# The EU centre-periphery divides in the crisis

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Abstract

The current crisis has affected EU member states in an unequal way. Policy responses to the crisis differ likewise. A policy divide is emerging between centre and periphery in the EU. EU member states with high current account deficits have been increasingly obliged to pursue pro-cyclical fiscal and wage policies. The article discerns the reasons for the differences in both the crisis processes and the policy responses. It does so from the perspective of the theory of regulation.

## The EU centre-periphery divides in the crisis

The present crisis has hit the various parts of the European Union in an unequal way. Likewise, policy responses to the crisis have differed within the European Union. The difference is particularly stark between the centre states and rather peripheral states that displayed high deficits on the current account. The article discerns the reasons for the differences in both the crisis processes and the policy responses. It does so from the perspective of the theory of régulation. This theory provides the conceptual apparatus to analyse specific national political-economic structures and their linkages within the European context.

### Regimes of accumulation and vulnerability to crisis

Based on a regulationist perspective, different national developments of the crisis have to be explained against the background of different regimes of accumulation and the specific insertion into the international division of labour. Different axes of regimes of accumulation can be distinguished analytically: Productive vs. financialized accumulation, extensive vs. intensive accumulation and introverted vs. extroverted accumulation (Becker 2002: 67ff.)

The basic distinction is whether the accumulation focuses on the productive sectors or on the accumulation of fictitious capital (Marx 1979: 482ff., 510). The term fictitious capital refers to securities in their different varieties and includes capitalized land rent. Trading with fictitious capital constitutes a second circuit of the accumulation of capital. Fictitious capital represents a claim on the sum of profits produced. For this reason the second circuit of accumulation is not entirely independent of the circuit of productive accumulation although it enjoys a certain degree of autonomy. In times of blocked productive accumulation financial assets seem very attractive because of their high degree of liquidity (Arrighi 1994). The strong demand for financial assets initially leads to an increase in their prices. Hence, a booming financialized accumulation is characterized by an inflation of financial asset prices (Lordon 2008: 97). Two separate prices structures for physical output and financial assets emerge (Foster/Magdoff 2009: 16). Profits are made mainly because financial assets are bought low and sold high. But at a certain point, it becomes obvious that the price increases of financial assets do not have any realistic proportion to the profits in the productive sector anymore. Such a situation very often leads to a sharp fall of financial asset prices. Hence, financialization is closely related to structural blockages in the productive sector and very crisis-prone (see Chesnais 1996: 253; Becker 2002 75f.). The likelihood of crisis is even higher in the case of a financialized accumulation based on loans in foreign currency and the import of capital, a typical feature of (semi-)peripheral countries. Despite of high current account deficits capital inflows often lead to a real and sometimes even nominal appreciation of the domestic currency what further aggravates balance of payments deficits. At the point at which investors notice the unsustainability of the exchange rate capital flight sets in. This puts further pressure on the exchange rate. If the currency is devalued the debtors having debts in foreign currency but income in domestic currency get under pressure. The currency crisis triggers a banking crisis (see Becker 2007).

Historically, mainly the bourgeoisie and the upper middle classes participated in financialized accumulation. This has changed over the past three decades in many countries. The most recent cycle of financialization also has included wage earners. On the one hand, they entered via the privatization and commercialization of old-age security; on the other hand, they participated via the expansion of credits for the acquisition of real estate and consumer durables (dos Santos 2009; Huffschmid 2009; Lapavitsas 2009). The promotion of credit-financed purchases of homes was a key-feature of neo-liberal policies in many cases. Therefore we may distinguish between elite and popular financialization. In the case of a popular financialization large shares of the population are closely bound to the financialized model and hit directly by the consequences of a banking and real-estate crisis. For this reason they may be convinced more easily to accept ways out of the crisis that are based on the restoration of a financialized model.

The axis extensive vs. intensive accumulation refers to the form of productive accumulation. Extensive accumulation is characterized by the enlargement of the working day or by an increase in the intensity of work. On the contrary, intensive accumulation is based on the increase in relative surplus value by cheapening goods which are consumed by wage earners. A precondition for intensive accumulation is that the consumption by wage earners consists mainly of goods bought at the market, i.e. that substance production does not have any substantial function anymore. In countries of the core of the world economy such a close linkage is given between the section in which the means of production and the section in which consumption goods are produced (Aglietta 1982: 60; Becker 2002: 67f.). This is not the case in countries of the (semi-)periphery. These countries usually import most of the machinery. For this reason the lack of foreign currency often becomes a reason for shortage and crisis. Moreover, it is generally not for sure that the two sections fit proportionally to each other and that effective demand keeps up with production. If this is not the case, an under consumption crisis or an over production crisis evolve. For a limited period of time but not perpetually such crises may be covered by credit-based consumption.

The distinction between extraversion and introversion of accumulation is best illustrated by referring to different types of capital such as mercantile capital, productive capital, and money capital. Introverted accumulation is above all centred on the domestic market. Extraversion implies a strong outward-orientation. A strong export-orientation is called active extraversion, a strong import-orientation is referred to as passive outward orientation (Becker 2006: 14f.). In the case of active extraversion the export of productive capital coins the economic processes in receiving countries. For this reason the export of productive capital is a feature of dominant economies (Beaud 1987: 76ff.). Neo-mercantilist strategies aim at a trade surplus as well as at high external returns in the form of profits and interest payments. The surplus of the one group of countries represents the deficit of the other group of countries. Countries which are characterized by passive extraversion show usually a dependence on the import of goods and capital in general and money capital in particular. The developments in the past years in the USA and the UK can be characterized as specific forms of passive extraversion. They are very dependent on the import of goods and money capital and at the same time firms from both countries promoted foreign direct investments very actively. However, passive extraversion is usually a feature of countries in the periphery and of semi-industrialized countries. The availability of foreign currencies is a frequently appearing bottleneck of accumulation. In peripheral countries, crises have often taken the form of balance of payments crisis (Yaman-Öztürk and Ercan 2009: 64). The high degree of financialization of the past decade had allowed substantial surpluses and deficits in the balances of payment which have been fuelled by international capital flows (Stockhammer 2009). For this reason the present crises are very deep.

