The Core/Periphery Division in Europe in the Context of Financialisation

Abstract

Europe has emerged as the new epicentre of the global crisis following the outbreak of the debt crisis in the so-called peripheral countries of the Eurozone. Moreover, the eruption of the debt crisis has led to doubts regarding the viability of the euro, and even, to the concerns about the future of the European Union itself.

Countries like Greece, Ireland, Italy, Portugal, and Spain (GIIPS) are blamed for the mess in Europe. Austerity measures have been implemented for the solution to the crisis, to be enforced with the threat of exit from the Eurozone. However, regardless of the policy actions, the crisis does not seem to have been taken under control so far, still threatening the European integration.

On the other hand, although a reasonable progress has been achieved in the integration process of Europe, it is argued that there has always been some kind of hierarchical division among the members as the ‘core’ and the ‘periphery’. Despite the changes throughout the history of the union, the ‘core’ generally has consisted of the most powerful countries such as Germany, France, the UK, and so on, whereas the periphery has mainly been composed of the countries in the south and east of Europe, and been subjected to decisions taken by the hegemonic core.

Germany and other countries of the core have experienced an export-led growth model with modest investment, consumption and GDP growth rates, and with trade surpluses that have been reflected in growing trade deficits of the periphery. Financial deficits, private or public, of the periphery have had to be compensated for by external contributions, and surpluses of the core have been used to finance credit bubbles of the periphery. The establishment of the European Monetary Union in the 1990s and the launch of the euro afterwards have accelerated financialisation in Europe. Low real interest rates, deregulation, and the lack of exchange rate risk encouraged intense capital inflows to the periphery leading to a massive upsurge of debt and consumption. The Monetary Union has meant an expansion of intra-European trade and financial imbalances.

The paper attempts at an analysis considering implications of financialisation on the (changing) nature of the core/periphery division in Europe in the last few decades, an analysis which comprises more than comparing variables like economic growth, GDP per capita, public debt, and so on. On the empirical side, the multidimensional scaling, a multivariate statistical analysis, with the relevant criteria is also employed considering the critical defining moments in the history of the European Union, the current crisis being one of the focal points.

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