THE POLITICIZATION OF CORE-PERIPHERY RELATIONS IN THE EU

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DI WORKING PAPERS
2023/05
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ABSTRACT

In this paper we deal with the questions of why and when we can expect change in the politicization of core-periphery relations within the EU and with what consequences for integration. Our approach to the “why” question relies on comparative federalism, whereas our approach to the “when” question relies on the political economy of growth models. Our discussion of the consequences of the politicization of core-periphery relations combines these two approaches. We argue that the confederal EU polity contributes to the production of divisions among member states at different levels of development. The room for politicizing inequalities in integration varies among the different peripheral growth models and so do patterns of economic dependence. The greatest opportunity for transforming core-periphery relations in the EU could come from a symmetric crisis that would bring economic troubles to the core and both the Eastern and Southern peripheries simultaneously. The EU’s confederal polity is a key constraint against making a lasting commitment to mutualizing the developmental externalities of integration.

KEYWORDS

European integration; political divisions; politicization;
INTRODUCTION

“We will not be a colony. Hungarians won’t live according to the commands of foreign powers, they won’t give up their independence or their freedom,” Hungarian PM Orbán told over 100,000 people gathered outside the parliament in Budapest on the anniversary of the country's 1848 revolution against Habsburg rule (Euobserver, 2012). The words of Orbán were direct citations from a letter he wrote a few days before to European Commission (EC) President José Manuel Barroso, objecting to the Commission’s demands about the management of the financial crisis in Hungary. Orbán was not the first to use the “colony” framing to contest specific EU rules and, in general, the rules of rulemaking in Europe. Two years before him, the leaders of Syriza had already extensively used this framing to describe the loss of Greece’s decision-making autonomy vis-à-vis the German government or the Troika in the process of managing the post 2008 crisis (Kostopoulos, 2020). Pablo Iglesias, the leader of Podemos, used the same framing in Spain in 2014 by declaring that “we do not want to be a colony of Germany”. In explaining his country’s resistance to joining the euro, Polish Foreign Minister Witold Waszczykowski talked about Poland not wanting to repeat the fate of Greece, which was “de facto a colony”. The Polish Prime Minister Mateusz Morawiecki has justified the economic policies of his government several times by saying that Poland does not want to be a dependent market economy. One can continue listing similar examples both from the Southern and the Eastern peripheries of the EU.

The direct target of these statements is the dependency of domestic economic development on decisions by politicians and bureaucrats outside of the country, at the level of the EU or at the level of governments of stronger, more developed EU Member States. In most cases, they also target directly or indirectly dependency on strategic decisions by non-domestic private actors like banks, financial institutions, and multinational corporations (MNCs) from the more developed EU Member States.

The targeting of these institutions and actors is directly linked, and responds, to the inequalities generated by monetary and regulatory integration in the EU.
Integration implies the imposition of homogeneous rules and policies on diverse economies at different levels of development, with dissimilar growth models, yielding diverging developmental consequences. Already in the 1970s EU documents discussed precisely the potential challenges emerging from socio-economic disparities created by deepening market integration within the EU and stressing the need to manage these disparities and the dire consequences of leaving them unaddressed (Werner Report, 1970; Delors Report, 1989; Agenda 2000). Without specific policies designed to amend initial development, and without compensating for the negative externalities of integrating diverse economies, the normal functioning of integrated markets is likely to further increase disparities. It will contribute to the generation of “creditors” and “debtors”, “home countries” of transnational value chains with MNCs controlling the flow of capital and technology and “host countries” as suppliers of cheap labor. Such unequal division of economic roles may also translate to unequal bargaining powers among the participating states, increasing asymmetric interdependence among them and decreasing the room for autonomous economic policy making in the weaker Member States.

Following a long tradition in political economy, we refer to such inequalities as “core-periphery relations”. When such core-periphery relations become politicized, as exemplified in the references to “colonies” from the beginning of the paper, we talk about “core-periphery divisions”. Such politicization turns the actual or perceived losers of integration against its beneficiaries, with the goal of altering specific EU rules or policies, and, more often than not, challenging the rules of rulemaking in the EU and demanding increases in the room for Member State-level decision-making.