## Accumulation and crisis in Western Europe

The present crisis originated from the US and Britain. It spread through three main channels: direct contagion, restriction of credits and decline of imports. It was Northwestern European countries (Ireland, Benelux countries, Germany and, outside the European Union, Switzerland) that were mainly affected by contagion. Financialised economies that were dependent on capital inflows were particularly hard hit by credit restrictions. Some Eastern European and, to a lesser extent, Southern

European countries were part of this group. The decline of exports hit export-orientated countries like Germany, Austria and several Central East European countries particularly hard.

In Western Europe, two main types of regimes of accumulation could be found before the beginning of the present global crisis. On the one hand, there was a group of countries with a marked financialization which in many, but not all cases went hand in hand with high current account deficits. On the other hand, there was a smaller group of countries which showed very strong characteristics of extraverted accumulation but at the same time included some elements of financialization. A high degree of financialization is characterized by a large share of the financial sector (and the real estate sector) in GDP, high ratios of stock market capitalisation and high and increasing private debt. The group of Western European countries which shares the characteristics of a high degree of financialization includes the United Kingdom, Ireland, the Benelux countries, Spain and in some respects Scandinavian countries such as Denmark. France and Portugal displayed likewise some tendencies of financialization. Most of the theses countries have displayed both elite and popular financialization. However, Spain's accumulation had only very strong traits of popular financialization based on a rapid expansion of debt-financed real estate, while in France financialization has had primarily an elite character. In West European countries with a pronounced financialization, the share of manufacturing in GDP generally declined significantly over the last ten years. Core countries of the export-oriented regime of accumulation have been Germany, Austria and Sweden. Eastern European countries have been particularly closely linked to this second group of countries.

Great Britain has shown main features of a financialized economy for a long lasting period. Since the 1970s financialization has been supported by both Tory and Labour Governments. An expression of financialization is the strong growth of financial assets which is represented by the market capitalisation as a share in GDP. While this ratio had been at 38% in 1980 it increased to 184% in 2000. This sharp increase was even stronger than in the USA where the ratio increased from 46% to 154.9% in the same period. The average of continental Europe of the "old" EU 15 was 104.6% in 2000 and merely 7.8% in 1980 (Frangakis 2009: 57, tab. 3.2.). The British government was among the pioneers loosening regulation and allowing innovative financial instruments. After the investment banks of the City of London had lost ground to their US-American competitors at the beginning of the 1990s the British Minister of Finance Gordon Brown sought to re-establish the competitiveness of the City as a financial centre. He did this by establishing a new institution for financial regulation, the Financial Services Authority (FSA) and new form of regulation based on general principals but not on mandatory rules. For international banks, in particular for US banks, London was "a place of regulatory arbitrage" (Gowan 2009: 28). Together, London and New York dominated the investment business, issuing bonds and shares, and central in the business with derivatives which is mainly carried out over the counter (OTC), but not at stock exchanges. In derivatives business London played a key-role with interest rates and currencies, Great Britain held a global market share of 42.5% in 2007 while the US had only a share of 24%. In the case of credit derivates, the US-share in 2006 amounted to 40% and was slightly higher than the British share of 37% (ibid.: 28). Based on this close and widely symbiotic relationship the crisis of the US financial system experienced a rapid propagation in Great Britain.

Moreover the British economy and society shared some central common features with the US model. Based on the highly commercialised pension schemes, huge amounts of financial resources have been transferred continuously to the financial sector. Starting with the Thatcher Government, private homeownership was promoted instead of public housing. Usually the purchase of private homes was financed by mortgage loans, which represented a cornerstone of the financialized mode of development. Via privatized pension schemes as well as via homeownership large proportions of the population were integrated into the financialized model. As long as the prices for financial assets and homes increased (the latter on the average still more than 10% annually in 2007, Workie et al. 2008: 264, tab. 3.5), parts of the middle classes nourished the illusion of permanently increasing wealth. But, indeed, it was an inflation of (financial) assets which went hand in hand with financialization. Despite a decreasing wage share the share of consumption in GDP remained on a high level. This is explained by constantly increasing private debt which increased in the case of British households relative to disposable income markedly from 105% to 159% between 1995 and 2005. This was clearly above the EU average and the US average which was 135% (Stockhammer 2009: 22, tab. 1). Similar to the

USA, the growth of the British economy was based on the inflow of capital. The trade balance and the current account were markedly negative, saving was well below investment. This gap increased from 1.6% to 4.9% of GDP between 2004 and 2007 (Lapavitsas 2009: 120, tab. 7). For this reason, the financialized model in Britain was built on financial inflows. The policy of a strong Pound aimed at increasing the attractiveness to investors. This policy increased the competition from imported goods and accelerated the decline of the British industry.

This markedly financialized British regime of accumulation, which was in addition closely linked to the USA, was hit by the crisis very early on. This was very similar to Ireland with its close relationship to the US and its extreme form of financial liberalization. On the one hand direct contagion occurred, on the other hand the tendency of soaring house prices started to reverse and led to increasing credit restrictions. Similar to the US, it became obvious that major British Banks did not face just a liquidity problem, but a solvency problem (over indebtedness). Already before the Lehman bankruptcy in September 2008 for the first time in history for 150 years, a bank-run on Northern Rock occurred to which the British State responded by injecting capital and nationalizing the bank. With the deepening of the crisis, other British banks started to get into severe trouble. Banks having important activities in the real estate sector, in which the fall of prices continued during the first half of 2009, were hit particularly hard. The recession (minus 5.1% on an annual basis) in Great Britain continued until the 3rd quarter of 2009. In the fourth quarter, the fall of the British GDP stopped. However, it was still 3.2% lower than in the fourth quarter 2008 (Eurostat 2010b) Despite the recession and the considerable devaluation of the pound the trade balance still worsened in the first half of the year (Lembke 2009). This demonstrates the continuing weakness of the productive sectors of the British economy.

The Benelux countries with their advanced degree of financialization have been severely hit by the crisis. Several major banks, especially the regionally-owned Fortis group, were destabilized by the financial turmoil and were partly nationalized (Debels 2009; Vermeend 2008). The Belgian banking system has been fundamentally weakened. This might have negative consequences since Belgian banks have considerable holdings in Eastern Europe and are highly exposed in the region. The credit exposure of Belgian banks to the region amounted to 26.3% of the Belgian GDP at the end of 2007 (Maechler and Ong 2009: 13, tab. 2) and was highly concentrated in two Central East European countries (the Czech Republic and Slovakia) whose financial systems have so far been relatively little affected by the crisis.

