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Who's Afraid of the Big Bad Wolf? Rethinking the Core and Periphery in the Eurozone Crisis

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Abstract Recent literature on the eurozone crisis has begun to rethink those explanations of its origins that rely on narratives stressing the 'immaturity' of political and economic governance in the countries of the European periphery. These narratives are typically challenged by frameworks which understand the eurozone as a region characterised by a 'beggar-thy-neighbour' hierarchy between the economic growth of Germany, which leads to precarious, 'financialised' growth in the periphery. Yet, this article shows that core-periphery scholarship is unable to adequately challenge the immaturity thesis due to its preoccupation with German 'victimisation' of the European periphery. By exploring country-specific direction of trade and capital lending statistics, I shows that there is little basis for the argument that Germany is to blame for the origins of the eurozone crisis in the individual countries of the European Periphery. This article shows that by bringing core-periphery analysis into dialogue with Comparative Political Economy, a critical approach to the Eurozone crisis can be developed which leaves behind the myth of the German 'big bad wolf'. Instead, I show that imbalances between the core and periphery are a product of a flawed construction of the Single Market and Economic and Monetary Union.

Keywords: Eurozone Crisis; Germany; European Periphery; Core-Periphery; Greece; Ireland; Portugal; Italy; Spain; Comparative Political Economy

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Introduction: The 'PIIGS' and the German 'big bad wolf'

Much like their namesakes in the fairy tale, the (regrettably labelled) European 'PIIGS'¹ have been widely understood to have built their houses out of straw. As the story goes, the causes of the eurozone crisis originate from the supposed hubris, profligacy, corruption, and general lack of mature political culture in countries of the European periphery.² However, the above 'immaturity thesis' (Dooley 2014) is increasingly and strongly challenged by a number of approaches which cast Germany as the 'big bad wolf' of the tale (see especially Lapavitsas et al. 2012). While the above notions of peripheral 'immaturity' remain widespread and influential, somewhat surprisingly, scholars have noted that narratives expressed in Western media have increasingly focused on the problems with Germany's, rather than the European periphery's behaviour (Cross and Ma 2015; Adler-Nissen 2015, Lapavitsas and Flassbeck 2016). On the one hand, Germany has been portrayed as iron-fisted and intransigent in its handling of the crisis (Cross and Ma 2015), as irrationally committing to its ordoliberal values even when this commitment threatens the very existence of the European project (Matthijs 2016a). On the other hand, Germany is accused of causing the crisis in the first place by 'begging its neighbour' in the European periphery in order to reproduce its export-led model of growth, and of uniquely and perhaps deliberately benefitting from the euro at the inevitable expense of its fellow member states (Lapavitsas et al. 2012; Moravcsik 2012). The centrality of Germany in the origins, escalation, and intractability of the crisis has become more and more commonplace in ongoing debates. By replacing one scapegoat with another, this 'beggar-thy-neighbour' narrative aims to challenge existing assumptions by blaming the German 'big bad wolf' instead of the 'PIIGS'.

As welcome as challenges are to the ‘immaturity thesis’, this paper shows that ‘beggar-thy-neighbour’ narratives are just as problematic, and indeed, run into many of the same problems as narratives of peripheral ‘immaturity’. While the immaturity thesis has staged a problematic morality play between Northern ‘saints’ and Southern ‘sinners’ (Matthijs and McNamara 2015; Fourcade 2013; Adler-Nissen 2015), ‘beggar-thy-neighbour’ narratives will be shown to similarly preoccupied with narratives of blame, and lacking in empirical support. The key contribution of this article is to show that that critical literature on the eurozone crisis can, and should, move beyond assumptions of Germany as the ‘big bad wolf’ in order to open up the space for the development a genuinely critical rethinking of the origins of the eurozone crisis. Namely, I show how a specific project of European integration – rather than German domination - has been generative of debt led growth and falling competitiveness in the European periphery.

This paper comprises of three main sections. The first section reviews the key claims made by literature which prioritises the role of core EMU, especially Germany, in the origins of the eurozone crisis and interprets core-periphery analysis as consisting of three analytical steps. Section two presents empirical evidence; namely typically overlooked, country-specific trade balances and capital flows between the Core EMU countries (Germany, France, Belgium, and the Netherlands) and the periphery (Portugal, Ireland, Greece, and Spain). From this I present two important conclusions. One, far from ‘beggaring its neighbour’, there is little evidence for a link between the economic success of core EMU or Germany and the competitiveness problems faced by the European periphery. Two, although Germany was an important lender to the periphery in the run up to the crisis, it was often not the most important. Capital flows have always been a bigger problem than Germany alone. The final section proposes a way forward for core-periphery analysis by rethinking its key analytical

steps. I show that jettisoning the problematic ‘beggar-thy-neighbour’ assumptions can deepen existing debates on the core and periphery and the eurozone crisis. I show how this is possible through the closer engagement of critical perspectives with Comparative Political Economists such as Alison Johnston (2016), Bob Hancké (2013), and others (including Johnston and Regan 2016; Hall 2012; 2014; Regan 2015; Lapavitsas and Powell 2013). Core-periphery analysis can provide a compelling critique of the institutional set up of EMU and the Single Market if its preoccupations with Germany are left behind. Naturally, we cannot fully understand the eurozone crisis without engaging in debates surrounding German power, current account imbalances, international capital flows, and issues around hegemony and inequality in Europe. I show that moving beyond assumptions of Germany as the ‘big bad wolf’ is necessary to open up the space for the development a genuinely critical rethinking of these important issues.

Huffing and puffing: Germany and ‘beggar-thy-neighbour’ narratives

In late December 2013, responding disapprovingly to a question regarding relief on Ireland’s bank debt, former European Commission President José Manuel Barroso rearticulated a familiar narrative of the eurozone crisis. The euro was the ‘victim’ of irresponsible economic and political governance in the periphery, rather than the other way around (Independent.ie 2013). Barroso’s answer is underpinned by the ‘immaturity thesis’; an explanation of the causes of the eurozone crisis which places the perceived failings of the European periphery at the heart of its analysis. Emerging early in the crisis as the ‘winning narrative’ (Matthijs and McNamara 2015, 230), the immaturity thesis was embraced in Germany and by wider political and public discourse. It shut down plausible counter-narratives of what went wrong and

ended up driving the initial debate and solutions offered; namely 'long overdue' pain and penance for the fiscally immature 'PIIGS' (ibid; Fourcade 2013).

If not refuted nor declining in influence, the immaturity thesis has been comprehensively challenged in existing literature. It has been criticised (non-exhaustively) for its neglect of the international dimensions of the crisis (Dooley 2014), a myopic focus on peripheral exceptionalism (Tsakalotos 2014), for contributing to xenophobia towards the so-called 'PIIGS' (Lavdas, Litsas, and Skiadas 2013, 175; Kouvélakis 2012, xix; Marder 2012), self-fulfilling prophecies of negative market reaction³ (Brazys and Hardiman 2013), and clearly damaging policy prescriptions which even the IMF has admitted on now multiple occasions were a mistake.⁴

In part as a response to the above limitations, a number of important alternatives to the immaturity thesis have emerged in recent years. It has especially been challenged by approaches which view core euro area countries⁵, but especially Germany, as the 'big bad wolf' of the story; focusing on how Northern economic dominance of the eurozone contributed directly or indirectly to the so-called 'PIIGS' vulnerabilities. In this section I outline the different strands of this challenge to the immaturity thesis, before zooming in on the key analytical steps of 'core-periphery analysis', which represents the most exacting critique of Germany's role in the crisis.

Germany, the Core, and the Eurozone Crisis

Three major strands of argument can be identified regarding Germany's role in the eurozone crisis. The first strand focuses on the ways in which Germany's problematic *response* to the eurozone crisis is a big part of the reasons why the crisis took on the magnitude that it did.⁶ Matthijs (2016a), for instance, outlines a number of episodes where German politicians'

stubborn preference for the 'southern sinners' myth measurably contributed to acute instances of negative market reaction (Matthijs cites five episodes, see his 2016a piece). It is also well known that German politicians, economists, and powerful institutions such as the Bundesbank and Constitutional Court worked to prevent the ECB from playing the 'lender of last resort' role that the Federal Reserve had in the USA in 2008 and 2009 (Matthijs and Blyth 2011). The ECB did eventually fulfil this role, but many insist that German delays and obstruction allowed the crisis to develop on a scale and scope that it likely wouldn't have otherwise (see Wren-Lewis 2015). Thompson (2013; 2015) draws attention to how highly vulnerable core banks viewed the crisis in the periphery as an opportunity to shift 'the risk of default in the periphery from German and French banks to collective European and other taxpayers' (Thompson 2013, 7). Others such as Bulmer (2014) have contributed to vibrant debates on whether post eurozone-crisis, Germany is emerging as a hegemon, reluctantly or otherwise.⁷

The second strand outlines a more systematic approach, showing how various actions and institutions of Germany, the European periphery, and EMU culminated in a perfect storm. This approach has its origins in Comparative Political Economy (CPE) and does not typically directly refer to Germany 'begging its neighbour' (in contrast to below strand), but rather directs attention to an unfit for purpose project of monetary integration which suited the core 'coordinated market economies' yet was intrinsically damaging for peripheral 'mixed market economies' (Johnston 2016, Hancké 2013, Hall 2012; 2014). I outline this approach in greater detail in section 3.

The third strand argues that not only did Germany benefit from EMU and make a bad situation worse, but that it directly caused the crisis in the periphery in the first place. As

distinct from the other strands which tend to identify root causes at the level of the euro and typically emphasise the negative symbiosis of both core and peripheral institutions (Hall 2014), this critical approach places the blame squarely at the feet of the core; although more often than not, it is the role of Germany which steals the headlines. While core-periphery analysis is not just about Germany, nevertheless, it is Germany that tends to get singled out by this analysis as the main offender. It is this latter and most demanding strand which will be the main focus of this article. Originating from critical political economy (Lapavitsas et al. 2012; Stockhammer 2011), perspectives as diverse as Keynesian (Patomäki 2013; Wolf 2014) post-Keynesian (Dejuán et al. 2013; Cesaratto 2013) and neo-Gramscian (van Apeldoorn 2012) have taken up core-periphery assumptions in their work. The approach has since 'gone mainstream'. Jose Magone, Brigid Laffan, and Christian Schweiger (2016) have recently published an edited volume which explores core-periphery relations in the EU from a variety of perspectives (but see especially Sepos 2016). Andrew Moravcsik's widely cited 2012 piece is one of the most prominent mainstream appropriations of Lapavitsas et al.'s original argument, and Dani Rodrik (2013), Jörg Bibow (2012), Simon Wren-Lewis (2015) Paul Krugman (2013a; 2013b) Martin Wolf (2010), Joseph Stiglitz (2016 254-256), Yanis Varoufakis (2017, 23) and Robert Skidelsky (2014) have all popularised the argument.

As evidenced by its wide take-up from a disparate range of perspectives, German 'beggar-thy-neighbour' notions have emerged as a much needed alternative and touchstone for critical perspectives wishing to challenge the still influential peripheral 'immaturity' thesis. Yet, there has been a clear reluctance from within critical literature on the eurozone crisis to interrogate narratives of Germany 'beggaring its neighbour', as argued elsewhere (Dooley

2014).⁸ Lapavitsas and Flassbeck have gone so far as to accuse a recent criticism of their approach (Storm 2016) of ‘sowing confusion’:

Heterodox voices in Europe certainly need conviction... but they need clarity even more. ...Simply put, there could be no coherent explanation of Eurozone failure that left diverging nominal unit labour costs [between Germany and the periphery] out of account (2016).

In contrast, I show that critical or heterodox perspectives on the origins of the eurozone crisis have much to gain from interrogating, and ultimately, from jettisoning ‘beggar-thy-neighbour’ narratives. To show this, I first present core-periphery analysis as involving three key analytical steps. Before showing their limits in section two, and the potential of a revised set of analytical steps in section three, these three analytical steps are explored in turn.

Step-1: Tailoring Europe to Germany

The first step focuses on how the ‘uploading’ of German values to the EU level contributed to the emergence of the eurozone crisis in the first place.⁹ As Matthijs (2016a, 389) notes, Germany was only willing to abandon its highly symbolic Deutschemark and Bundesbank and participate in EMU if the rest of Europe agreed to create the euro in a German ordoliberal image (see also Heipertz and Verdun 2004; De Grauwe 1996, 1094). As a result, a ‘one size fits all’ model of European integration was designed with German interests firmly in mind (Thompson 2013).

Tailoring EMU to Germany contributed to the origins of the eurozone crisis in a number of ways. The design flaws of EMU are well known; it was constructed with ‘forgotten’ financial, fiscal, and governance unions (Mathhijis and Blyth 2015, 1-2), it removed sovereignty of monetary policy from peripheral states, prevented them from making use of currency

devaluations, and imposed a single, blanket interest rate which was always too low for countries that are booming and too high for those in recession.¹⁰

In addition, while all European economies attempted to adjust to the emerging institutions and arrangements of 'German Europe' (Beck 2013) not all were capable of doing so successfully (Lapavitsas et al. 2012, 4; Bellofiore et al. 2010, 136). Crucially, the periphery was unable to emulate the German model of excessive wage moderation and low inflation and thus lost competitiveness and generated current account deficits (Lapavitsas et al. 2012, 4).