In this paper we focus on the dynamics of such core-periphery divisions within the EU, explore the factors that contribute to their creation, and ask whether we can expect their decline, or whether we should instead be prepared for their increase. We also ask what the effects of such divisions will be on the politics of market integration in the EU: will they contribute to further integration, or will they be factors of disintegration? We make three interrelated arguments.

First, contrary to the literature that sees economic heterogeneity in the EU as the principal cause of inequalities and core-periphery divides (Hopner and Schafer,
2012; Johnston and Regan, 2018; Streeck, 2014; Streeck and Elsasser, 2016) we argue that it is not economic heterogeneity *per se* that is primarily responsible for core-periphery divisions, but rather the management of heterogeneity. More specifically, we argue that the confederal organization of political representation and accountability within the EU creates incentives, and the primarily intergovernmental structure of decision-making in the EU provides opportunities, for the mismanagement of core-periphery relations, leading to increasing, rather than decreasing, inequalities among the Member States. The same political institutions provide incentives for policy makers in the peripheral Member States to politicize core-periphery relations by blaming Brussels or other Member States for eventual developmental misfortunes.

Secondly, while it would be rational to expect core-periphery political divisions to be linked with the increase in economic hardships experienced by peripheral countries (e.g. Johnston and Regan, 2018), we find that there is no linear relationship between economic losses and politicization of core-periphery relations. Rather, it is exactly the other way around. Growing economic hardships go hand in hand with increased dependency in the periphery, decreasing the room to politicize core-periphery relations. As exit from the Single Market and/or the Monetary Union is seen in these countries as imposing prohibitive political and economic costs; even Eurosceptic political parties try their best to keep market actors calm and meet those externally imposed conditions that could decrease their dependency. Those peripheral Member States that are getting better off, and hence experience decreases in their unilateral dependence on public and private actors in the core countries, are the ones that can afford to politicize core-periphery relations.

We link these differences in the room for politicization with the different growth models and patterns of economic dependence in Eastern and Southern Europe (Vukov, 2021). The credit-based growth model of the South is much more exposed to crises and suddenly increasing levels of dependency than the Foreign Direct Investment (FDI) based growth models in the Eastern peripheries. This difference in the pattern of dependency helps to maintain asymmetries in bargaining power between Member States in the core and periphery, and it weakens the probability
that cross-peripheral coalitions will be formed either for upgrading EU institutions or for reforming the management of core-periphery relations. As economic shocks are more likely to be asymmetric, affecting different peripheral countries at different times, the crises can be absorbed within the existing system and with only minimalist instruments of solidarity (Schelkle, 2017).

Thirdly, we argue that, in the framework of the present political institutions of EU, the increase in core-periphery divisions will be the strongest precisely when conditions improve simultaneously both in the Southern and Eastern peripheries of the EU. Under conditions of lesser dependence, Member States have much more room to use EU institutions and policies as scapegoats for internal troubles. However, these are exactly the least congenial times for politicians in core countries to sell reforms to their voters that would include redistribution of resources and/or opportunities across Member States. Whereas crises are an inbuilt feature of European integration (Jones et. al., 2016, Fabbrini, 2019), we argue that the greatest potential for a transformative crisis would be the one affecting the core and the two peripheries simultaneously. Yet, while pressure to reform the EU is more likely under such a general crisis, any attempts to mutualize risks and opportunities across the core and the peripheries would still require commitment devices – instruments that would commit core countries to share opportunities and resources and peripheral countries to use those opportunities and resources for addressing their developmental shortcomings. The EU’s confederal political framework, in which each decision maker is accountable only to their national electorate, is a major hindrance for the establishment of such lasting commitments.