In Spain, financialization was different from Anglo-Saxon countries, the Benelux countries and parts of Scandinavia. It was mainly the construction and the real estate sector which had expanded very rapidly. The share of construction was at 10.8% of GDP in March 2008. This was almost twice as high as the average in the Euro zone (Pellicer 2009). The construction and the real estate boom were to an important extent financed by credits. This was where the main risks for Spanish banks were to be found. After the experiences of the banking crisis between 1977 and 1985 the Spanish Central Bank had forbidden risky financial activities to Spanish banks. While during the entry to the EU and afterwards a partial de-industrialization had been taking place it was mainly the credit financed growth of the construction industry which proved to be the backbone of the economic growth regime in Spain. This went hand in hand with a steadily increasing deficit of the current account. The current account deficit increased as a share in GDP from 3.3% in 2002 to 8.7% in 2006 (Hein and Truger 2007: 21, tab. 4). The Spanish regime of accumulation was characterized mainly by passive extraversion. Some selected sectors of the economy, above all monopolies in the services sector and banks, expanded via direct investments abroad, above all to Latin America. Hence, the Spanish model was not hit directly by contagion from the US crisis but by the collapse of the real estate bubble which happened more or less simultaneously with the breakdown in the US and Great Britain. The sharp decline in domestic demand was a major factor explaining the decline of GDP. Domestic demand decreased by 5% in the first quarter of 2009 while GDP decreased by 3% (Banco de España 2009: 13). The fall of the Spanish GDP was still continuing in the fourth quarter 2009 (Eurostat 2010b). Thus recession proved to particularly protracted in Spain. Portugal shared some of the characteristics of the Spanish development trajectory though the dependence on the real estate sector was less pronounced. Domestic demand was sustained by household debt to a relevant degree in Portugal as well. In Spain and Portugal private household debt amounted to about 150% of disposal income in 2007 what was less than in Britain, Ireland or the Netherlands, but considerably more than in Germany (Alexandre et al. 2009: 90, tab. 6.1). In Portugal, growth has been sluggish for about a decade. Since the introduction of the euro, Portugal has fallen behind the EU15 average (Romão 2006: 31). The economy displayed a pattern of passive extraversion and the current account tended to be negative. Portuguese exports were increasingly destined to Spain (Reis 2009: 16 f). Thus, the Spanish recession has negatively affected Portuguese exports. However, imports declined to a similar degree due to slack domestic demand (cf. Banco do Portugal 2010: 21, tab. 4). Greece shard the features of passive extraversion with Spain and Portugal though public debt has played a more relevant role in the Greek growth model. The present crisis was characterised by a particularly steep decline of tax receipts in Greece. It seems that enhanced tax avoidance was one of the strategies that self-employed and companies used to cope with crisis. This deepened the fiscal crisis of the Greek state.

In France financialization was less pronounced. The case of France is ambivalent. The financial system obtained faster and to a higher degree than Germany characteristics of financialization (Plihon 2003: 53). This is clearly shown by the stock market capitalisation as a share of GDP which increased in France from 9.0% in 1980 to 108.7% in 2000. In the case of Germany market capitalisation increased from 9.0% to 66.8% in the same period (Frangakis 2009: 52, tab. 3.2). Financialization in France went along with financial investment from abroad in large French firms and banks (Plihon 2003: 64). Financial wealth owned by the upper middle classes grew considerably and was invested in the context of public encouragement in other financial assets then bank deposits (ibid.: 56ff, 95ff). Notwithstanding the share of financial assets in overall assets reached with 35% less than in Germany where it was 44% (OFCE 2009: 22, tab. 1.1). Going along with this, consumption was based on a lower degree based on debt than in highly financialized economies. There was less need for the expansion of debt as a source of growth because the distribution of income due to considerable social resistance in France was much more stable compared to most other EU countries. The specification of the French regime of accumulation proved to be relatively favourable during the crisis. Although the financial sector was hit by contagion the impact was considerably less drastic compared to the Anglo-Saxon countries and the Benelux countries (Plane and Pujals 2009: 79). What was supposed to be a structural weakness of the French economy – a relatively strong welfare state, a low outward-orientation of the productive sectors of the economy, a diversified structure of production, without a strong focus on capital goods, was perceived as a structure that weakened the effects of the crisis (Heyer 2009: 16 ff).

Although the economies of Germany, Italy and Austria showed characteristics of financialization, they were characterized more by a strong export-orientation. The annual reduction in GDP in these countries was considerably stronger than in the EU or the Euro zone on the average in the first half of 2009. This holds particularly true for Germany where GDP on an annual basis declined by 6.7% in the first quarter and still by 2.4% in the fourth quarter of 2009. Though the GDP did not continue its decline in comparison with the preceding quarter from the second quarter onwards (Eurostat 2010b), the German stabilisation seems to be very fragile. Several large German banks had been doing business with innovative financial instruments and suffered considerable losses. Notwithstanding, contagion via a sharp reduction in exports was crucial. Based on a very restrictive incomes policy, German capital has increased export surpluses at the cost of internal demand (and at the cost of wage earners) during the past years (Hein and Truger 2007). While the German current account was balanced in 2000, there was a current account surplus of 5.1% relative to GDP in 2006 (Hein/Truger 2007: 21, tab. 4). Via the exports Germany's industrial capital took benefit from in the credit-financed growth in the other countries. This export-led growth was considerably dependent on the business cycle because the engineering sector is one of the cornerstones of Germany's exports. Also the strong focus on the automotive sector proved to be very unfavourable. This industry has had considerable international over-capacities already before the crisis and was moreover ecologically outmoded. Hence, the sharp decline in exports contributed considerably to the deep recession. In spring 2008 the decline in exports started and speeded up considerably in the beginning of 2009. In the first quarter of 2009 exports decreased by 9.7% compared to the previous quarter on a seasonally adjusted basis (Hohlfeld et al. 2009: 3). This contributed considerably to the reduction in GDP by 3.5% in the same quarter (Eurostat 2010b).