This first step shows a foundational inequality in the 'one size fits all' architecture of EMU which skews in favour of the core, and against the periphery. A particular implication is important to note at this step of the argument. It is not analytically necessary to establish any kind of co-constitutive interaction between the core, or Germany, and periphery. Rather, it is enough to recognise that the common pressure of European integration imposed different kinds and levels of costs across the core and periphery (Thompson 2013; Stockhammer 2012). Although most writers take the 'core-periphery' thesis beyond this first step, I show in the following sections that there is no imperative to do so, and a preferable alternative departure point exists which focuses on the asymmetric impact of European integration, rather than German 'domination'.¹¹

Step-2: Current account imbalances

The second step focuses on current account imbalances and begins to explain the interaction between the 'export-led' core and the 'debt-led' periphery by more explicitly outlining how EMU has 'facilitated the domination of the eurozone by Germany at the expense of the

peripheral economies' (Lapavitsas et al. 2012, 4). Moravcsik (2012) and others focus on relative unit labour costs (4-6; and see also Lapavitsas et al. 2012; Bellofiore 2013). During the period of their euro-membership Greece, Italy, Portugal, and Spain saw their unit labour costs rise by one percent per year over target, slowly rendering their economies uncompetitive. During the very same period Germany experienced sluggish wage growth, weak domestic consumption, labour market reforms, and cuts in government spending. The result was that German unit labour costs rose by average of less than one percent a year, well below the European Central Bank inflation target of 2 percent (Moravcsik 2012, 4).¹² For Moravcsik this competitiveness gap is about much more than Germany reaping the 'well deserved fruit of a decade of domestic reform and restraint', rather, 'Germany's wage suppression was excessive, fuelling both trade imbalances and imprudent international lending... Bankruptcy in southern Europe and prosperity in Germany are two sides of the same coin' (Moravcsik 2012, 4-6; Flassbeck and Lapavitsas 2015,32).

The economic success of Germany is understood to be made possible due to EMU being characterised by a structural balance of payments asymmetry between the core and periphery. 'In other words', as Young and Semmler write in their own account of this position:

[C]ountries with current account surpluses *need* countries with current account deficits. This is particularly true in the Eurozone where there is no mechanism for tax and transfer policies to provide for regional equalization and stability as is the case in federal countries like the U.S... [t]hus the Eurozone could not function at all if all members tried to emulate Germany ([emphasis added] (2011,9).

Thus, current account deficits in the periphery are understood to be the 'mirror' of Germany's current account surpluses (Lapavitsas et al. 2012, 4). As Moravcsik puts it, '[f]orty percent of [Germany's trade surplus] comes from German trade with the eurozone – a total roughly equal to the combined deficits of the crisis countries' (2012, 4; Lapavitsas et al. 2012,

30; see also Stiglitz 2016, 253). EMU created the conditions whereby Europe as a whole became 'the primary market supporting Germany's positive net exports and profits for its big business...[and] these economic policies and industrial behaviours were the pillars of the resurrection of Germany's export-led capitalism during the 2000s' (Bellofiore 2013, 504).

Moreover, because the competitiveness of Germany's export model rests on low wages, low inflation and low domestic consumption, Germany has effectively exported high unit labour costs, high inflation, and domestic demand/import dependent patterns of economic growth into the periphery. Within such an arrangement, the eurozone periphery fulfils a crucial role for Germany's model of growth, as Bellofiore notes that Germany has a 'historical need to export to Southern Europe, where it realised the largest part of its profits' (2013, 505). This is the crux of core-periphery analysis, '[t]he worsening of the current account balance of the peripheral countries emerges *pari passu* with the improving surplus of the central countries' (Cesaratto and Stirati 2011, 59). For Lapavistas et al., '[t]he euro is nothing less than a 'beggar-thy-neighbour' policy for Germany' (2012, 30; Stiglitz 2016, 253).

Step-3: Capital account imbalances

The third analytical step theorises the way in which EMU has led to enormous financial imbalances stemming from capital flows from the core to the periphery. The crisis originated in easier access for a number of peripheral states to European financial markets, due to the adoption of the euro, and the new financial and monetary institutions and innovations that accompanied such access (Cesaratto 2013, 114). Massive capital flows went from the core to the periphery, which funded credit-financed consumption growth in Spain and Ireland, and contributed to the growth of public spending in Greece (Cesaratto 2013, 114; Moravcsik 2012, 5).

Germany is argued to have 'recycled' its current account surpluses into capital exports, 'primarily bank lending and foreign direct investment ...the main recipient of which has been the eurozone, including the periphery' (Lapavitsas et al. 2012, 4). This has had two important effects. Firstly, large capital inflows have resulted in capital account surpluses in the periphery, directly contributing to public and private indebtedness, precipitating the sovereign debt crisis (Lapavitsas et al. 2012, 5). Secondly, capital outflows from the core into the periphery have led to the promotion of financialised growth via investment bubbles and consumer booms. As such, the 'export led model' of growth in the core has directly led to the 'debt led' model of growth in the periphery (Stockhammer 2012; Cesaratto 2013, 113). Accordingly, peripheral import dependency, and persistent external imbalances becomes financed, and thereby constantly reproduced by capital inflows from the core (Bellofiore et al. 2010, 136-7; Becker and Jäger 2012, 183). In other words, the current account surpluses that are necessary to the success of German neomercantalism, become financed by German lending to the periphery. This not only creates new vulnerabilities and fault lines for the periphery via the worsening of their balance of payments, but it also leads to the 'destruction of their productive base[s]' (Milios and Sotiropoulos 2010, 227).

The limits of core-periphery analysis

Core-periphery analysis is a highly influential critique of the immaturity thesis (Fouskas and Dimoulas 2013, 144), which makes it possible to argue that the current account deficits of the periphery have their origins in Berlin, not Athens. In other words, core and German dominance of the eurozone didn't leave the so-called 'PIIGS' with any option but to build their economies out of straw. In a way that domestic-level accounts of the European periphery

tend not to, the literature reviewed above brings issues of German hegemony, current account imbalances, capital flows, and the unequal/hierarchical nature of EMU to the fore. Nevertheless, as important as these issues are, core-periphery analysis suffers from some serious empirical limitations, as I now outline.

Empirical limits I: Current account imbalances

Claims that current account surpluses in the core are the ‘mirror’ of those in the periphery rest on three major assumptions. One, relative unit labour costs are the primary determinant of divergences in competitiveness between the core and periphery. Two, most of German trade takes place within the eurozone and that the core ‘needs’ the periphery (Young and Semmler 2011, 9) to generate its current account surpluses. Three, the periphery ‘lost out’ on export market share to Germany/the core. This all seems intuitive, as figure 1 shows, because the eurozone is indeed clearly characterised by current account surpluses in the core, and deficits in the periphery.

[INSERT FIGURE 1 HERE]

However, it is one thing to be able to recognise that the eurozone is characterised by deficit countries and surplus countries, and quite another to argue that one is responsible for the other (Milios and Sotiropoulos 2010, 227; Young and Semmler 2011; Dooley 2014). In this section I show that the assumed connection between Core/German current account surpluses and the deficits in the periphery is tenuous, for three reasons.

First, unit labour costs aren’t everything. A growing literature shows that relative unit labour costs are a misleading explanation for the current account imbalances displayed in figure 1 (Storm 2015; 2016, Jones 2015; 2016, Wyplosz 2013), for two reasons. On the one

hand, Storm (2016) shows that export prices are far less responsive to changes in unit labour costs than core-periphery analysis assumes, making up less than 25 percent of the gross output price. Germany's competitive advantage and current account surplus has much more to do with non-price (technology-based) competitiveness and its superior links to trading partners in the core and outside of Europe (such as with the USA and China) (Storm 2016, 7-8). On the other hand, current account deficits in the periphery are more likely a sign of a growth in imports, fuelled by capital inflows, than a fall in exports. This is evidenced, by Storm, through the fact that current account deficits in the crisis countries precede rising unit labour costs (see Storm 2016, 7-8).¹³

Second, German exports to most countries in the eurozone periphery are in fact marginal, and are unlikely to account for the imbalances posited by Lapavitsas et al. (Milios and Sotiropoulos 2010, 234-5; Dooley 2014, 945; Bastasin 2012, 156, 157). Core-periphery literature tends to overlook *country specific* balances of trade. For example, if the periphery were structurally necessary to Germany or other core economies as a market for its exports, we would expect that trade to peripheral economies, such as Portugal, Ireland, Greece, Spain, and Italy would be significant. However, as I show in figure 2, the reality is much more complicated.

[INSERT FIGURE 2 HERE]

Figure 2 shows Germany's trade balances with its top three partners, the four bailout countries, plus 'guilty by association' Italy for the boom period 2003-2007. It shows that most of the peripheral eurozone countries account for a marginal percentage of Germany's trade surplus since the introduction of the euro. In fact, whereas the top three destinations of German exports (France, the US, and UK) account for 52.16 percent of the German trade

surplus, Portugal, Ireland, and Greece account for only 3.03 per cent of Germany's overall trade surplus, and in fact, this includes a small trade *deficit* with Ireland. However, it must be noted that Germany has a considerably higher trade surplus with both Spain (13.49 percent) and Italy (10.77 percent) than the other three peripheral countries considered here, and when accounting for this, the five peripheral economies account for 27.29 percent of Germany's trade surplus altogether, or just about half of the contribution from core and extra-EMU trading partners. This is clearly substantial, but nevertheless, reflects the relative importance core-EMU and extra-EU partners. Spain and Italy are the next most important, but deficits in Portugal, Ireland, and Greece can in no way be said to be the 'mirror' of Germany's surplus.

The picture is complicated further by exploring the rest of the core, as figures 3-5 show.¹⁴

[Insert Figure 3 here].

[Insert figure 4 here].

[Insert Figure 5 here].

Belgium (Figure 3), the Netherlands (Figure 4), and Finland (Figure 5) are all surplus countries. Belgium's top three trade surpluses come from France (20.24 billion dollars, or 110.19 percent of its world surplus), Germany (9.41 billion dollars; 51.21 percent), and Italy (6.87 billion dollars; 37.42 percent). Belgium also runs a substantial trade surplus against Spain (6.75 billion dollars; 36.75 percent). Greece accounts for 10.5 percent of Belgium's world surplus (1.93 billion dollars), Portugal for 2.85 percent (0.52 billion dollars), and Belgium has a relatively huge trade deficit of 15.53 billion dollars with Ireland (or -84.53 percent of its world surplus). The Netherlands (Figure 4) has large trade surpluses with Germany (39.56

billion; 91.23 percent of world surplus), France (21.57 billion; 49.75 percent) and Belgium (18.34 billion; 42.30 percent). Similar to the other three core cases, Italy (15.15 billion; 34.95 percent) and Spain (8.86 billion; 20.44 percent) make substantial contributions to the Dutch world surplus. Greece (2.77 billion; 6.39 percent of its world surplus), Portugal (1.81 billion; 4.17 percent), and Ireland (0.89 billion of a trade deficit; -2.06 percent of surplus) feature as relatively small in comparison. Similar to the others, Finland has a relatively large trade surplus with Spain (1.0 billion; 11.43 percent of Finland's world surplus), much smaller surpluses with Greece (0.26 billion; 2.93 percent), Italy (0.19 billion; 2.19 percent), Portugal (0.06 billion; 0.64 percent), and a small deficit with Ireland (0.21 billion; -2.37 percent).

In spite of being a deficit country, France is included as part of the 'core' in most core-periphery analysis, including Lapavitsas et al. (2012). Austria and Luxembourg are similar examples of 'Northern' or core deficit countries.¹⁵ As Table 1 shows, France's top three positive trade balances are with the United Kingdom (8.58 billion; 1.82 percent of total exports), Spain (8.55 billion; 1.81 percent of total exports), and the United States (6.78 billion; 1.44 percent of total exports). France runs a small trade surplus with Greece of 3.32 billion (0.70 percent of total exports), and a smaller surplus with Portugal of 1.08 billion (0.23 percent). France has a trade deficit with Ireland of 3.59 billion (or -0.76 percent of total exports), and France has 1.4 billion of a trade deficit with Italy (or -0.3 percent of total exports). Aside from a relatively large surplus vis-à-vis Spain, France's trade relationship with the periphery is a varied tale of small deficits and smaller surpluses.

[Insert Table 1 Here]

Austria's top three positive trade balances (Table 1) are with the United States (4.2 billion; 3.27 percent of total exports), Italy (2.6 billion; 2.03 percent of total exports) and the

United Kingdom (2.5 billion; 1.98 percent of total exports). Austria has a relatively large surplus with Spain of 1.98 billion (1.54 percent of total exports), and a smaller surplus with Greece (0.59 billion; 0.46 percent) and Portugal (0.27 billion; 0.21 percent of total exports), and like the other cases, a deficit with Ireland (0.19 billion; -0.15 percent of total exports). For Luxembourg (Table 1), France (1.01 billion; 5.32 percent of total exports), the UK (0.95 billion; 5.03 percent of total exports), and Italy (0.95 billion; 5.0 percent of total exports) are the top three positive trade balances, with Spain close behind (0.93 billion; 4.91 percent of total exports). Portugal (0.23 billion; 1.24 percent of total exports), and Greece (0.09 billion; 0.49 percent of total exports) are again relatively small, and Luxembourg runs a trade deficit against Ireland of 0.03 billion (-0.17 percent of total exports). For these three northern deficit countries, Italy and Spain tend to contribute relatively significant positive balances (although France runs a deficit with Italy), Portugal and Greece contribute modest or minor positive balances, and Ireland contributes to their deficits. Crucially, for France, Austria, and Belgium, there is no overall trade surplus for the periphery to contribute to.