In this paper we try to answer the questions of why and when we can expect change in core-periphery divisions, and with what consequences for integration. Our approach to the why question relies on comparative federalism, which studies the institutional specifics of the structure of political representation and decision-making to understand the incentives and opportunities of policymakers to politicize social and economic issues in diverse ways (Fabbrini, 2019; Cooley and Spruyt, 2009; Bruszt et al. 2022). Our answering of the when question relies on the political economy of growth models within the EU, which provides analytical tools for understanding the dynamics of and the differences in the room for autonomous economic policies (Ban et al. 2021; Bohle, 2018; Vukov, 2021).
Finally, while we combine these two approaches in our answering of the question about the consequences of core-periphery divisions for integration, in answering our third question we rely on a more open version of path dependent studies of institutional change. This approach allows for learning on the side of policymakers and it provides room for piecemeal and partial forms of institutional change (Streeck and Thelen, 2005; Schelkle, 2021). Integration might evolve via “failing forward” as Jones and his collaborators argue (Jones et al., 2018), achieving solely institutional layering under the unchanged structure of structural constraints. (Streeck and Thelen, 2005). But unlike students of the EU, politicians do not care much about probabilities, which are the primary concern of external observers. Politicians are in the business of the art of the possible and might change institutions or achieve institutional conversion. The best we can do to contribute to such change is to point to the limitations and constraints represented by the institutional status quo.

The rest of the paper is structured as follows. In the next section we discuss the systemic problems of the EU polity and the way in which its confederal political institutions contribute to both developmental inequalities and political divides between core and periphery. The subsequent section explores the relation between developmental outcomes and core-periphery divides, and links the differences in politicization between the European East and the South with the differences in their patterns of dependency on the core countries. The final section concludes.

**SYSTEMIC SOURCES OF CORE-PERIPHERY DIVISIONS IN THE EU**

Market integration entails creating formal legal equality by way of uniform rules and policies across heterogeneous economies with economic actors having diverse capacities to live by these rules (Bruszt and McDermott, 2014). The basic dilemma of market integration among economies at different levels of development is that the normal functioning of the integrated market will distribute the costs and gains, vulnerabilities, and developmental opportunities dramatically differently among actors (Alcidi 2019; Bodewig and Ridao-Cano 2019; Bruszt and Langbein 2020; Celi et al. 2018; Offe 2015). By unequally distributing
vulnerabilities, and through increasing pre-existing economic inequalities, integrated markets can alter the relative bargaining powers among the participating states, and result in decreasing the room for autonomous economic policy-making in the weaker Member States.

In principle there are two situations when we can expect market integration among heterogeneous economies to function well, and not to fuel divisions among the Member States at different levels of development. The first is when the gains and pains of integration are distributed in such a way that developmental differences gradually fade away. The second is when the policies of extending and correcting integrated markets together produce outcomes close to the Pareto frontiers, without necessarily inducing developmental convergence (e.g., while Bulgaria does not converge to Bavaria in economic terms, both gain from integration).

The ideal situation for an integration regime is when both factors are present simultaneously – when inequalities decrease among the participating Member States while all of them gain simultaneously (i.e., all the participating economies grow, but the lesser developed ones grow faster). It is this situation that we can attach the lowest probability to an increase in core-periphery divisions.

In principle, increase in core-periphery divisions should be the most likely outcome when inequalities among participating states increase while, simultaneously, the distributive outcomes of integration depart from the Pareto frontiers (e.g经济 conditions improve or stay the same in the stronger economies while in (some of the) weaker economies conditions dramatically deteriorate). This is indeed what the bulk of literature after the Eurozone crisis expected (Johnson and Regan, 2018; Armingeon et. al., 2016). Yet, the problem with this expectation is that the worsening of economic conditions in the periphery usually implies the strengthening of their economic dependency and the increase of asymmetry in their bargaining position vis-à-vis the core. In other words, deteriorating economic conditions in one part of a highly integrated market may also decrease its political room for maneuver. The greater the dependence on decisions made by other Member States, or by private actors in the integrated market, the more likely it is that domestic politicians will refrain from increasing divisions among the Member States. Of course, in principle the
weaker Member States might decide to leave integration altogether. This option is, however, foreclosed for the peripheral Member States in the EU because of the perceived prohibitive political and economic costs of exit.