Austria could be counted among the countries with a regime of accumulation that increasingly displayed characteristics of active extraversion. While Austria has continued to be a manufacturing supplier to the German economy, Austrian capital has expanded very rapidly into Eastern Europe since the early 1990s. It has been rather service sector capital, esp. banks, rather than manufacturing companies that invested heavily in Eastern Europe. Austria achieved not only a considerable surplus in the trade balance with Eastern Europe, but improved its trade balance with Western Europe as well due to a very restrictive wage policy (Altzinger 2008: 34). Altzinger (2008: 39) concluded: “Without the CEEC-19, Austria would not have displayed a current account surplus of € 8.6 bn (or 3.2% of the GDP) in the year 2007, but a deficit of € 6 bn (without portfolio income).” The flip side of the coin was an extreme exposure of Austrian banks in Eastern Europe. Credits of Austrian banks to the regions amounted to the equivalent of 70% of GDP at the end of 2007 (Maechler and Ong 2009: 13, tab. 2). Austrian banks were particularly heavily exposed in countries with a high current account deficit and a high degree of financial fragility that were to be hit particularly hard by the present crisis, like Ukraine, Romania, Hungary, Croatia and Serbia (Maechler and Ong 2009: 15, tab. 3, Becker and Raza 2008: 108). The Austrian economy was first hit by the decline of exports first to Western, then to Eastern Europe. From January to October 2009, Austrian exports to Eastern Europe declined by 29% what was a steeper decline than the 22.8% reduction of exports to the old EU-15 (Sieber 2010: 159, tab. 9). Tourism was affected with a certain time lag. Though Austrian banks suffered to a limited extent by the contagion effect already in 2009, the crisis in Eastern Europe really started to bite them only in 2009. Thus, Austrian banks are under extreme strain. The example of Hypo Group Alpe Adria that, in the face of an imminent insolvency was completely nationalised in mid-December 2009, demonstrated that the destabilising effect does not work into one direction only.

Sweden’s regime of accumulation was characterised both by financialization and active extraversion. Swedish capital, particularly Swedish banks, had expanded heavily into the Baltic States. Sweden’s automobile industry was severely affected by the general overproduction crisis of the automobile industry and the particular crisis of the parent companies of Swedish automobile manufactures. Swedish banks were heavily exposed in the Baltic countries. Credits to East European countries amounted to the equivalent of 18.6% of Swedens’s GDP at the end of 2007 and were concentrated in the Baltic countries (Maechler and Ong 2009: 13, tab. 2 and 16, tab. 4) which were to suffer from an economic collapse in the following years. Swedish banks incurred heavy losses in the Baltic States.

There have been notable differences in the evolution of macro-economic variables during the crisis. The highly financialized economies, especially those with high levels of household debts, suffered from a strong decline in private consumption. This trend was quite pronounced in Great Britain, Ireland, Spain, Denmark. It was only in the two neo-mercantilist economies of Germany and Austria where private consumption proved so far to be resilient during the crisis. However, these two countries were rather strongly affected by the decline in exports which was more rapid than the decline in imports (Eurostat 2010a: Table T 2). In turn, their decline in exports was closely related to the decline in private, hitherto often credit-financed private consumption in the highly financialized economies.

## Regimes of accumulation and crisis in Central and Eastern Europe

A central feature of modes of accumulation in Central and Eastern Europe – with the exception of Slovenia – is that key-sectors of the economy are controlled by foreign capital. This is notorious in the case of the banking sector. In 2006 the share of foreign banks in total banking assets was above 80% in all EU member countries in Central and Eastern Europe, with the exception of Slovenia (29.5%) and Latvia (62.9%). In Estonia and Slovakia the share of foreign bank ownership was close to 100% (Frangakis 2009: 72, tab. 3.14). For this reason foreign capital mainly originating from Western Europe has a central influence on the processes of accumulation in the region. Such a huge share of passive extraversion in the area of direct investment is not reached by any other sub-region of the EU and is also very high in global terms. The economic links to Western Europe are highly asymmetric. For Eastern Europe, the relations to Western Europe are of crucial importance while for Western Europe, with the major exception of Austria and, to some extent, of Greece and Sweden, they are only of minor relevance.

Due to the central role of foreign capital the development may be characterized as different varieties of "dependent development" (Cardoso and Faletto 1976). In the case of most Visegrád countries (Poland, Slovakia, Czech Republic, and, in part, Hungary) and Slovenia the regime of accumulation may be characterized as dependent industrialization. The mode of accumulation in the Baltic countries (Estonia, Latvia, Lithuania) and the South Eastern member countries (in particular Bulgaria, and, to some extent, Romania) may be classified as dependent financialization. The dynamics of crisis in both types of countries is significantly different (Becker 2009a, 2009b).

In the Visegrád countries and in Slovenia the industrial export sector is the driving force of accumulation. The dependency on imports for industrial production is very high. Despite the export-orientation, the balance of trade was positive in the Czech Republic and Hungary only. In relative terms both countries showed with around 8% of GDP the highest deficits in the income balance. In the other countries the substantial repatriations of profits weighed negatively on the current account deficit as well (Astrov and Pöschl 2009: 357, tab. 6; see also Hunya 2009: 16 ff). Due to this, the deficit in the current account was in all countries of this group - with the exception of the Czech Republic – beyond 5% of GDP what usually is considered to be the problematic frontier. Hungary suffered from the relatively largest deficit of the current account – 8.4% of the GDP in 2008. This country also displayed the relatively highest external debt, which reached 120.2% of GDP in 2008 (Astrov and Pöschl 2009: 355, tab. 5). Hungary was also different from the other countries of this group because of the high share of private external debt which was used to pay for real estate and consumption. For this reason, the Hungarian debtors were very vulnerable to a devaluation of the national currency because this increased substantially their payment obligations calculated in domestic currency (Becker 2008). In Slovenia, the ratio credits/deposits significantly deteriorated in the years immediately before the crisis. Štiblar (2008: 137) observed a heightened vulnerability of the Slovenian financial sector. After the Slovenian entry into the EU in 2004 and with the perspective of the entry into the Euro zone, the indebtedness grew considerably. Much of the growing credits were destined for the real estate sector and construction. Between the years 2005 and 2008, the share of construction in the GDP expanded from 5.8% to 7.8%. In the third quarter of 2008, it reached even a peak of 8.5% what was about 2 percentage points above the EU average (Marn 2010: 37). Thus, Slovenia's growth was to a considerable extent debt- and real estate-driven in the immediate pre-crisis years.