Taking these seven cases together reveals a more complex picture than the 'beggarthy-neighbour' dynamic core-periphery analysis proposes. Core EMU tends to generate substantial trade surpluses vis-à-vis *certain* peripheral countries, namely the large economies of Spain and Italy. However, it is core EMU, non-EMU, and non-EU trading partners which are most important in each case. Crucial 'crisis' countries such as Greece barely feature as source of trade surpluses, or as positive trade balances. The same goes for Portugal, and Ireland generates trade surpluses against each core country. While the figures for Spain and Italy are far from insignificant, in terms of visible balances of trade, it is clearly misleading to argue that peripheral current account deficits are the 'structural mirror' of core 'surpluses'. This is

intuitive when it is considered that Germany's balance of trade did not decline from 2009 onwards, as would be expected, based on the premises of the core-periphery thesis and, given the collapse of the propensity to consume across the eurozone periphery (Milios and Sotirpoulos 2010, 235). On the contrary, German trade flourished during the crisis, precisely because its trading partners in the core of Europe, and outside the eurozone, are much more important to its current account surplus than the relatively small economies of the eurozone periphery (Reisenbichler and Morgan 2013; Beck 2013).¹⁶ At best, core-periphery argument can show evidence for a 'beggar-thy-neighbour' dynamic at play in Spain and Italy, but it certainly cannot explain the crucial cases of Greece, Portugal, and Ireland, who were each at the epicentre of the crisis.

Even if core-periphery analysis cannot say that the periphery is of any great importance to the generation of core *surpluses*, they could perhaps develop another argument which highlights the role that Germany and the core play in the generation of *peripheral deficits*. Yet, if we are to look at what percentage of trade deficits of each peripheral country comes from Germany and the core, the evidence for a beggar-thy-neighbour dynamic is much stronger in some countries than it is in others.

[Insert Table 2 Here]

For the period 2003-2007, almost half of Portugal's (Table 2) trade deficit results primarily from trade with the periphery. Spain accounts for 36.62 percent (8.46 billion dollars) of Portugal's deficit, while Italy accounts for 8.77 percent (2.03 billion). Germany is highly significant as the second biggest deficit (3.72 billion or 16.10 percent of the world deficit), but is nevertheless almost 20 percent lower than Spain. Belgium, France, Austria, Luxembourg and Finland are each relatively marginal. As already mentioned, Ireland (Table 2) has an

overall trade surplus, and trade surpluses with each of the core countries considered here. Of its top three trade deficits, none are in the eurozone, and only one (the UK at 5.84 billion dollars; -14.89 percent of its surplus) is (during the period 2003-2007) a member of the European Union. However, in the case of Greece (Table 2) Germany is a clearly significant source of the former's trade deficit (5.86 billion dollars or 13.8 percent of world deficit). Yet, fellow peripheral country Italy is a close second at 5.68 billion dollars or 13.38 percent of Greece's world deficit, and Russia features prominently also (3.46 billion dollars; 8.15 percent). Germany and core Europe make up 35 per cent of Greece's overall trade deficit, which is highly significant, but far from the whole story.

As mentioned, Germany does run significant trade surpluses with Spain and Italy. This is reflected in the sources of Italy's and Spain's trade deficits (Table 2). Germany represents 17.32 billion of Italy's deficit (178.08 percent of Italy's world deficit), and The Netherlands (13.34 billion; 137.14 percent) and Belgium (6.53 billion; 67.15 percent) are highly important to Italy's overall deficit. However, Italy runs a large trade surplus with France of 6.93 billion dollars (-71.24 percent of the Italian trade deficit). Spain is slightly more ambiguous. Although Germany represents the largest individual portion of Spain's deficit (24.23 billion), it nevertheless amounts to 25.47 percent of the overall deficit, which is far less than Italy's trade deficit with Germany. China (10.95 billion; 11.5 percent) and Italy (7.97 billion; 8.37 percent) are the second largest sources of Spain's deficit and the core accounts for 45.6 percent of Spain's deficit collectively.

Taking all of these deficits together, there is no disputing the importance of Germany and the core in the generation of trade deficits in Spain and especially in Italy. Yet, these countries are far less important in the generation of deficits in Portugal and are irrelevant in

Ireland. Germany and the core are a significant part of Greece's trade deficit, but so too are Italy, Russia, and a whole host of other countries which account for the substantial remainder of its deficit. Naturally, we might expect the relatively large economies of Germany and the core to feature more prominently in the trade deficits of the periphery than relatively tiny Greece, Portugal, and Ireland would feature in the trade surpluses of the core. What is surprising is just how often Germany and the core *do not* dominate these balances.

Finally, the related notion that Germany has overwhelmed the competitiveness of peripheral countries thereby robbing them of export market share can be challenged. In reality, the competitiveness problems faced by countries of the European periphery are far more complex and varied than can be captured by relative increases in unit labour unit costs vis-a-vis Germany. Taking three examples, Greece, Portugal, and Ireland, clearly illustrates this.

Greece's competitiveness problems long predate the euro. As Louri and Minoglou put it, the country 'never fully completed the transition from a backward mercantile/agricultural economy to an advanced capitalist economy' (2002, 324, 337). Even at its peak, industrial employment in Greece was 30% as opposed to roughly 47% for other Western economies. By 1994 the share of manufacturing output in GDP was 15 per cent, down from 19.8 per cent in 1951 (Louri and Minoglou 2002, 338). Long standing declining fortunes of Greek manufacturing and industrial sectors, resulted in economic activity shifting conclusively to domestic consumption and other non-tradable activities (Markantonatou 2012, 423). When Greece did witness economic growth during the 1990s and 2000s, the sectors of the economy that drove growth were inward-looking and driven by domestic demand. Since at least the

1970s, Greece effectively had no export or industrial sector which could have been undermined by German competitiveness.

While Germany excels in mostly complex, high-tech exports (Storm 2016), Portugal's exports have historically been concentrated in 'traditional sectors', especially in textiles, clothing and footwear. This industry has been contracting across Europe since the 1970s in the face of fierce competition from low-cost manufacturers in East Asia, North Africa, Eastern Europe and other areas (Corkill 2002, 158; Lains 2007). Portugal's international competitiveness became threatened, not by Germany or core-Europe (which were by no means challengers to Portugal's particular export base), but rather by China's entry into the WTO and the ending of the Multi-Fibre Arrangement in 2005¹⁷ (Serra 2014, 43). Additionally, nascent attempts at developing a more advanced export sector in medium-tech manufacturing were stunted by the prospect of European enlargement and competition from the CEECs.¹⁸ For Portugal, it was extra-EU economies, and fellow 'peripheral' European economies (the CEECs) that represented a threat to its international competitiveness, not the core as Lapavitsas et al. (2012) and others working within the core-periphery perspective suggest.

Ireland is typically and unsatisfyingly explained away as an outlier to the 'periphery' proper (see Lapavitsas et al. 2012; Magone, Laffan, and Schweiger 2016) precisely because it can't be said to have experienced the same problems with international competitiveness as Greece and Portugal. As Martin Sandbu (2017) notes, the Irish government was put under particular pressure by the ECB to issue a notorious bank guarantee of €440 billion¹⁹, which undoubtedly played a key role in making Ireland's debt appear unsustainable to international markets (see Whelan 2014). Ireland differs from the rest of the periphery in another respect.

From the mid-1990s onwards, its economy grew at a rate of three times the European average and within four years its unemployment rate more than halved. Stunningly, this growth was export-led and driven by a high profile, high-tech manufacturing sector, not to mention achieved with some of the lowest levels of public debt and spending in the continent. Ireland's downturn has more to do with the emergence of a speculative property bubble and less to do with declining export competitiveness. In any event, few are comfortable with relying on notions of German competitiveness to explain the origins of the Irish economic crisis. Yet, this qualification needs to be taken further. Greece, Portugal, Ireland, Spain and Italy have varied and complex histories which explain the status of their international competitiveness. No single case fits neatly into an explanation that insists upon the analytical primacy of German or core competitiveness in the periphery's current account deficits.²⁰

None of what is discussed here should be understood as denying the benefits Germany has enjoyed, perhaps uniquely, from the construction of EMU. As I show in section three, core-periphery analysis correctly identifies the problems of a one-size-fits-all model of European integration in 'Step-1' of its analysis. Yet this is beside the point. What is at stake is the 'beggar-thy-neighbour' thesis – and the trade balances and specific histories presented here highlight the serious problems in blaming Germany for the periphery's competitiveness vulnerabilities.

Empirical limits II: Capital flows

Although the above raises significant problems for 'Step-2' of the core-periphery analysis, a modified version of the 'beggar-thy-neighbour' argument can still be made by looking at capital account imbalances.²¹ Lapavistas et al. correctly identify that 'Germany has been exporting capital on a large scale, while peripheral countries have been importing capital

(2012, 31). Even if Germany and the rest of the core are not generating a current account surplus from trade with the periphery, and even if it is not 'necessary' for the core to direct massive capital flows to the periphery, the fact that it is doing so, could still be a major cause of the crisis in the periphery (Cesaratto 2013, 113). Lapavitsas et al. demonstrate that flows from the core to periphery during the period have actually become 'more important in size' than any other type of capital flows in the eurozone, at least from 2005-2009 (2012, 46, 47). However, this argument needs to be unpacked carefully. To highlight the relative importance of core-periphery capital flows, Lapavitsas et al. have grouped the same four countries into the 'core' (Germany, France, Belgium and the Netherlands) and 'periphery' (Greece, Ireland, Italy, Portugal and Spain), and it is between these two groups of countries, rather than between specific countries that the core-periphery relationship, in terms of bank lending and capital flows, has been established (Lapavitsas et al. 2012, 46). As was the case with 'Step-2', the relationship is not so clear-cut if we look at specific country-to-country relations.

[INSERT FIGURES 6 AND 7 HERE]

As figures 6-11 illustrate, the patterns of cross border lending within the eurozone are not so clearly reducible to a German 'beggar-thy-neighbour' dynamic once we examine the countries on a case by case basis.²² Germany is the most important lender *only in* the case of Spain, but not in Portugal, Ireland, Italy, or Greece. Indeed, as Thompson (2013) notes, German exposure is less than France in the case of Greece, and in total (8). Moreover, once we unpack the complexities of capital flows in each case, while the fact of high German exposure cannot be disputed, the case for German lending being more important to the origins of crisis in the periphery than other countries is seriously undermined.

Disaggregating capital flows from groups of 'core' economies to groups of 'peripheral' economies reveal some important challenges to core-periphery analysis. For example, in the case of Portugal (figure 6), we can see that although Germany is heavily exposed to the country (meaning that an average of US\$ 39,538mn of capital flowed from Germany to Portugal for the period 2005-2009, an average of 19.0 percent of total claims); capital inflows from fellow peripheral economy Spain are close to twice as high, at an average of 32.9 Percent of total claims, or US\$68,215 for the same period. Additionally, the combined amount of average capital inflows from France (US\$25,174mn) and the UK (US\$20,816mn) exceed the amount from Germany at 21.8 percent of total claims. In the case of Ireland (figure 7), neighbouring UK is the most important lender (an average of 27 per cent of total claims, or US\$163,774.70mn, for 2005-2009), edging ahead of Germany at 26 percent (US\$159,411.10mn) of total claims for this particular period. Germany is indisputably a major lender to Ireland, and 50 per cent of the time, Germany or the UK will be the biggest lender to Ireland for a given quarter during the time frame. Nevertheless, singling out the importance of German, rather than UK banks for the case of Ireland is somewhat arbitrary.

[Insert Figures 8, 9, 10 & 11 HERE]

In the case of Greece (figure 8), Germany is the second most important lender at an average of 18 percent of total claims (US\$38,976mn from 2005-2009) falling behind France at 20.8 percent (US\$50,895mn). However, Germany is clearly the most important lender to Spain (figure 9) (average of 27.5 percent of total claims or US\$223,519mn from 2005-2009) with France and the UK as distant, yet still important second and third (averages of 17.4 percent; US\$143,073mn and 13.9 percent; US\$110,697mn respectively). The case of Italy (figure 10) is particularly important for two reasons. First, France dwarves Germany as the most important lender (average of US\$341,417mn, or 31.1

percent of total claims; much larger than Germany's US\$209,615mn or 20.6 percent of total claims). Second, as figure 11 shows, Italy actually lends more than it borrows from Germany (Italy lends an average of US\$223,900mn to Germany and borrows US\$209,615mn from it – 12.5 percent of Germany's total claims).

Naturally, none of this should be seen as denying the significant impact or implications of German or core exposure to the periphery.²³ If Germany, France, the Netherlands, and Belgium are grouped together, Lapavitsas et al's claims about the 'core' are absolutely correct. There is no disputing the importance of core flows to the periphery, and it is remarkable that the same core countries seem to feature in each case. Even more clearly, these figures support the argument of Thompson (2013) that Germany's problematic *response*, itself a major cause of the eurozone crisis, can be criticised and explained by fears underpinned by the interests of its powerful banking sector over significant exposure to the periphery. Germany's real concern was Italy and Spain, and German actions can be understood as aiming to prevent contagion to those countries (Thompson 2013;2015). Germany's problematic response to the debt crisis protected German banks at considerable cost to the periphery, and Germany managed to reduce its exposure to the periphery by more than half between 2009 and 2012; a rate unparalleled by any other core economy (Thompson 2015, 859-860). Nothing that is said here disputes this important critique being levelled at Germany.