The opportunities for generating core-periphery divisions are much stronger when core-periphery inequalities are sustained, or if they increase but economic outcomes are close to the Pareto frontiers. Economies in the stronger Member States grow faster, inequalities between core and periphery increase, but even the weaker Member States do fine. These are situations in which core-periphery relations can be politicized easier by politicians in the peripheries without the paralyzing fear that the stronger Member States will be able to impose prohibitive costs on their countries. To put it differently, holding economic interdependence among Member States to be constant, the most conducive structure of political opportunities for generating/increasing core-periphery divisions is in situations in which there is a decrease in the asymmetry in the power relations between the Member States.

The fourth possible scenario is the one in which core-periphery inequalities decrease but economic outcomes are far away from the Pareto frontier. This would occur if the core were experiencing relative decline while the peripheral countries were doing well or growing. Given the structure of the EU political system (elaborated below) and given the hierarchy inherent in the economic structure of the integrated market, such a scenario is unlikely as the core countries would have the incentives and means to use their stronger position in order to correct the outcomes of such an asymmetric development or external shock. In this unlikely scenario we would nevertheless expect an increase in core-periphery divisions, only this time the politicization would be stronger on the side of the core countries, rather than the periphery. Table 1 depicts the four possible scenarios and their implications for core-periphery divisions.
Table 1

<table>
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<th>Distance of integration outcomes to Pareto frontiers</th>
<th>Decreasing</th>
<th>Increasing</th>
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<tbody>
<tr>
<td>Close</td>
<td>No C-P divisions</td>
<td>C-P divisions increasing</td>
</tr>
<tr>
<td>Far away</td>
<td>C-P divisions increasing (unlikely scenario)</td>
<td>No/Limited C-P divisions</td>
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How does the EU perform from the perspective of the above analysis? Do the policies of the EU contribute to the increasing or to the decreasing of inequalities among the Member States from the core and periphery? Do they allow for or help Member States to stay around the Pareto frontiers?

The political economy literature on EU policies of extending and correcting markets is less than upbeat about the EU's performance in these matters. The structure of EU policymaking prefers programs of extending markets over policies that would correct the market distribution of resources and opportunities. (Höpner and Schäfer 2012; Scharpf 1988, 1998; Tallberg 2008). The EU cohesion policies, which have the reduction of inequalities across Member States as their major policy goal, redistribute 0.3% of EU GDP. Even if we add the much larger agricultural support programs of the EU, which do not have the management of developmental disparities among their goals, we get around 1% of EU GDP being used for supranational redistribution, a number roughly 20 times less than the resources used in the U.S. liberal market economy for correcting the developmental outcomes of the U.S. single market via federal level redistributions.

The problem is not solely, and most probably not primarily, related to the size of the resources redistributed. Weak EU control over the use of these transfers represents at least as significant a problem as the size of these policies. Greece,
one of the most troubled economies in the EU, has been one of the largest beneficiaries of the EU developmental transfers. Between the time it joined the integration regime and the start of the monetary crisis in the EU, Greece alone has received roughly the same amount as the Marshall Fund received by the whole of Western Europe after the second World War. While some of the Member States use these transfers for industrial upgrading and/or the reduction of territorial disparities, others can use them for strengthening patron-client relations and cementing the powers of the incumbents over the state while conserving economic conditions in their country (Barca, 2009.; Medve-Bálint 2015).

State aid is another EU policy that originally allowed for the provision of opportunities exclusively to territorial units that were strongly disadvantaged by the integrated market. The gradual softening up of state aid regulations by the core countries has led to a situation in which the EU policies originally designed to reduce developmental disparities have become a tool to increase developmental inequalities in the EU, further intensifying the consequences of the single market that they were supposed to correct. The effects of the working of the European Investment Bank are not too dissimilar (Bruszt, Medve-Balint and Piroska, 2022).

While Crises like the 2008 monetary crisis or the more recent COVID crisis have exposed major problems in core-periphery relations in the EU, they have not led to the alteration of the above highlighted qualities of the management of inequalities across Member States. The crises did not lead to the mutualization of the risks of regulatory and monetary integration, and the EU did not create automatic mechanisms to counteract the effects of asymmetric shocks. While the Next Generation EU mechanism has redistributed over €700 billion among the 27 Member States, and discriminated for weaker economies which is praiseworthy, the further relaxation of state aid regulations in 2020 allowed Germany alone to provide around €1 trillion to its firms in the same year.