The countries of this group were particularly hard hit by the fall of exports which amounted to around 25 % to 30% in the first quarter of 2009 compared to the first quarter of 2008 (Astrov and Pöschl 2009: 348, tab. 1). This was closely related to the sharp decline of production in the Western European economies above all in Germany (Jesný and Sibyla 2009: 20). Moreover, credit restrictions led to a burst real estate bubble and to dismissals in the construction industry. With the exception of Hungary the large external imbalances have not yet been a central element in the dynamic development of the crisis. The reduction of GDP started slightly later than in Western Europe, but was very drastic in the first half of 2009. Slovak GDP decreased on an annual basis by 5.7% in the first quarter, by 5.5% in the second quarter, 4.9% in the third quarter and 2.7% in the fourth quarter of 2009 compared to the same quarters in 2008. Due to the one-sided dependence on the car industry, the Slovak economy was hit particularly hard by the glut in the car market. A similar, though more recessive tendency could be observed in Slovenia which is likewise highly specialised in car manufacturing. In addition to the decline in exports, the collapse of the real estate bubble aggravated the recession in Slovenia (Marn 2010).The Czech Republic suffered from a milder recession than Slovakia and Slovenia and showed a GDP decline of 4.2%, 4.7%, 4.1% and 4.2% for the respective periods. These three countries experienced a rather sharp slump in late 2008 and early 2009, but achieved a relative stabilisation of the GDP from the 2$^{nd}$ quarter onwards though at a significantly lower level than before the crisis. Poland fared better than the other economies in the region. Though experiencing a decline of the growth rate, the Polish economy continued to display positive growth rates of 1.5%, 1.3% and 1.0% in the first three quarters of 2009 (Eurostat 2010b). Poland was the only EU country displaying a GDP growth in 2009. Marek Belka, a former Polish Minister of Finance and presently head of the European department of the IMF, ascribes this relatively good performance to several factors: the importance of the domestic market, the key role of small and medium sized enterprises in the export sector that contrast with the dominance of transnational corporations in the other states. According to him, being relative "backward" paid off for Poland (Belka 2009). The relative position of Polish and Czech exporters vis-à-vis their competitor from the Euro zone states Slovakia and Slovenia benefited to some extent of the depreciation of the currencies of the latter (Workie et al. 2009: 96, Belka 2009).

Hungary had a substantially different development during the crisis compared to the other Visegrád countries. Capital outflows had led to a strong devaluation of the Forint already in October 2008. This caused substantial problems to the Hungarian middle classes, which often had incurred foreign currency debts to purchase homes or consumer durables. Debtors preferred foreign currency debts because they had a low interest rate than Forint credits. The depreciation led to rapidly increasing credit costs. This put the banking sector under pressure. The main channel for the crisis to affect the Hungarian economy was via the international movement of capital and the related pressure to depreciate the currency (Becker 2008, Becker 2009b: 74f, Bohle 2010: 7). Starting with already very weak economic growth before the outbreak of the crisis, GDP declined compared to the same quarter a year before by 5.6%, 6.8%, 7.1% and 5.6% respectively (Eurostat 2010b). The Hungarian recession lasted through all four quarters of 2009 and, thus, was more persistent than in the other Visegrád countries.

This implied that the development of the crisis in Hungary resembled more closely those Central and Eastern European countries that are characterized by dependent financialization. The Baltic countries as well as Bulgaria opted at the beginning or the mid of the 1990s for a very rigid exchange rate regime, in part even in the form of a currency board. A currency board had also existed in Argentina until the financial crisis of 2001/2002. There, a rigid exchange rate regime aimed at a reduction of inflation. In the Baltic countries such exchange rate regimes were intended to contribute to establishing their own currency after having left the Rubel-zone. The rigid exchange rate regimes implied a real appreciation of the domestic currencies what led to a price reduction for imported goods. Although this helped to reduce inflation it hindered substantially industrial development. Latvia experienced a particularly significant fall of the manufacturing share in GDP (Leitner 2010: 48). Romania had experienced a strong appreciation of its currency over the past years. As a consequence, all these countries had to face enormous current account deficits. Generally, the deficit was above 10% of the GDP; in some cases such as Latvia and Bulgaria, it exceeded even 20% of GDP (Becker 2007: 263ff.; Astrov and Pöschl 2009: 355, tab. 5). Against this background external debt soared. In Bulgaria, Estonia and Latvia external debt significantly surpassed the level of 100% of GDP in 2008 (Astrov and Pöschl 2009: 355, tab. 5, see tab. 4) and was often of a short-term nature. The capital inflows usually did not finance productive investment. Particularly in the Baltic countries, capital inflows financed above all a real estate boom, which led to enormous price increases (Brixiova et al. 2009: 9ff, Bohle 2010: 8 f). The middle strata incurred debt – often in foreign currency – to purchase homes and to finance consumption, but continued to receive their earnings in domestic currency (Becker 2009a 100ff). This had led to an enormous financial fragility in this group of countries already well before the beginning of the global crisis (cf. Onaran 2007; Uvalic 2009: 81). Such high levels of external debts were not sustainable anymore for a longer period of time. A devaluation of the currency seemed unavoidable, but this would imply the threat of a banking crisis because of the high indebtedness households, banks and other firms in foreign currency. The recession in Latvia and Estonia started already in early 2008, i.e. before the global crisis intensified in September 2008 (cf. Workie et al. 2009: 88 f.).

The drying up of capital inflows had disastrous consequences for the whole group of countries. The banks are under enormous strain. They face restrictive credit conditions and are highly dependent on refinancing by the mother banks which face difficult conditions at home as well. The real estate bubbles burst (Workie et al. 2009: 89). Debtors are hit hard by the recession and are usually highly exposed in a foreign currency, making them highly vulnerable to currency depreciations resp. devaluations. The governments tried to avoid devaluations or an accelerated depreciation of the national currencies at any cost. This restrictive economic policy led to a deepening of the recession. The Baltic countries suffered by far the deepest recession in the EU. Compared to the respective quarter of the preceding year GDP, growth plummeted by 15.0%, 16.1% and 15.6% and 9.4% in Estonia in the four quarters of 2009. In Latvia GDP growth collapsed by 13.1%, 19.7% and 14.2% and 13.0% on an annual basis during the four quarters of 2009. Latvia was worst hit with reductions of 18.7%, 17.3%, 19.3% and 17.9% (Eurostat 2010b) Economic collapse implied a dramatic worsening of the already dramatic social situation. The seasonally adjusted unemployment rates more than doubled in the Baltic countries within a year and reached almost 23% in Latvia in December 2009 (Eurostat 2010c, Leitner 2010: 51). Romania's productive sectors have relied less on exports than the other East European countries except for Poland. This has dampened the direct impact of the decline of exports (cf. Workie et al. 2009: 101). Due to external imbalances, however, the recession deepened in 2009. In Romania, recession was strongest at the beginning of 2009. It levelled off for two quarters, but deepened again in the fourth quarter. The year-to-year decline surpassed 6% in all four quarters. In Bulgaria the recession is still deepening. Data show an escalating decline of the GDP from -3.5% in the first quarter to -6.2% in the fourth quarter 2009 compared with same quarters in 2008 (Eurostat 2010b).