However, the central point remains that analysing these flows through a 'core-periphery' prism can be limiting, leading to the omission of important specificities in relation to 'peripheral' cases, so as to occasion important blind spots in the understanding of the how crisis has *originated*, as distinct to how it has been *responded* to (Dooley 2014, 945).²⁴ One such blind spot is the under-appreciated salience of inter-periphery financial flows (such as the importance of Italian lending to Germany, and Spanish lending to Portugal). Another is the importance of exposure to a variety of

different countries as illustrated by the above figures (especially the UK, Netherlands, and the USA). Another issue is that while core-periphery lending can be posited as important, there is little reason to single out the role of Germany, as most core-periphery literature does. Only in one case, Spain, is Germany the most important lender to the periphery. It is certainly true that capital flowed from the more developed financial centres of Northern Europe to Portugal, Ireland, Greece, and Italy. It is far less apparent that this fact supports the tale of the German 'big bad wolf', while Spanish, British, and French banks have all been lending more to these four countries than Germany. Financial and trade imbalances are certainly crucial to any understanding of the crisis in the European periphery, but more is obscured than revealed by contorting these multiple flows into a simplistic core-periphery model.

Beyond the German 'Big Bad Wolf'

The problems facing core-periphery analysis can be summed up in the single observation that the crisis of the European periphery is not reducible to German dominance alone (Dooley 2014, 945). Even when core-periphery analysis acknowledges the role played by multiple core countries, it tends to be Germany that is given the sensationalist 'headline grabbing' treatment. This scapegoating of Germany echoes the empirical limitations of the 'immaturity thesis' which blames the 'lazy PIIGS'. In this section I show that by jettisoning 'beggar-thy-neighbour' narratives and engaging with the literature on comparative political economy (CPE), a more fruitful research agenda on the origins of the eurozone crisis can be opened up: namely, one which shows that Germany is not the ultimate source of the eurozone crisis, but rather the institutions of EMU and the Single Market have been set up in a way that favours the core while disadvantaging the periphery (Lapavistas et al. 2012, 2-4).

I show this in two main ways. First, step-2 of core-periphery analysis is empirically lacking because it assumes, but don't convincingly demonstrate a link between German economic 'domination' and current account deficits in the periphery. Yet, step-1 of core-periphery analysis, in dialogue with CPE scholars such as Alison Johnston and Bob Hancké, can show how EMU was constructed in such a way that advantaged the Coordinated Market Economies (CMEs) of the core while disadvantaging the Mixed Market Economies (MMEs) of the periphery.

Second, step-3 of core-periphery analysis is correct to stress the importance of capital flows from core-Europe to the periphery, but undue focus on Germany and a lack of country specificity oversimplifies the very different forms of indebtedness experienced by the individual countries of the periphery. However, step-1, informed by CPE, can show how capital flows will impact differently on different varieties of capitalism. I conclude that a critique directed at the institutional set up of the Single Market and EMU is more convincing than the tale of the German 'big bad wolf', and that the tools to do so are contained within 'step-1' of core-periphery analysis.

Back to 'Step-1': Comparative Political Economy and Competitiveness

As mentioned earlier, the 'beggar-thy-neighbour' relationship between 'export-led' models and 'debt-led' models is not analytically necessary to account for their emergence in the first place. It is possible to develop an alternative departure point from 'step-1' of core-periphery analysis that recognises the role of European integration as a catalyst for diverging models of development, but moves away from reliance on 'beggar-thy-neighbour' notions.

Step-1 of core-periphery analysis recognises that the diverse institutional models of the core and periphery reacted differently under the conditions of European integration (see Lapavitsas et al. 2012, 23-28). This focus on capitalist diversity is implicit, yet under-theorised in the work of much core-periphery analysis, especially from within critical IPE which tends (for many good reasons)²⁵ be critical of CPE literature such as *Varieties of Capitalism*. For instance, Lapavitsas et al. (2012, 5) argue that once peripheral countries were ‘confronted’ with German competitiveness, they adopted alternative strategies of growth based on their own specific histories. However, Lapavitsas doesn’t elaborate, analytically, how this ‘confrontation’ operates; moving on quickly to steps 2 and 3. This elaboration matters. Engaging with CPE literature can draw out the potential of ‘step-1’ of core-periphery analysis in the following ways.

First, the work of Johnston (2016) and Hancké (2013) stresses the role of different kinds of wage bargaining systems in the core CMEs and peripheral MMEs and links these different national institutions to the design flaws of EMU. In Germany, institutions developed gradually over time which facilitated comprehensive wage restraint, price competitiveness, and an export profile in complex, high-tech manufacturing, something Lapavitsas et al. and Moravcsik also recognise.²⁶ On the other hand, different histories of institution building meant that Greece, Portugal, Spain, Ireland, and Italy were not able to repeat this fate, in particular due to very different industrial heritages, a lack of a wage coordination tool, and due to the strength of (certain) labour unions (Nölke 2015, 7-8; cf Lapavitsas et al. 2012, 23). Johnston (2016) and Hancké (2013) show how once in the euro, core CMEs were able to control wage growth in non-sheltered sectors, while peripheral MMEs lacked the institutional tools to do the same. Current account and capital account imbalances would not have been

a persistent problem before EMU, but pivotal institutions were taken away from the periphery: national central banks that were averse to inflation and tight fiscal rules at an EU level that would disincentivise inflation (Johnston 2016).

Second, different national institutional contexts create different ‘comparative advantages’ between core and peripheral economies. Export-oriented economies such as Germany have an advantage in building up incremental innovations in high-quality manufacturing, ‘based on a sophisticated system of skill formation, in particular through vocational training’ but also through relative job security and traditions in long term investment practices (Nölke 2015, 10). Peripheral economies typically have more of an advantage in the production of low to medium quality goods which rest on a more uneven system of skill formation. This has a number of consequences, not least of which are the relative price sensitivity of peripheral-type goods, and their vulnerability to competition from emerging economies outside of the EU single market (Nölke 2015, 10). Moreover, extra EU demand for EU goods is typically stronger for advanced German products, and much lower for the low-medium goods produced by peripheral economies (Nölke 2015).

A focus on national institutional contexts under a flawed in design EMU helps to explain why certain countries of the European periphery have generated current account deficits over the decades. What is clear is from step-1 and CPE is that peripheral deficits are not constituted by core surpluses, but rather, are asymmetric responses to the common pressure of a one-size-fits-all monetary union. Step-1 of core-periphery analysis can deepen our understandings of the role of different national institutional contexts in the origins of the eurozone crisis through in-depth case study research, as opposed to the externalist framework entailed by steps 2 and 3 of the perspective.

Capital Flows

Core-periphery analysis correctly emphasises the role of capital flows in contributing to the overheating and indebtedness of the European periphery. Furthermore, it is indisputable that these flows were largely core-periphery in direction. However, a preoccupation with ‘beggar-thy-neighbour’ assumptions leads to at least two important limitations.

First, core-periphery analysis is correct to emphasise the role of capital flows, but undue attention on the role of Germany recycling current account surpluses leads to important blind spots in the timing of these capital flows.²⁷ Jones (2016) and Storm (2016) show how current account imbalances actually resulted from a growth in imports while the trend growth of exports in the periphery remained largely unchanged, even in spite of relatively rising unit labour costs (Storm 2016, 10). The European periphery first experienced debt-led growth boom during and in anticipation of the euro, which led to higher imports, capital inflows, overheating of non-tradeable sectors – and ultimately a widening current account deficit (Storm 2016; Jones 2016). As figure 12 shows, private sector debt in the periphery was growing as early as 1995, with countries such as Portugal reaching private debt to GDP ratios of over 100 per cent by 1998 (Dooley 2017). The crisis in the European periphery was likely to materialise whether or not Germany undercut the competitiveness of the periphery because of growing dependence of firms, households, and governments across the European periphery on cheap credit (Jones 2015, 45).

Second, although the EMU-core can still be criticised in their role as ‘irresponsible lenders’, I have shown that core-periphery analysis needs to pay closer attention to the specificities of each case. Section two has shown how individual peripheral countries show

very different patterns of cross-border capital flows (figures 6-11). Greater specificity is required as Germany is the most important lender only in the case of Spain.

In addition, it is worth noting that some CPE approaches, especially Varieties of Capitalism, have been criticised for an excessive focus on ‘competitiveness’ problems at the expense of the financial account (see especially Jones 2016). Core-periphery analysis has faced similar criticisms (especially from Storm 2015, 2016). Jones forensically demonstrates how countries did not get into crisis simply because they lost competitiveness (2015), but rather, because European financial integration allowed rapid flows of capital to transform peripheral economies throughout the 1990s and 2000s before drying up just as suddenly after 2008 (Jones 2016). CPE is perhaps better at accounting for why the adjustment process to the crisis has been so difficult for the periphery, and less successful at explaining its origins in the first place.²⁸ Yet, while it is true that many CPE scholars (Jones mentions Hancké in particular) neglect the financial account, others emphasise it. As Lapavitsas and Powell (2013), Rodrigues et al. (2016), and others²⁹ demonstrate, financialisation did not affect European economies homogeneously (Engelen et al. 2010). The very different forms of crisis facing the periphery suggest that an attentiveness to the interplay between financialisation, national specific institutions, and competitiveness is crucial to a deeper understanding of the eurozone crisis.

With this in mind, step-1 of core-periphery analysis can link this discussion of capital flows to an understanding that some member states were more vulnerable than others because of their particular growth regime (Regan 2015; Lapavitsas and Powell 2013).³⁰ Step-1 and certain strands of CPE approaches (such as Lapavitsas and Powell 2013) can allow us to recognise that “the form and the content taken by financialisation var[ies] according to institutional, historical and political conditions o[f different countries]”. (Lapavitsas and

Powell 2013). Core economies such as the UK and Germany were able to adapt successfully to increasing capital flows following the introduction of the euro. This external pressure reinforced already existing institutional complementarities. The periphery on the other hand were in a much weaker position, and were lacking in the institutions that economies such as the USA and the UK had built up over the course of three decades which focused their economies on the provision of innovative financial services, (Regan 2015; Nölke 2015, 14). Instead, the periphery developed a dependency on foreign capital, and due to long standing trends towards deindustrialisation, economic activity moved towards finance, real estate and construction, and often from production for export to the management of imports (Nölke 2015, 14).

The very different effects of cross-border capital flows are reflected by the different locational sources of debt (figures 6-11), but also in the very different kinds of crisis experienced by the periphery.

[Insert figures 12 and 13 here]

As figure 12 and 13 show, important differences are reflected in levels of private and public debt across the periphery. Spain and Ireland had, on average, lower public debt to GDP ratios than Germany (figure 13). Yet, from about 2003-2008, aggressive lending by the Irish banking system propelled a property boom during this period, which began to overwhelm all other sectors of the economy (Lane 2012, 2). Similar to Spain, Ireland's experience of cross-border capital flows is most clearly a speculative property bubble.

But it is important to recognise that this sets Ireland and Spain apart from the likes of Portugal and Greece. Portugal exhibited relatively higher levels of public debt to both

Germany and Spain and Ireland, but never approached the levels of Greece or Italy. Portugal's levels of private debt began to rise substantially much earlier than its fellow peripheral countries as evidenced by its current account deficit in figure 1, and private debt to GDP ratio in figure 12. Portuguese household indebtedness was well above the euro area average of 80 per cent and Credit growth accelerated (in real terms) from close to 0% in 1990 to above 25% in 1998 (European Commission 2004; Lagoa 2014; Dooley 2017). Yet, unlike the rest of the periphery, Portugal experienced anaemic growth from the early 2000s onwards – due in part to the relative over-indebtedness of households and firms vis-a-vis the euro area average at this time.³¹

Greece's high public debt-to-GDP ratios are well known, and crucially, unparalleled in the rest of the EMU periphery (figure 13). However, this is not all that sets Greece apart. In terms of private debt (figure 12), Spain, Ireland, and Portugal all overshoot Italy and Greece by almost 100 points in 2009. Greece had a relatively underdeveloped and poorly integrated banking sector, ending up with one of the lowest levels of private and household debt in the eurozone and. Unlike Ireland and Spain, Greece was quite clearly not a banking crisis (see Pagoulatos and Triantopoulos 2009).

In sum, the observation that capital flowed from the core to the periphery of Europe is an important one. But undue focus on Germany leads to major blind spots. Future research needs to move towards a more fine-grained analysis of the impact of a one size fits all project of financial integration on different varieties of capitalism in the core and periphery, and not the domination of the core on the periphery.

Rethinking the core and periphery in European integration

In this section I proposed a rethinking of core-periphery analysis. The crisis in the European periphery is not a story of Germany 'steam-rolling' the periphery (Milios and Sotiropoulos, 2010, 227). Rather, the key contribution of core-periphery analysis is that key institutions of European integration were disastrously ill-equipped to handle the integration of core and peripheral varieties of capitalism. We do not need beggar-thy-neighbour assumptions to recognise that a specific project of European integration may reflect the interests and work to the benefit of certain member states while disadvantaging others.