Why is the performance of the EU policies managing transnational markets so lousy? Why do EU policies, as we will see in more detail in the next section, have such uneven results in reducing inequalities and/or helping Member States gain from integration? The common factor in the diverse answers to these questions is the focus on the properties of the political institutions that are supposed to
manage the developmental consequences of integration among heterogeneous economies.

What are alternative solutions for managing the developmental externalities of integration? States participating in market integration could choose to settle the problems of the developmental externalities of integration *ex ante*, negotiating mutually acceptable policies sector by sector, and policy area by policy area (Cooley and Spruyt, 2009). They can try to foresee in advance all the potential distributive problems of integration and go for a complete contract, the solution chosen by most of the regional integration regimes outside of Europe, like NAFTA, CAFTA, or Mercosur. The fact that even such contracts, which are usually negotiated for years, can have unforeseen consequences is best illustrated by the fact that it was the U.S. under President Trump that initiated the complete renegotiation of the NAFTA agreement on the basis of its unforeseen or disregarded negative developmental consequences.

Participating states could also enter into an incomplete contract and leave it to the jointly created political institutions to manage potential unforeseen and unintended consequences of integration. Market integration in Europe relies on the second solution and the various political economy explanations for the deficiencies of market integration in EU all take the analysis of the properties of the EU political institutions as their starting point. Most influential among them are the analyses of Fritz Scharpf on what he called the “Joint Decision Trap”, which deduces the dominance of policies extending the market over market correcting policies from the built-in bias in the structure of EU decision-making, and the asymmetrical power relations among EU Member States (Scharpf, 1988). Followers of this approach would expect that the integrated market will distribute costs and gains unequally among Member States, and they would expect no or just limited market correction policies primarily in the form of selective side-payments to allow for further market integration (Abdelal and Meunier 2010; Egan 2015; Höpner and Schäfer 2012; Tallberg 2008).

We take their analyses as our point of departure as they help to explain why, given the properties of *decision-making* in the EU, stronger and more developed Member States can impose their preferences on the weaker ones. However, these analyses cannot really explain the dominating preferences of policy makers.
Based on neofunctionalist and liberal intergovernmentalist approaches, one could expect a larger commitment on the side of the stronger economies to move integration in the direction of the Pareto frontier even in non-crisis situations. With growing interdependence, the pains and gains in the periphery can easily be transformed into pains and gains in the core Member States, which, in turn, are supposed to induce change in the preferences of policy makers and powerful economic actors in these countries (Haas 1964; Moravcsik 1998; Sandholtz and Stone Sweet 2012. For an excellent summary of this literature, see Genschel and Jachtenfuchs 2018.)

Based on a previous study, co-authored by one of us, here we argue that the preferences of EU-level policymakers are shaped by the EU’s confederal system of political representation (Bruszt, Medve-Balint, and Piroska, 2022). Unlike in a federal polity, all Member State representatives participating in decision-making at the EU level are elected from the 27 Member States. There is no federal representation of the common interests of EU citizens to counterbalance the territorial fragmentation in the representation of the interests of the peoples of the Member States. EU-level policy makers have little incentive to commit themselves to longer term, mutually beneficial policies, especially if such policies would imply interstate distribution of resources and opportunities. If they want to retain their office, they have to convince domestic electorates that they represent national interests vis-à-vis other Member States or “Brussels” better than their domestic competitors. This structure of representation and accountability generates strong incentives for elected politicians in the EU to externalize the developmental consequences of integration onto other Member States and block EU policies from reaching the Pareto frontier if these policies endanger their domestic political position.

EU-level representatives and policymakers in this confederal system have strong incentives to internalize the gains and externalize the costs of market integration. If they come from core countries, they have strong incentives to expand opportunities for domestic economic actors, minimize transferring resources and opportunities to the periphery, and push for EU-level policies that could increase control over the use of those transfers. Elected politicians in the periphery,
however, have the opposite incentives: to increase transfers, maximize autonomy over their spending, and blame “Brussels” and/or other Member States for hindering the furthering of national interests. Except for crisis situations, the normal working of the EU political institutions hinders the management of core-periphery relations in the common interest of the Member States while it rewards their politicization.