Export-orientated countries and financialised economies in Eastern Europe show different macro-economic patterns of recession. While both groups have been hit by a severe decline of exports, private consumption collapsed only in the financialised economies. In some quarters of 2009, they display decline of private consumption in the two-digit range on a year-to-year basis. In Latvia, private consumption was 28.1% lower in the third quarter 2009 than the year before (Eurostat 2010a: T2). This is an indicator of the desperate social situation as well.

## Anti-crisis policies: the centre-periphery divide

In the beginning, the economic policy reactions to the crisis focused on the banking sector. Already in 2007 central banks started to react to the financial crisis beginning in the USA by substantial monetary easing (Lordon 2008:143). Nevertheless, central banks did not prepare for the case of a deepening crisis. For this reason, improvisation and unilateral national attempts to deal with the crisis prevailed when the crisis deepened and smaller and larger banks within the EU from the German Hypo Real Estate to the Fortis-Group in the Benelux countries were distressed in September 2008 (see Becker 2009c).

The first measures were public guarantees for bank deposits. The first government pressing ahead was the Irish government legally guaranteeing all bank deposits. On October 4th, this was followed by the German government, which provided a political declaration to guarantee savings of private households given the threat of the collapse of Hypo Real Estate. The German step induced other governments to follow. A second set of measures included direct support to banks. These measures were generally arranged "on the fast-track" between small groups of the top of the state apparatus (above all from the ministries of finance and the central banks) in co-operation with top representatives of the financial sector. This implied that the form of decision making was highly exclusive. The first measures ranged from public guarantees over injections of capital to substantial state ownership (see Bischoff 2009). Government intervention also reflected strategic aims of economic policy like keeping the national banking sector competitive internationally. After these "fast-track" support measures further institutional measures to disburden the banks from dubious financial assets – i.e. the socialization of private losses – were implemented. The measures ranged from guarantees against losses from highly risky papers (such as in the case of Great Britain) to the creation of bad banks in which banks could deposit their problematic assets (such as in Germany).

Even if the rescue package required the authorisation by the EU commission, the EU reacted relatively late. Moreover, the EU confined itself to the elaboration of a rather general framework. The process of finding a common position was rather cumbersome and dominated by large West European member states. A first meeting on October 4th 2008 convened by the president of the European Council Nicolas Sarkozy was restricted to the four European Members of the G-8 (Germany, France, Great Britain and Italy). The French proposal to establish a European bank rescue package along the lines of the US example was rejected. The framework for the bank rescue packages was set by the member countries of the Euro zone by October 12th 2008. Inter alia, it was agreed that the bankruptcy of systemically relevant banks should be avoided. Most Central and Eastern European member states are not part of the Euro zone and, thus, were not part of this crucial meeting. Their specific problems such as the high refinancing needs of the banks operating in their countries in foreign currency were not part of the action plan (Becker 2009c: 26). The limit for balance of payments credits for European countries which were not members of the Euro zone was expanded from 12 to 25 billion Euros in November 2008 and to 50 billion Euros in March 2009. The increase in the fund was linked to tightened conditionalities that can be imposed by the European Commission (Wehr 2009: 76). Moreover, in February 2009, European and global financial institutions (the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the World Bank) prepared a loan package of 24.5 billion euros (Lang and Schwarzer 2009: 6). These sums have to be compared to the national West European rescue packages (including guarantees), which even in a relative small West European country as the Netherland reached 99 billion Euros (Panetta et al. 2009: 13, tab. 1.2).

The main fiscal burdens stem from the bank rescue packages. The amounts intended to support directly the financial sector provide a very good picture of how the crisis hits the financial sector of different countries differently. The British government’s support to the financial sector is almost as high as the US government support. The British government support - in most cases in the form of guarantees - amounted to 44.1% of GDP. Among the large countries this is by far the highest value. In the US, the support accounts for 7.4% of GDP (Panetta et al. 2009: 13, tab. 1.2). In the Euro zone, the Benelux countries and Ireland are the countries which offer the highest support in relative terms. This is shown by calculations of the European Central Bank, which to a minor degree diverge from data provided by the Bank for International Settlements. Based on support measures which lead directly to government expenditure, government debt is assumed to increase by 18.2% in the Netherlands, by 8.3% in Luxemburg and by 7.4% in Belgium. In Germany the respective figures are 2.9% and in France 3.8% of GDP. The effectively provided guarantees show a similar picture. Ireland has by far the highest value with 214.8%. It is followed by Belgium with 21.0%, Luxemburg 12.8%, Austria 6.6% and Germany with 6.3%. Compared to the whole Euro zone the direct support is assumed to increase the level of public debt by 3.3% and the potential increase of debt due to guarantees reaches 7.5% of GDP (Europäische Zentralbank 2009: 77, tab. 2.). Hence, the support measures for the financial sector are highest in relative terms in the financialized economies, above all in Great Britain and Ireland. The support measures for the financial sector are considerable above the fiscal stimulus packages for 2009 and 2010 which in Western Europe range from 0.2% in Italy to 2.6% in Germany (Watt and Nikolova 2009: 12, tab. 2). This reflects priorities very clearly.

Indeed, the stimulation of the credit mechanism and the restoration of the inflation of financial assets seem to have the highest priority. This corresponds with the interests of particular capitalist groups within the financial sector but also with parts of the upper middle classes. Moreover, this is compatible with the export oriented fractions of capital in the neo-mercantilist countries which hope that the measures will revive the economy and their exports. Based on this constellation the corrections in the regulation of the financial market are restricted to a relatively narrow framework and mainly address the equity capital regulations. Proposals going beyond that are met with intense resistance by the City of London and the British government.