The absence of 'beggar-thy-neighbour' dynamics between core and periphery should in no way entail the shutting down of important debates about inequality and hierarchy within the EU and the eurozone, or regarding Germany's possibly (re-)emergent role as a hegemon, reluctant or otherwise (Bulmer and Paterson 2013). Indeed, the important insights of 'step-1' of core-periphery analysis are arguably all the more compelling if the problematic steps 2 and 3 are left behind. For instance, the 'beggar-thy-neighbour assumption' is not necessary to Matthijs' (2016b) argument that the euro crisis has led to the reversal of per capita income convergence between the core and periphery – as record low unemployment rates in Germany and Austria are contrasted to all-time highs in Greece and Spain (Matthijs 2016b, 394). Matthijs (2016b), citing Kathleen McNamara (1998) points to the broad elite consensus around neoliberal ideas which defined the architecture of the Maastricht treaty, and thus, the Single Market and the euro. It is possible, in this type of analysis to 'blame' the core (as Matthijs does) for designing a 'winner takes it all' project of European integration, without resorting to beggar-thy-neighbour assumptions. Yet, more interestingly, Matthijs' paper opens up interesting questions about how and why the periphery went along with this plan and how involved they were in developing this 'elite consensus' (see Dooley 2016).

Similarly, the work of Bulmer and Patterson (2013) on Germany's hegemon status, Matthijs (2016a; 2016b) and Thompson (2013)'s critiques of Germany's handling of the crisis could all be strengthened by engaging with an analysis of Germany's role in the *origins* of the crisis that does not rely on problematic 'beggar-thy-neighbour' assumptions.

My argument has the potential to deepen these debates by inviting critical scholars to jettison empirically limited assumptions of 'dependency' and instead take the domestic origins of the crisis seriously, in a way that can also account for the design flaws of EMU and European integration itself. Fortunately, by drawing out what I have labelled as 'step-1' of core-periphery analysis, I have shown that the roots for doing so already exist within these critical approaches.

Conclusion

The contribution of this paper has been to highlight the definite need to rethink the role of Germany in the origins of the vulnerabilities of the European periphery, and accordingly, in the origins of the eurozone crisis itself. The crisis in the eurozone is not best understood as one of peripheral profligacy, misgovernment or cultural deficit. But neither is it as a crisis of German or even core economic domination. Rather, it is a crisis of a 'one-size-fits-all' project of European integration that the periphery was calamitously unable to adapt to.

I have shown that core-periphery analysis singles out and overstates the role of Germany in the competitiveness and indebtedness problems of the countries of the European periphery, as well as the 'structural role' of the periphery for Germany/the core in its generation of trade surpluses and as a destination for capital outflows. The empirical case for

a 'beggar-thy-neighbour' relationship between the core/Germany and the periphery was exposed as seriously limited.

Yet, core-periphery analysis was nevertheless shown to offer a potentially compelling alternative and critical account of the origins of the crisis in the periphery. Through interpreting core-periphery analysis as comprising three analytical steps, I argued that jettisoning the notions of German 'beggaring its neighbour' contained in steps 2 and 3 can deepen the claims made by 'step-1'. Germany, Greece, Ireland, Spain, Italy, and Portugal have dramatically different national institutional contexts, and a 'one size fits all' process of European integration has imposed different costs across these specific contexts. Rather than explaining away the varied experience of crisis across the periphery as a function of German or core power, the real potential of core-periphery analysis is to take these different contexts, and their interaction with a particular process of European integration, seriously. In this way core-periphery analysis should return to domestic-level analysis, but in a way that is attentive to the international, as well as the agency and the specificity of individual peripheral experiences. 'Step-1' of core-periphery analysis contains this potential, but it has been let down by a commitment to misleading 'beggar-thy-neighbour' narratives.

The rethinking of the origins of the eurozone crisis that this paper has introduced has important consequences for critical scholarship on the origins of the eurozone crisis, because while it allows us to recognise that notions of peripheral 'immaturity' are little more than, typically misleading heuristic devices (Brazys and Hardiman 2013); a genuine critical rethinking of the vulnerabilities of the so-called 'PIIGS' requires more than the addition of a 'big bad wolf' if we are to finally move beyond the fairy tale of the 'immaturity thesis'.

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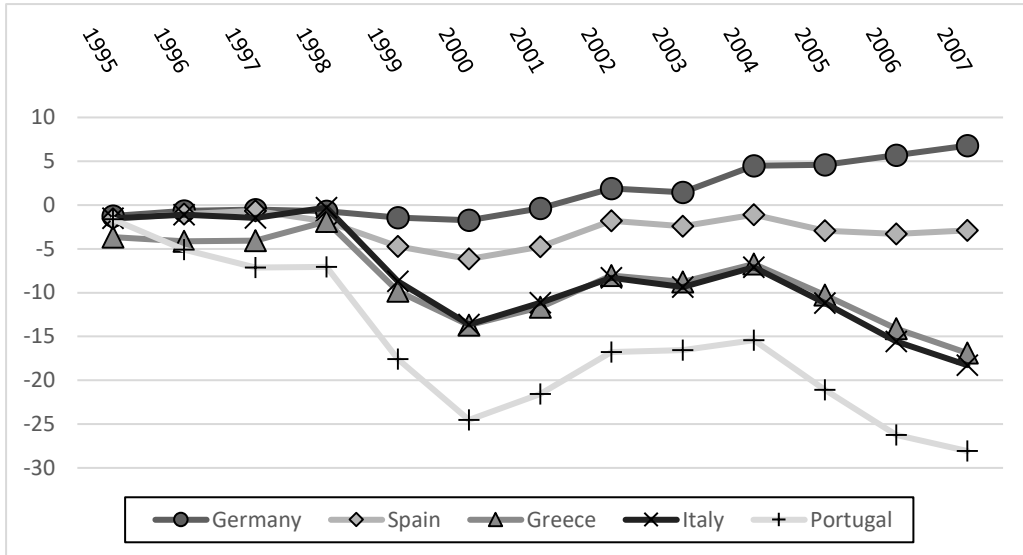


Figure 1: Current account balances for Germany, Spain, Greece, Italy, and Portugal (as a percentage of GDP)

Source: World Bank: Data Source indicated as International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimates.

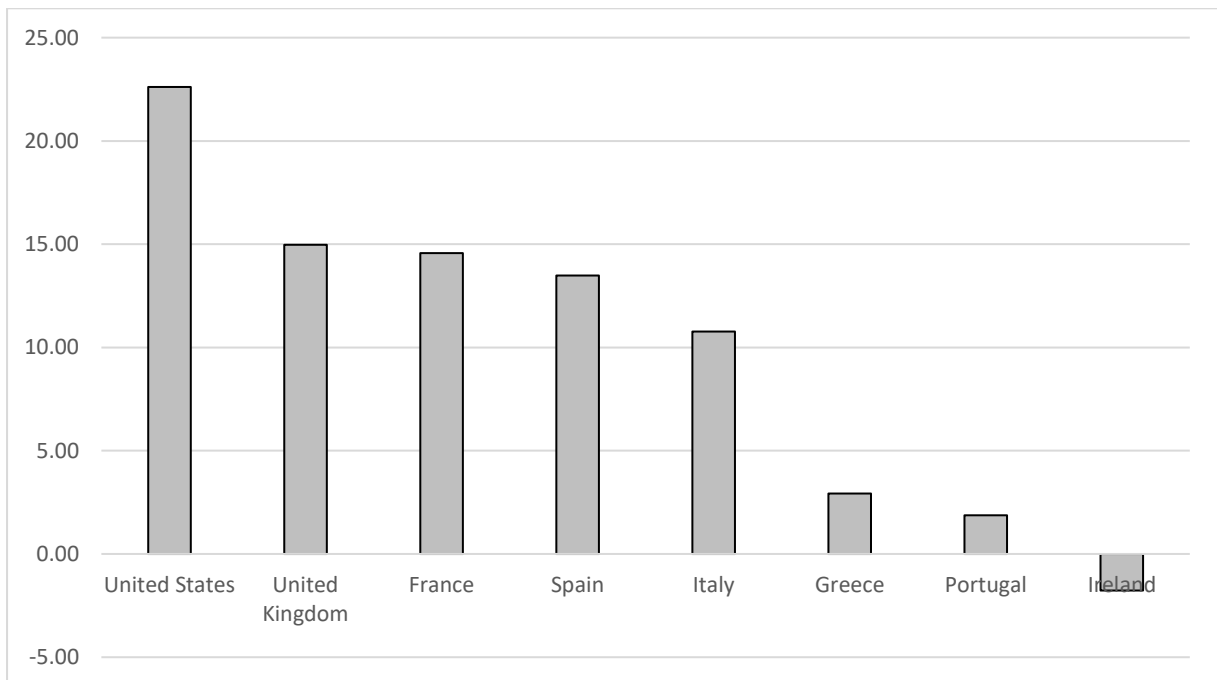


Figure 2: Germany Trade Balances with Top 3 Partners and the Periphery: percentage of world surplus, average figures 2003-2007

Source: IMF Direction of Trade Statistics

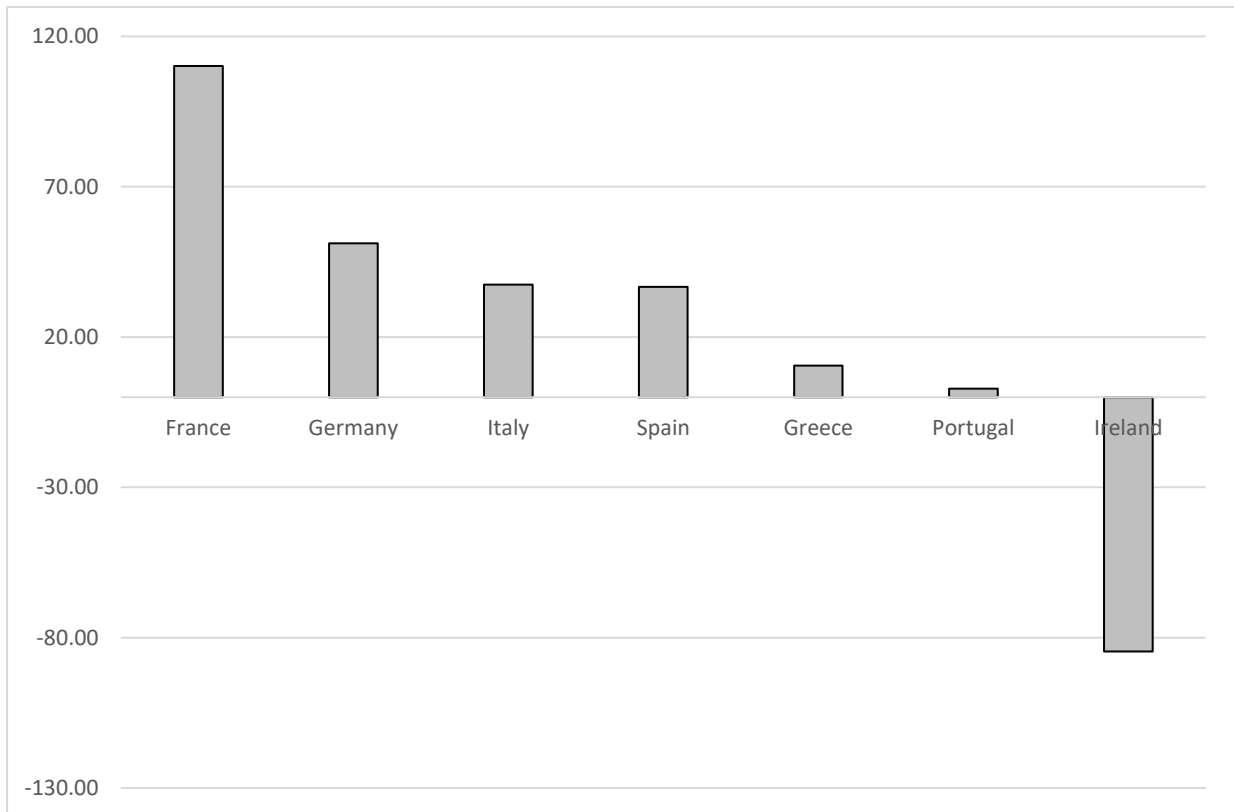


Figure 3: Belgium Trade Balances with Top 3 Partners and the Periphery: percentage of world surplus, average figures 2003-2007

