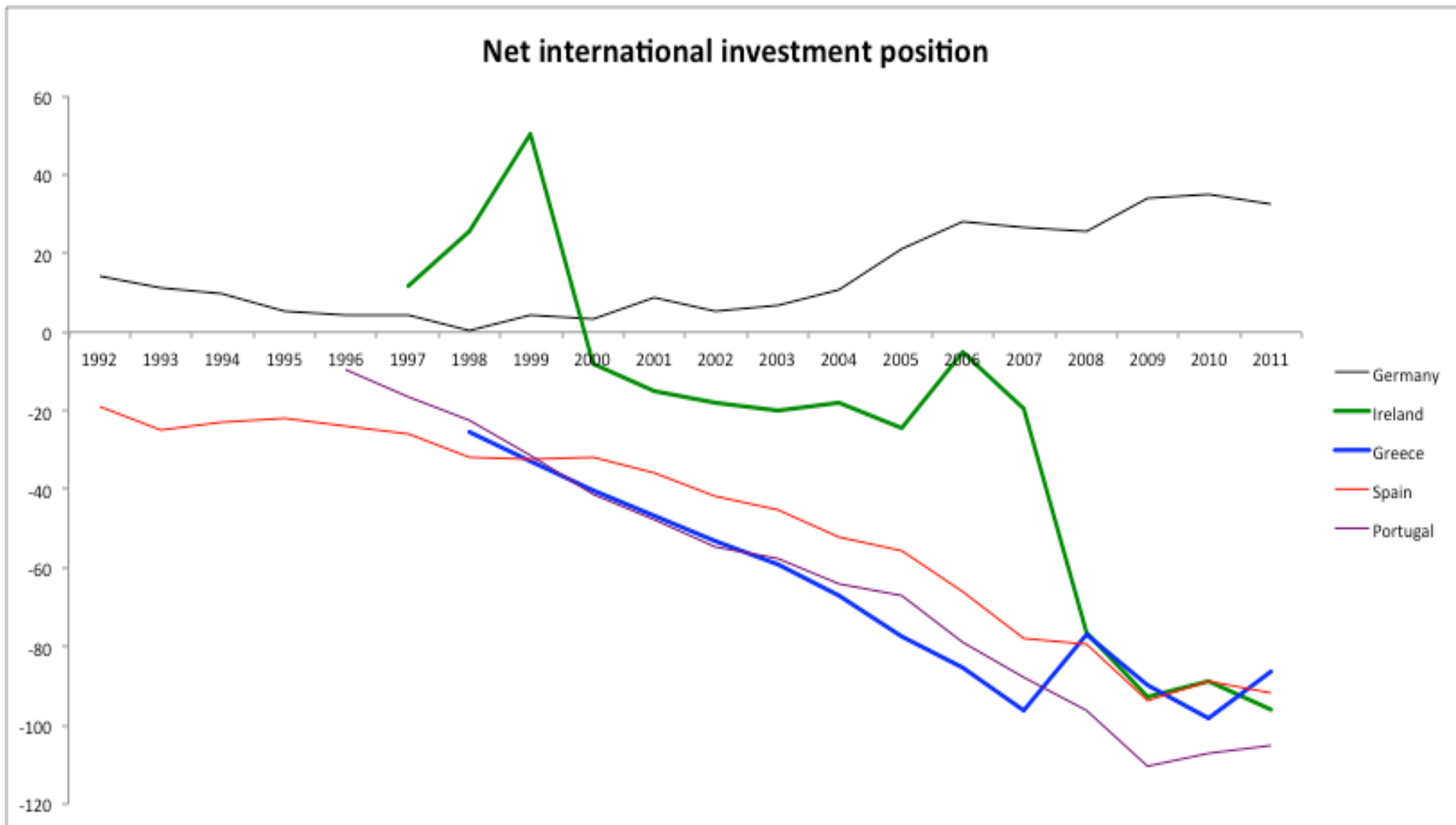
# Fiscal cushion?



# But meanwhile, imbalanced adjustment paths



# Net national external debt





## The Political Economy of the European Periphery



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