Since the effectiveness of monetary policies proved to be quite limited in the crisis, the question of expansive fiscal policies has come to the fore. However, fiscal stimuli have been rather small in the EU compared with other big international players like China (Sdogati 2009: 267 f.). At the level of the European Union as well as within the member states the fiscal measures to slow the economic downturn were contested. The EU treaties are anti-Keynesian. This is particularly obvious in the case of the growth and stability pact which limits the fiscal deficit and sets a maximum level of public debt relative to GDP for the member countries. Although the pact is implemented more flexibly in the crisis, it has not been abandoned. In the crisis Germany even decided to legally implement the so-called “debt break” which will lead to even more fiscal restrictions. A co-ordinated anti-cyclical policy within the EU is refused in particular by the British and the German government and by most Central and Eastern European countries. Against this background, in November 2008 the proposal of the European Commission proposed a fiscal stimulus of 200 billion euros which to a very large extent consists of national programmes.

In Western Europe the fiscal stimulus was generally rather small. In some of the financialized economies the industrial sector is so small that a fiscal stimulus has only a very limited impact. Countries with a strong neo-mercantilist orientation such as Germany expect a stimulus above all from additional demand for their exports and it is difficult to succeed politically with a proposal to stimulate the domestic market. Moreover, in many cases tax reductions or similar measures represent more than half of the stimulus packages. In Germany, these measures on the earning side of the budget account for 54%. In the Scandinavian countries, the UK and Austria the share amounts to over two thirds

(Watt and Nikolova 2009: 12, tab. 2). Steps towards a reconversion of industries with high overcapacities and an accentuated ecological problematic are hardly observed, but measures to improve thermal insulation are. Unemployment benefits and social assistance are not increased substantially although these measures would have a strong positive impact on internal demand. In this respect, the fiscal measures tend to conserve existing structures. In Ireland where the financial sector has been hit particularly hard by the crisis, the government has taken some highly restrictive measures in order to contain the deficit. In early 2010, governments in Southern Europe (Greece, Spain and Portugal) got under increasing pressure to adopt pro-cyclical fiscal policies and restrictive wage policies. Though fiscal deficits were invoked as the reason, the demands seem to be in fact mainly targeted at a reduction of the current account deficits. The debt structures of the three countries differ, but they share the trait of high current account deficits (cf. Becker 2010, Boone 2010: 118, graph 4). Greece was the first target of these pressures. Greece displays the highest public debt and is highly dependent on external finance for refinancing its debt (Švihlíková 2010). After the Greek government admitted a much higher public deficit than earlier released manipulated figures had shown, it faced increasingly strong pressures from financial capital, rating agencies and the European Commission in order to adopt highly restrictive fiscal measures. In the end, the European Commission obliged the Greek government to adopt highly pro-cyclical fiscal policies. These were focused on public sector wage cuts and welfare cuts though they included increases of taxes as well (Kontogiannis 2010: 2). The European Commission austerity programme for Greece has the same design as traditional IMF programmes. So far, major Euro zone governments want to keep the IMF out of Greece because an IMF programme would weaken the euro in its currency competition with US dollar. However, Euro zone support measures for Greece continued to be vaguely defined. The German government proved to be quite reluctant to agree to Euro zone support programmes for Euro zone member states in acute crisis. In addition, the German government is quite unwilling to abandon the neo-mercantilist policies and to adopt a more expansionary course, which would reduce the pressure on member states with a (high) current account deficit (Becker 2010, Wolf 2010: 11). There is even an incipient debate in Germany whether it would not be better to get rid of economically fragile Euro zone states (cf. Becker 2010). This debate is not free from racist clichés. Thus, an economic and political faultline has emerged in the Euro zone.

It is likely that Spain and Portugal will face increasing pressures of the same nature. In spite of intense internal contestation, the PSOE government adopted anti-cyclical measure in the face of the severe recession (Fernández Steinko 2009: 56 f). Meanwhile, its expansionary policies are contested by rating agencies as well. Thus, there are immense pressures on the Spanish government to change its course. In Portugal, the Socialist minority government presented a "Programa de Estabilidade e Crescimento 2010-2013" which contains highly restrictive measures in the fields of public employment and public sector wages as well as social security payments (República Portuguesa 2010: 17 ff). Some taxes are to be increased. Some of the measures of the revenue side have a progressive element (ibid: 34 ff). In some of the Southern European countries, the austerity policies have met with strong social protests and strikes of the public sector trade unions.

A policy divide is emerging in Eastern Europe as well. In Central and Eastern Europe, mild anti-cyclical policies have been an exception. Anti-cyclical measures have mainly been taken by small export-orientated countries where social democratic parties are part of the governments (Becker 2009a). It was probably the Slovak government that adopted the clearest anti-cyclical course. In the Czech Republic, where a broadly based transitional government was installed after the right-wing coalition had lost its parliamentary majority, policies have been hotly contested between the Social democracy on the one hand and the right wing parties on the other hand. Social democracy got some mild anti-cyclical adopted and blocked some of the pro-cyclical measures proposed by the right-wing parties (cf. Niedermayer 2009). Liberal Czech journalists paint a picture of imminent doom and possible state bankruptcy (Sachr and Švehla 2009). Czech Social democracy responds to such scenarios that the level of public debt is only about 35% of GDP at the moment and that the level of budget deficit is appropriate for the economic situation and that it is not high compared with neighbouring countries (Rovenský 2009: 8). It clearly advocates a more progressive taxation (Paroubek 2010). It will depend on the elections in 2010 which course the Czech government will take in the future. In Poland, there would be space for anti-cyclical policies. However, the ultra-liberal

Polish government has adopted a fairly conventional line. It uses the supposed need to balance the budget as an excuse for a further wave of privatisations (Rostowski 2009).

Central and Eastern European countries characterized by dependent financialization show a very strong cyclical policy. Economic policy in these countries is not guided by the idea of alleviating the recession but aims at avoiding a devaluation of the national currency at any price. This is mainly the interest of Western European banks being active in those countries. A devaluation of the currency implies a devaluation of their assets. Moreover, a strong devaluation causes severe payment problems to the middle classes which are often highly indebted in foreign currency. For this reason also the middle classes are in favour of this type of economic policy. The interests of the productive sectors of the economy which at least in part could benefit from devaluation do not play a significant role (Becker 2009a).