Source: IMF Direction of Trade Statistics

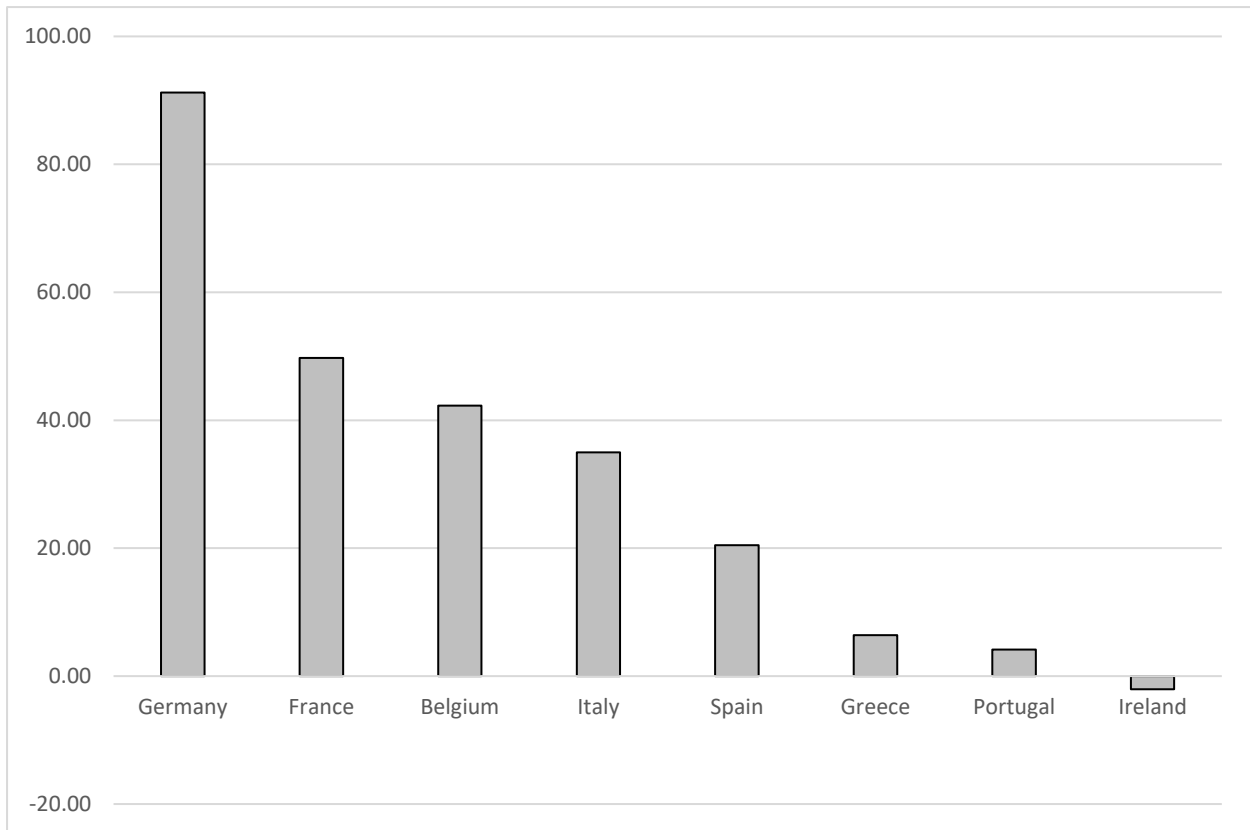


Figure 4: Netherlands Trade Balances with Top 3 Partners and the Periphery: percentage of world surplus, average figures 2003-2007

Source: IMF Direction of Trade Statistics

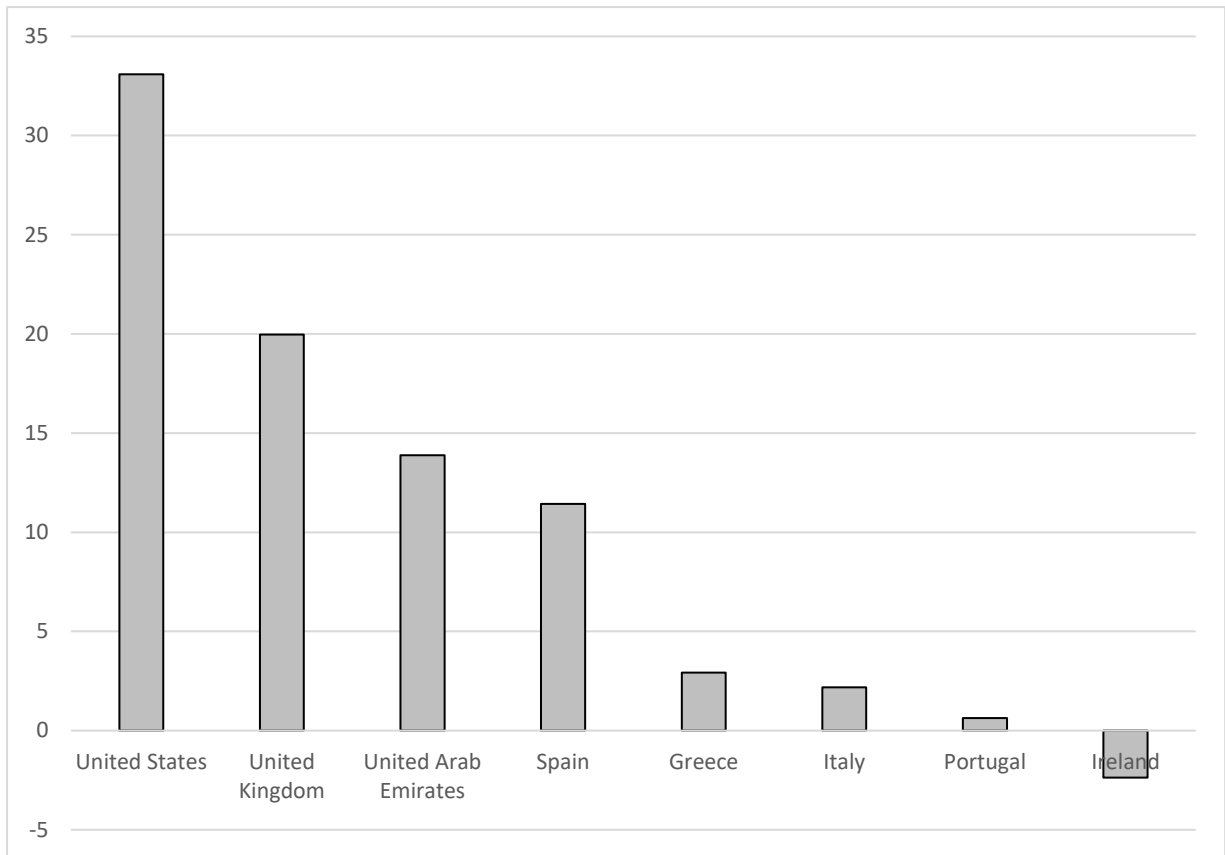


Figure 5: Finland Trade Balances with Top 3 Partners and the Periphery: percentage of world surplus, average figures 2003-2007

Source: IMF Direction of Trade Statistics

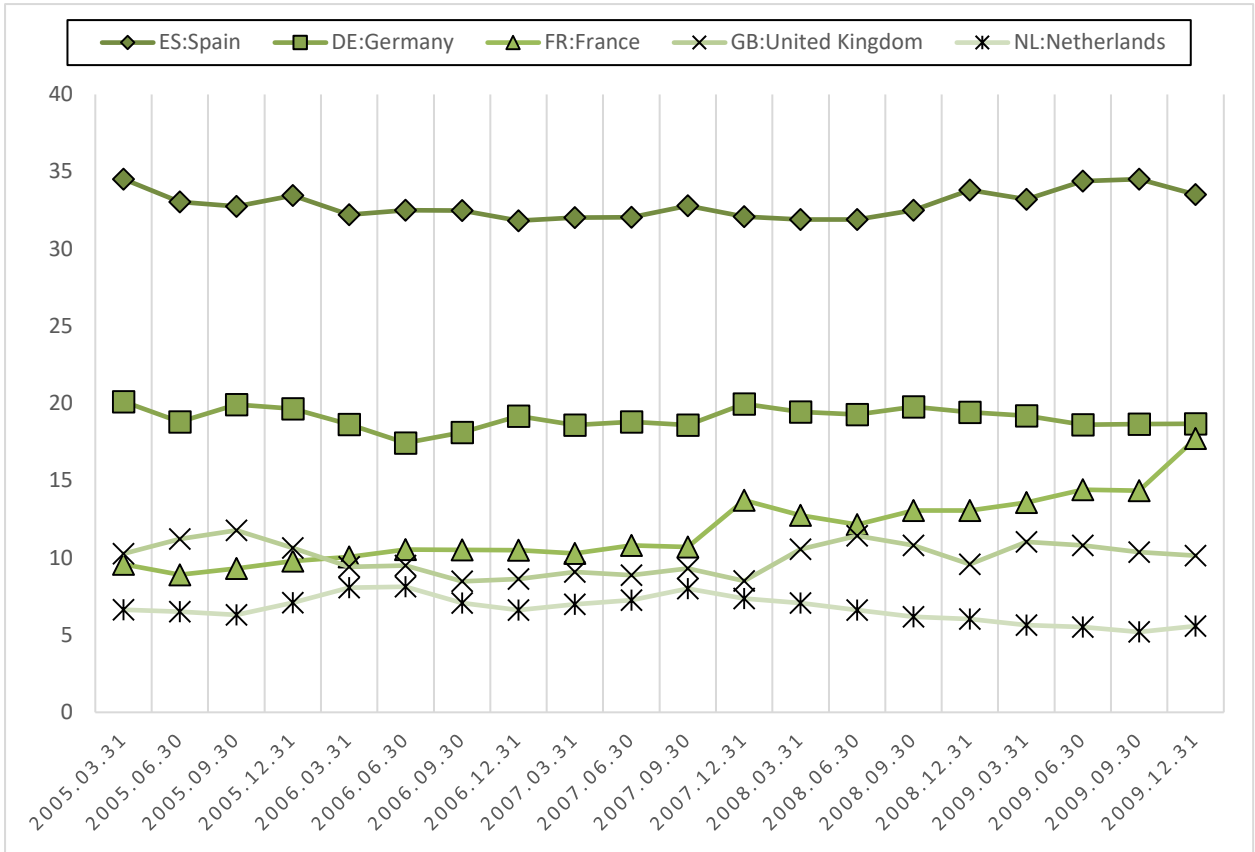


Figure 6: Portugal – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

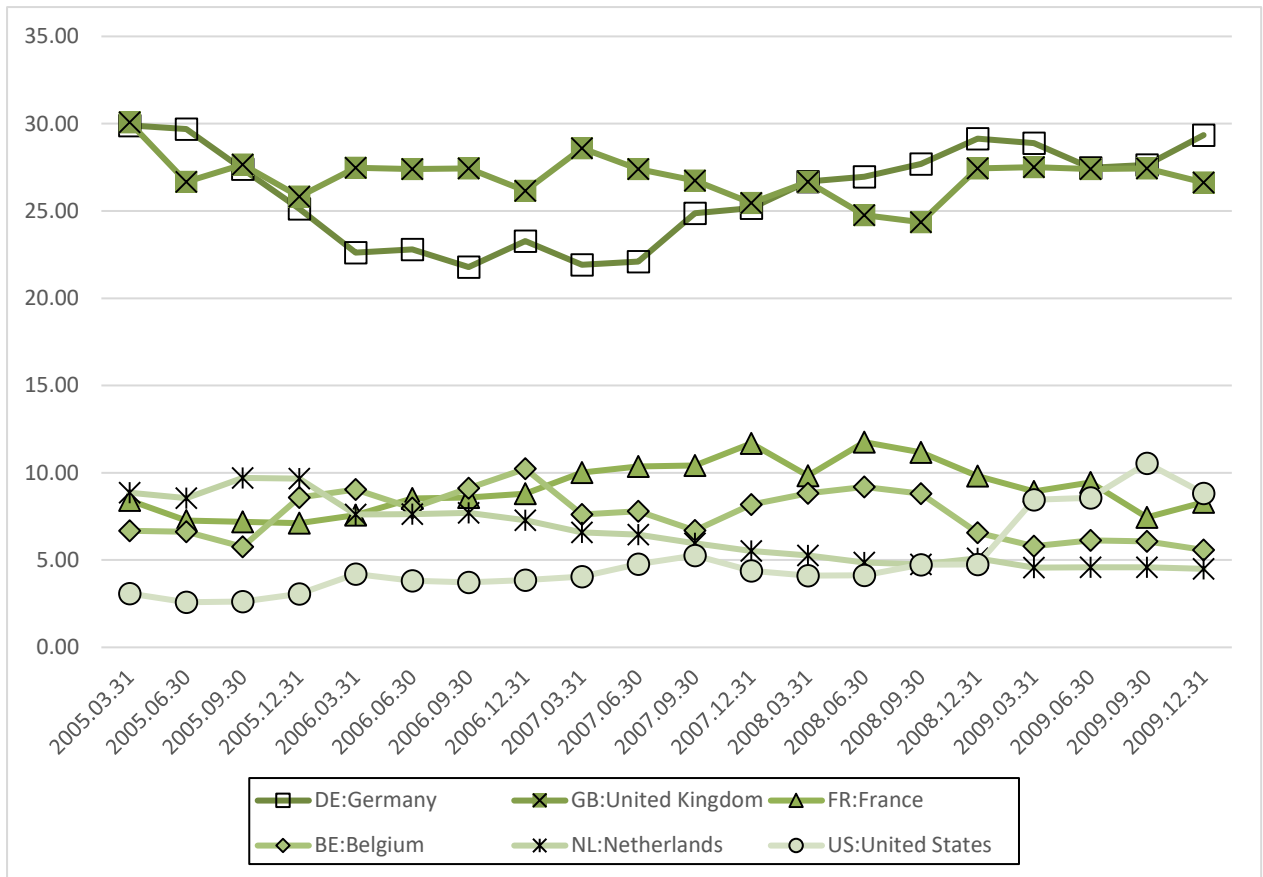


Figure 7: Ireland – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

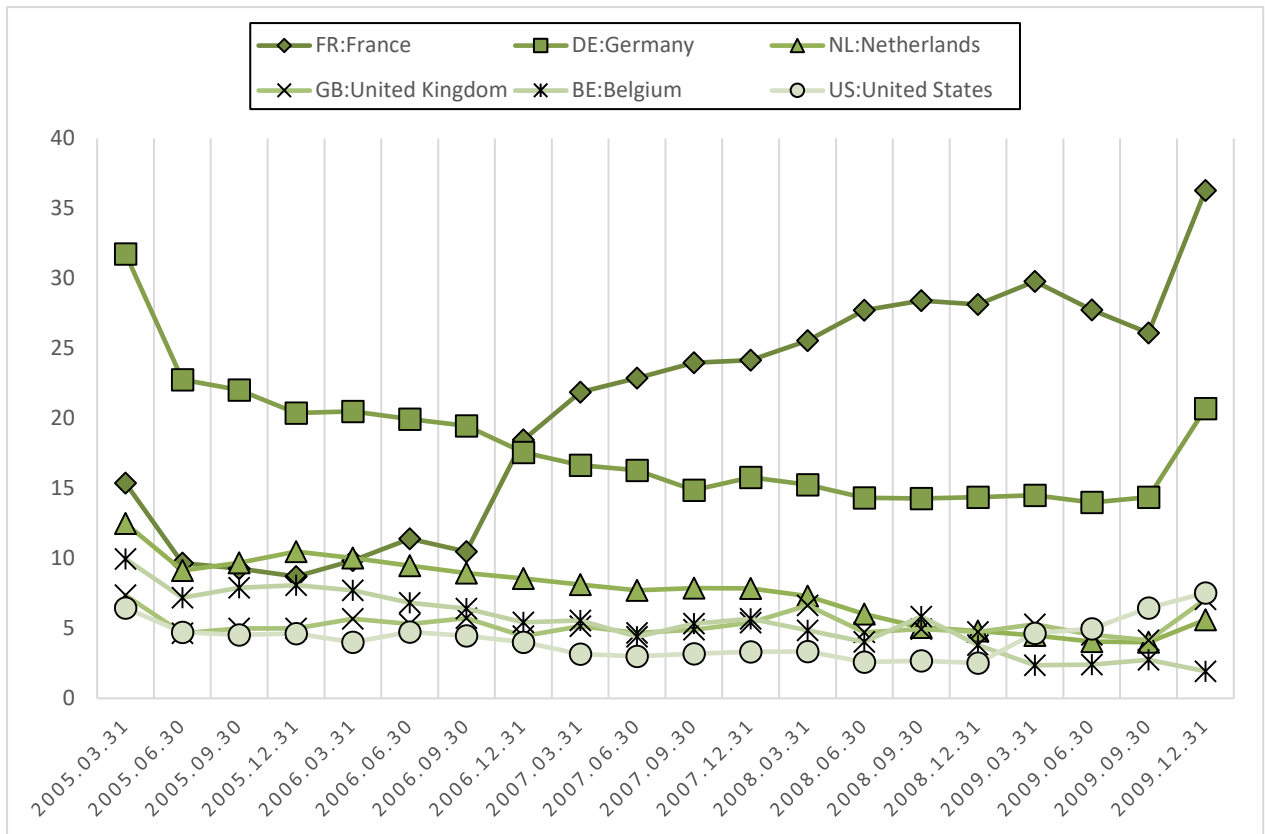


Figure 8: Greece – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

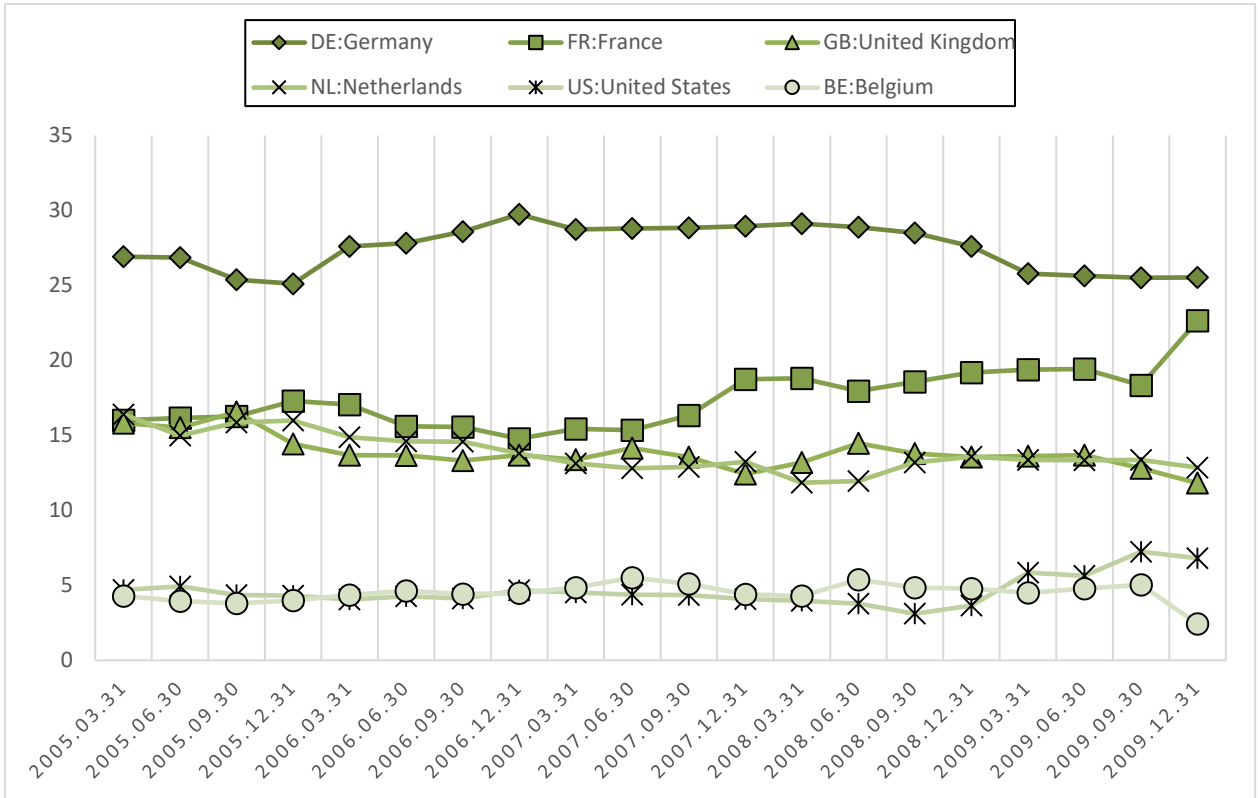


Figure 9: Spain – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

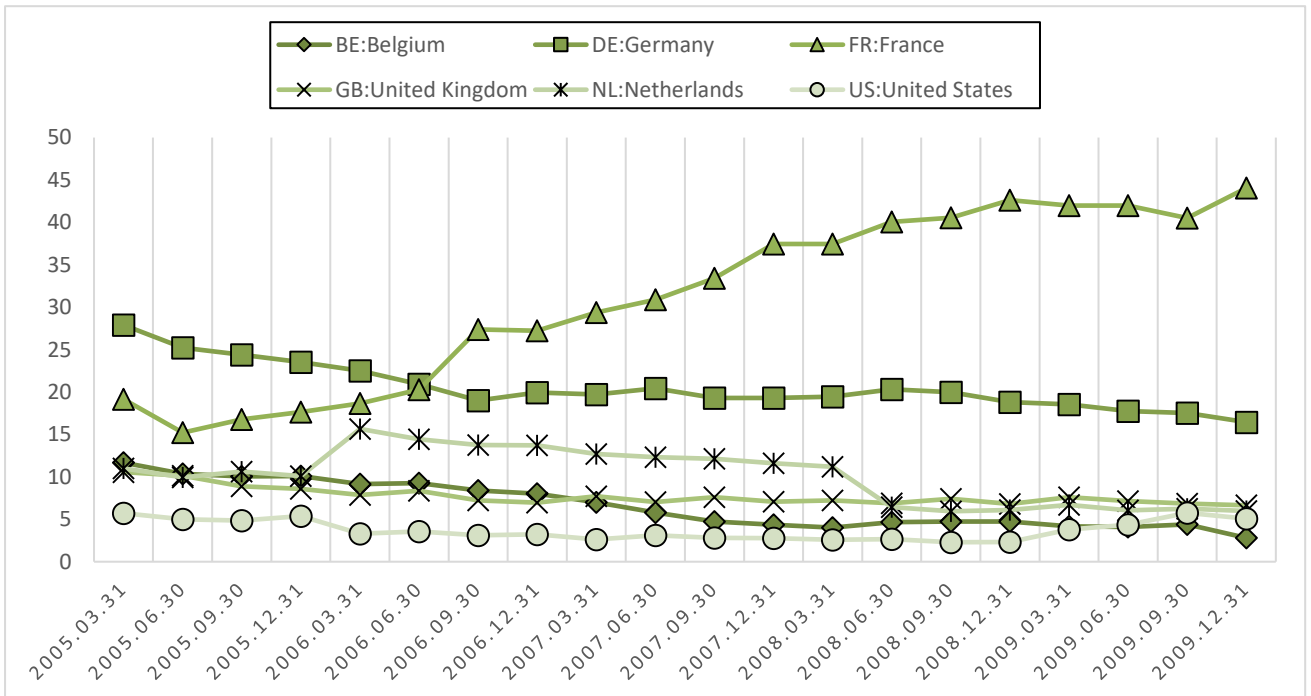


Figure 10: Italy – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

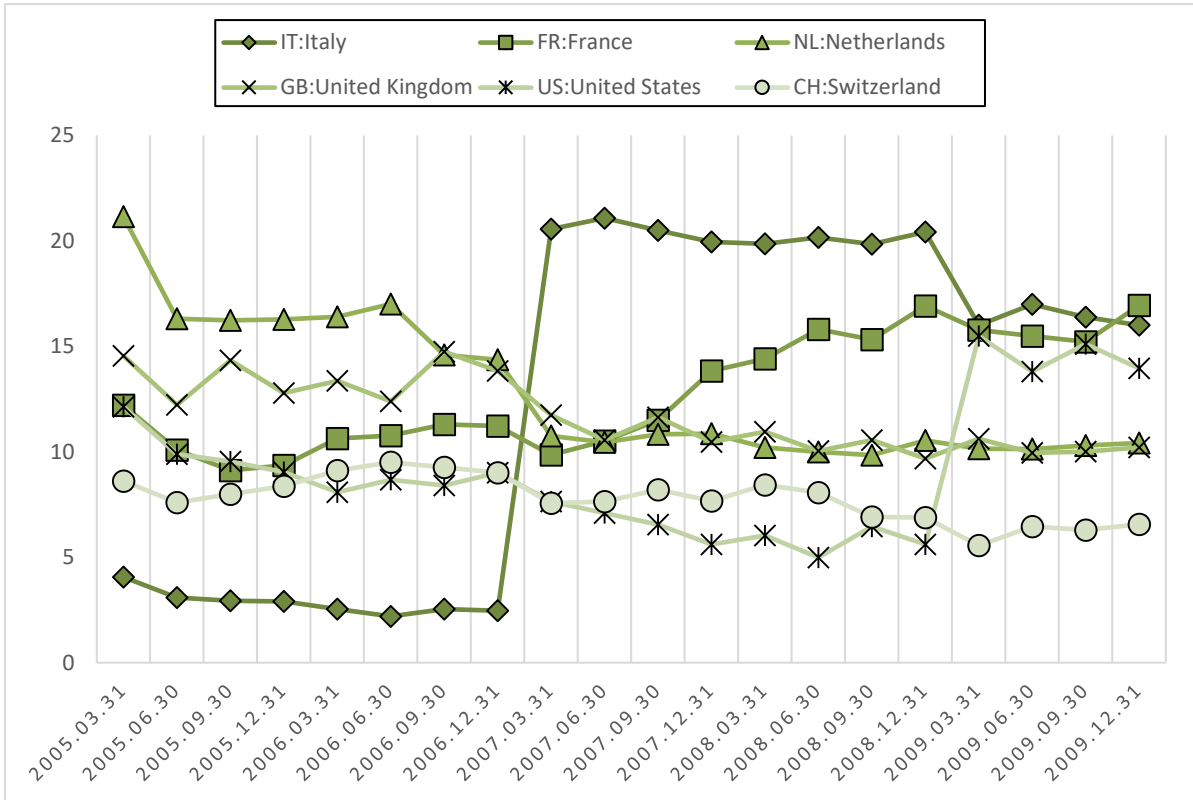


Figure 11: Germany – Consolidated Foreign Claims, % of Total Claims

Source: Bank for International Settlements Consolidated Bank Statistics

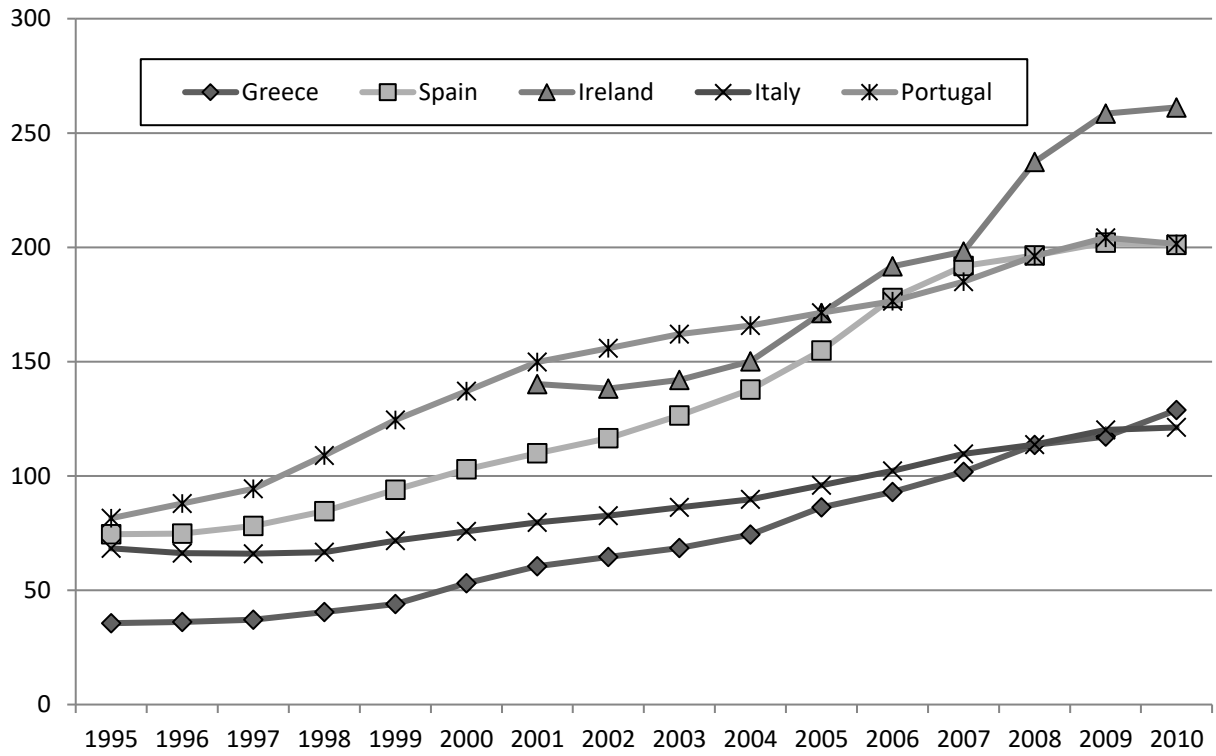


Figure 12: Private sector debt, consolidated - percentage of GDP

Source: Eurostat

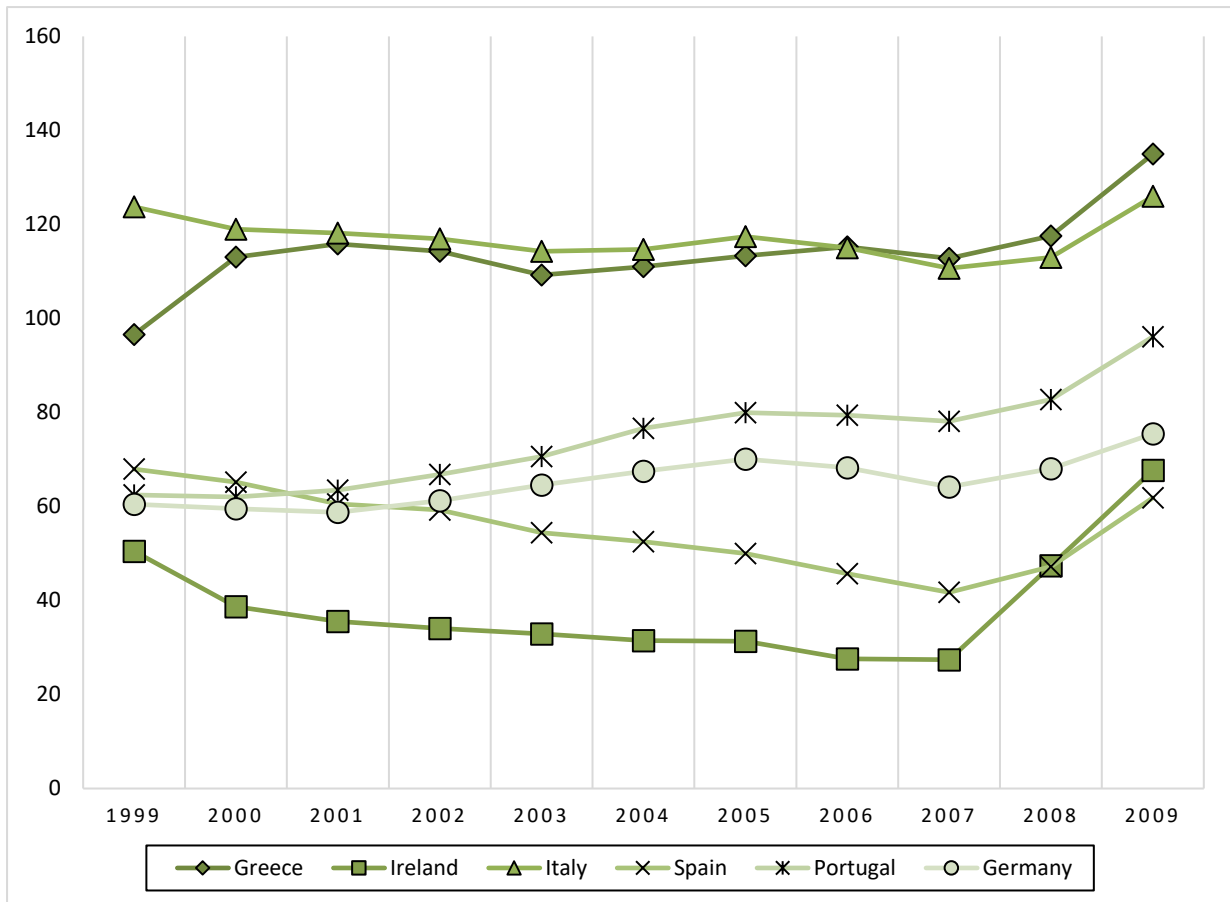


Figure 13: General Government Debt to GDP Ratios

Source: OECD

	1	2	3	Portugal	Ireland	Italy	Greece	Spain
<i>France</i>	<i>UK</i> 1.82%	<i>Spain</i> 1.81%	<i>USA</i> 1.44%	0.23%	-0.76%	-0.30%	0.70%	1.81%
<i>Austria</i>	<i>USA</i> 3.27%	<i>Italy</i> 2.03%	<i>UK</i> 1.98%	0.21%	-0.15%	2.03%	0.46%	1.54%
<i>Luxembourg</i>	<i>France</i> 5.32%	<i>UK</i> 5.03%	<i>Italy</i> 5.00%	1.24%	-0.17%	5.00%	0.49%	4.91%

Table 1: Core 'Deficit Countries': Top 3 Positive Trade Balances and Trade Balances with Periphery in % of Total Exports

Source: IMF Direction of Trade Statistics

	1	2	3	Germany	Belgium	France	Austria	Luxembourg	Finland
Portugal (D)	Spain 36.62%	Germany 16.10%	Italy 8.77%	16.10%	1.76%	1.63%	1.09%	0.48%	0.21%
Greece (D)	Germany 13.8%	Italy 13.38%	Russia 8.15%	13.8%	4.66%	6.89%	1.28%	0.63%	1.24%
Italy (D)	Germany 178.08%	Netherlands 137.14%	China 131.31%	178.08%	67.15%	-71.24%	10.28%	9.54%	3.89%
Spain (D)	Germany 25.47%	China 11.5%	Italy 8.37%	25.47%	5.06%	4.77%	1.18%	0.65%	1.10%
Ireland (S)	UK -14.9%	Taiwan -4.16%	China -2.18%	5.07%	35.09%	9.75%	0.76%	0.28%	0.39%

Table 2: European Periphery: top three negative trade balances plus balances with the core: average figures 2003-2007

(D = % Overall Trade Deficit; S = % Overall Trade Surplus).

Source: IMF Direction of Trade Statistics

Notes

¹ An unfortunate acronym for the 'bailed out' countries: Portugal, Ireland, Italy, Greece and Spain.

² See Manolopoulos 2011; Magone 2004; Diamandouros 2011, and for critical overviews see (D. Papadimitriou and Zartaloudis 2014; Becker and Jäger 2012; Lyberaki and Tsakalotos 2002),93,95.

³ Deeming it offensive, the Financial Times actually banned use of the acronym 'PIIGS' in its publications (Mackintosh 2010) as did Barclays Capital (Alloway 2010).

⁴ See Elliott, Inman, and Smith 2013 and Independent Evaluation Office of the International Monetary Fund 2016.

⁵ Different typologies of the 'core' exist. In this paper I adopt Lapavitsas et. al's list: Germany, France, Belgium, and the Netherlands.

⁶ See Dullien and Guérot 2012; Moravcsik 2012; Matthijs and Blyth 2011; Thompson 2013; Bulmer and Paterson 2013; Jacoby 2015; Newman 2015; Matthijs 2015, 6.

⁷ See also Bulmer and Paterson 2013; Paterson 2011; Matthijs and Blyth 2015.

⁸ Furthermore, the three strands tend not to talk much to each other. As an indication, Lapavitsas et al. (2012) are not cited a single time in Matthijs 2016a, Thompson 2013, or Bulmer and Patterson 2013, and even more remarkably, not a single publication from the above authors are cited in Flassbeck and Lapavitsas (2015).

⁹ See Matthijs 2016b; Beck 2013; Goetz and Dyson 2003; Lapavitsas et. al. 2012, 3-5.

¹⁰ On design flaws, see de Grauwe 2013, 6-7; Papadimitriou and Wray 2012,2-3; Panico and Purificato 2013; Scharpf 2011.

¹¹ It is also worth noting that while the analysis of Lapavitsas (et al. 2012; Flassbeck and Lapavitsas 2015) focuses on the relationship between the core (Germany, France, Belgium, and the Netherlands) and the periphery, it is Germany that ends up being the primary focus. This is evidenced, inter alia, by chapter headings in Flassbeck and Lapavitsas most recent work like 'Germany as the Source of the Eurozone crisis' (2015, 21-38), not 'Core EMU as the Source of the Eurozone crisis', and the preoccupation with German wage moderation in Flassbeck

and Lapavitsas (heated) exchange with Storm (2016). While it would be unfair to say that the distinction between the core and Germany has been imprecise, Germany's role in generating current and capital account imbalances is the one that steals the headlines in this literature. As I show in section two, this distinction between the core and Germany matters, as it has implications for how valid it is to blame the German 'big bad wolf' for the eurozone crisis.