This type of economic policy in Central and Eastern Europe has caused social protests and strikes (e.g. in the public sector) in several countries. Nevertheless, it is favoured by the International Monetary Fund (IMF) and by the European Commission. Hungary, Latvia and Romania have already signed agreements with the IMF which require such economic policy guidelines (Becker 2009a: 102ff.; Becker 2009b; Galgóczi 2009: 5f., Leitner 2010: 50). In the process of fixing the guidelines, the IMF has been more visible than the European Commission. Moreover, the IMF is running the financial support programmes. Notwithstanding, in the case Latvia, the European Commission and the Swedish government played a very active role in tightening of the restrictive fiscal policy in autumn 2009. Contrary to former programmes in the Global South, the IMF policy does not aim at a bail-out of foreign banks and creditors. In Central and Eastern Europe banks are to be kept in the countries. The main reason for this policy modification may be the fact that the banking sector in Central and Eastern Europe is almost completely dominated by foreign banks (what was not the case in Latin America or Southeast Asia), a strategic position that the external banks want to preserve. The fiscal policy is extremely restrictive and is focussing on nominal resp. real wage cuts for public employees and pensions as well as on a reduction of social spending. In Latvia, the social effects are very dramatic. The unemployment rate reached 23% at the end of 2009. In the Eastern parts of the country, it surpassed even the 30%. A large number of the unemployed persons do not receive any unemployment benefit anymore (Leitner 2010: 51). The IMF demanded and achieved a deepening of restrictive fiscal policy in spring 2009. Many schools and 32 out of 56 hospitals are to be closed down and high fees for patients are to be introduced (Wolff 2009). The pro-cyclical policies have not remedied the credit crisis. In Latvia, 17% of private sector debt was not serviced correctly at the end of 2009 (Leitner 2010: 51). The pro-cyclical policies do not seem to be aimed primarily at the debt issue, but at the reduction of the current account deficit. The wage reductions should reduce demand for imports and improve the competitiveness on external markets. The supposed reduction of the fiscal deficit, which indeed is widening due to a fiscally invoked deepening of the recession, was intended the bring these countries closer to the Euro zone. This is explicitly stated by Latvia (IMF 2008). In an interview with the Polish daily Gazeta Wyborza in December 2009, the Estonian President Toomas Hendrik Ilves declared that Estonia would like to join the Euro zone in 2011 (Pawlicki 2009). Likewise, the Bulgarian government sees the adoption of the euro as the exit option from the currency board and as a preventive device against a currency crisis (Martens 2009).

Although the drastic recession has led to an improvement of the current account balance in the Baltic countries (Eurostat 2010d), it may be doubted whether the high trade deficits can be permanently reduced without a devaluation of the currency. Moreover, the deep recession is further destroying the weak productive structure of these countries. A steep fall of GDP, such as that suffered by the Baltic countries, cause substantial payment problems for debtors even without devaluation. The Euro zone is not the universal remedy as it is seen by IMF's economists or by the neo-liberal establishment. In fact, the Euro zone is suffering from strong tensions between current account surplus countries and deficit countries right now. Moreover, given the current exchange rate, the productive sectors of the Baltic and South Eastern European Countries are not able to compete on foreign markets.

Before the build-up of pressure against Greece, the economic anti-crisis policies in the Baltic countries and the South Eastern European EU member states had been more similar to peripheral Eastern European countries which are not members of the EU (Ukraine, Serbia, Croatia, and Bosnia-Herzegovina) than to the rest of the EU. This induced Béla Galgóczi (2009: 6), researcher at the

European Trade Union Institute, to conclude: “Indeed, the lack of proper European responses to the crisis with its severe impact on the new member states could well call the future of a united Europe into question.” However, there has meanwhile emerged a more general centre-periphery policy divide in the EU. In the periphery, the policies have an increasingly pro-cyclical and deflationary outlook. Deflationary tendencies in the periphery might spill-over to the centre economies. This would be the way into long-term stagnation for the whole EU.

## Conclusions

In the EU, the crisis has taken different shapes. Partly, the crisis can be characterised as a crisis of overaccumulation. This type of crisis has been particularly pronounced in the highly financialised economies. Partly, the crisis can be characterised as a crisis of overproduction or underconsumption which has its roots in the increasingly unequal distribution of incomes. For a certain times, the emergence of this type of crisis had been hidden behind a veil of increasing household indebtness. Highly export-orientated economies profited from increasing private debt in the financialised economies. In the primarily financialised economies, the financial and/or real estate sectors have been at the centre of the crisis. In the “model” countries of financialization – both in West (Great Britain and Spain) and East (Baltic countries) – the recession has been particularly protracted. In these countries, it is not clear which sectors might sustain a recovery. In the predominantly export-orientated economies, the collapse of exports has been the major factor of the recession which, in many cases, was very sharp. They have experienced an earlier, though very shaky stabilization of economic activity at a level that is considerably below the pre-crisis level. With the exception of Poland and the Czech Republic, East European countries have been affected in a rather grave manner. The recession is usually more pronounced in the countries where there are high foreign exchange debts and growth had been finance-led. The Baltic countries have suffered from a collapse of their economic model. A similar fate seems likely for Bulgaria.

There has not been a unified EU response to the crisis. The EU limited itself to establishing a framework for rescue measures for the banking sector. This framework was designed at the level of the Euro zone members. Thus, it excluded most East European states and did not take into account their specific situation of needing foreign exchange in order to prop up their banking sector. The EU treaties have made no provisions for EU-wide anti-cycling fiscal policies. The European Commission has interpreted the fiscal criteria that originally had been established by the Maastricht treaty and have been reaffirmed in the Lisbon treaty in a less rigid manner than in the past. Most West European states have pursued a mild version of anti-cyclical policies. However, some more peripheral West European states particularly hard hit by the crisis or suffering from structural current account deficits have adopted pro-cyclical policies or have been pressured by the European Commission and rating agencies to do so. Ireland and Greece fall into this category, Spain and Portugal are under increasing pressure to abandon to adopt restrictive fiscal and wage policies. In Eastern Europe, it was only a few export-orientated states that adopted anti-cyclical measures. In the East European countries that display a high degree of informal euroization and were characterised by high dependence on the import of capital, the governments have adopted highly pro-cyclical policies. These policies have been demanded by the IMF and the European Commission. At times, important EU creditor states, like Sweden, have pushed for highly restrictive policies, too. Governments of countries with neo-mercantilist strategies, esp. Germany, are unwilling to abandon their aggressive export policies and are reluctant to support current account deficit countries in acute crisis. A policy divide has emerged in the EU. One consequence of the crisis is a widening gap between centre and periphery in the EU. The gap between centre and periphery has led to political tensions as well. In Germany, there has begun a debate whether it would not be better to get rid of the weaker economies of the euro zone. In Greece, EU flags were burnt during social protests.

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