¹² As I note in section three, this approach does not typically make a distinction between sheltered and non-sheltered sectors of the economy. As Hopkin (2015) notes, inflation in the periphery tended to come from the sheltered not for export sector.

¹³ See Storm 2015;2016 for more extensive account of this critique.

¹⁴ Lapavitsas et al. (2012) consider Germany, France, Belgium, and the Netherlands as the 'core'. As per the suggestion of an anonymous peer reviewer, I have also included the cases of Finland, Austria, and Luxembourg.

¹⁵ Because these countries are deficit countries, there is no overall trade surplus for the periphery to contribute to. Accordingly, positive trade balances are represented as percentages of total world exports, rather than as percentages of world surplus.

¹⁶ Of course, Germany benefitted from a weakened euro and increased demand from emerging markets. I thank an anonymous peer reviewer for stressing the importance of this point.

¹⁷ The Multi-Fibre Arrangement was an international trade agreement on textile and clothing which imposed quotas on the amount that developing countries could export to developed countries.

¹⁸ Including some emblematic projects such as a large car plant – see European Commission Directorate-General for Economic and Financial Affairs 2004, 24.

¹⁹ See the infamous 'Trichet letter' to the late Finance Minister, Brian Lenihan; (Irish Times 2014).

²⁰ It is worth noting that the case of Spain, at face value, does appear to support Lapavitsas et al.'s (2012) claim. Yet, and although there is not the space to go into the case in any detail, Spain's trade deficit stemmed more from an increase in imports brought about by a housing bubble (similar to Ireland), while export performance remained stable over the period of its euro membership (see Kang and Shambaugh 2013, 14). German 'victimisation' tells us little about Spain's crisis.

²¹ As Milios and Sotiropoulos (2010) do, in spite of their critique of a 'beggar-thy-neighbour' core-periphery explanation.

²² These figures are calculated using data from the Bank of International Settlements (BIS) consolidated banking statistics. This data set provides information regarding banks' on sheet financial claims vis-à-vis the rest of the world and provides a measure of the risk exposures of lenders' national banking systems. This data set was chosen as Lapavitsas et al. (2012, 46-47) and Thompson (2013, 8) use BIS consolidated banking statistics to support their argument regarding the importance of core lending to the periphery. The time frame (2005-2009) was selected as BIS Consolidated Statistics do not contain data for ultimate risk basis before 2005, and Lapavitsas et al. (2012) use the same time period.

²³ The case could be made that the ultimate source of Portuguese debt, indirectly, is Germany and France via Spain. However, rather than contort these relationships further into the core-periphery model (why would Germany indirectly lend to some peripheral states while directly lending to others?), I suggest that it makes more sense to take the specificities of financialisation in each state more seriously.

²⁴ Of course, the division between causes and responses is somewhat murky, because the problematic response to the crisis is a big part of the origin story. Nevertheless, we still need an understanding as to why the European periphery got into difficulty in the first instance.

²⁵ See Hancké 2009, 5-17; Clift 2014; Bruff and Ebenau 2014; and Coates 2014 for some up to date critical reviews.

²⁶ Lapavitsas et al. (2012, 22-28) make an argument that is very close to Johnston, but crucially, they do not recognise that wage rises tend not to emerge in the non-sheltered for-export sectors – as these already faced external market pressures to remain competitive. Rather rises in wage costs and inflation emerged from the sheltered sector of the economy - where there was less pressure for wage moderation (Hopkin 2015, 175

²⁷ Although there is not space for a more detailed engagement with this approach, see Jones 2015;2016 and Storm 2015;2016 for an in-depth summary with evidence.

²⁸ I thank an anonymous peer reviewer for this point.

²⁹ See especially Engelen et al. (2010) who combine Varieties of capitalism literature with insights from 'financialisation studies' in order to explain different geographies of financialisation in the USA, Germany, and the Netherlands.

³⁰ Lapavitsas and Powell (2013) have made this very point in reference to USA, UK, Germany, France and Japan.

³¹ This draws on the more extensive account of Portugal's financialisation in Dooley (forthcoming).