DEVELOPMENT AND POLITICIZATION: EAST AND SOUTH COMPARED

When can we expect increases in core-periphery divisions? To answer this question, in this second part of the paper we contrast the Southern and the Eastern peripheries to explore the relationship between improving or deteriorating positions in the EU market, on the one hand, and the politicization of core-periphery relations on the other hand. Contrary to common expectations, we find that politicization is not a result of the direct translation of discontent with the worsening of a country’s economic and social prospects in the EU. It is, in fact, the other way around. Whereas in the South a deteriorating position in the European market went hand in hand with the decline of politicization of core-periphery relations after its peak during the financial crisis, in the East relative improvement of developmental outcomes allowed for much stronger, more durable, and politically more successful politicization of peripherality.

We explain this puzzling divergence by looking at the forms of dependence that link the peripheral economies of the East and the South with those of the core. While both peripheries are dependent on capital inflows from the core, the type of capital inflows that is at the center of their dependency is different: credit in the South and FDI in the East (Vukov, 2021). This pattern of dependency shapes room for politicization of core-periphery relations and contestation of the EU integration regime in two ways. First, it creates different power asymmetries vis-à-vis the core which is linked with the ease of exit of respective type of capital flows. The easier it is to reverse the capital flows, the more asymmetric the relation of dependency with the core and, consequently, the less room there is for successful politicization of core-periphery relations. Furthermore, the constraints stemming from economic dependence interact in different ways with the EU rules. Whereas in the case of debt dependence the pressures of international financial markets and the
EU macroeconomic rules and conditions are closely intertwined and mutually reinforcing, exactly the opposite is the case with FDI dependency, where conflicts with the EU institutions have little effect on foreign investors' decisions, and where EU membership may even offset possible destabilizing effects of domestic political changes.

We explore the relative improvement or worsening of a peripheral country's economic position in the European market by looking at two dimensions: the ability to increase competitiveness and move towards more complex and knowledge-intensive economic activities, and the ability to extend the scope of the beneficiaries of integration. Table 2 (included in the Appendix) presents selected economic and social indicators in the East and the South that capture these two dimensions. The data show percentage changes in selected indicators between the global financial crisis and the COVID pandemic (2008-2019).

Most of the indicators in the South show deterioration and further peripheralization since 2008. While there is some variation in the ability of Southern economies to recover from the crisis (with Spain and Portugal doing better than Greece or Italy), all of them show declining economic complexity, while the share of Research and Development (R&D) in GDP only increased in countries that have seen a sharp GDP decline. The situation is even worse with regards to the distribution of the benefits of integration, with inequality and poverty rising in all Southern countries except for Portugal.

Notwithstanding the fact that some of the Eastern economies were also hard hit by the financial crisis, Eastern European countries show greater improvement of their position in the European market. Most countries have experienced stronger economic upgrading and rising competitiveness, as well as improvement in the distribution of benefits from integration. Like in the South, there is also important national-level variation within the East, with some countries like Slovakia recording a decline in economic complexity and with several countries showing rising inequality. The overall picture is, however, one of much greater room for development and greater ability to benefit from EU market integration in the East than in the South.
The situation is exactly the opposite when it comes to the politicization of core-periphery relations. Since the crisis, both peripheries have seen the emergence and/or strengthening of Eurosceptic political parties challenging the EU as a regime that systematically disadvantages their countries and subjects them to the rule of their richer counterparts. In the South, the Eurozone crisis has spurred the rise of challenger parties on the left and the right: from Syriza or Podemos to Golden Dawn, Vox, or Lega (Hernandez and Kriesi, 2016; Della Porta et. al, 2017), which have all challenged the EU regime and politicized their country’s peripheral position within it. Similar developments have been apparent in Eastern Europe, with Hungary and Poland being the most notable examples.

Yet, the fate of these parties has subsequently dramatically differed in the South and in the East. While voicing criticism of Brussels in their pre-election campaigns, once in government the Southern populists found themselves either unable to deliver on their promises, balancing their policy agenda with the EU requirements, or outright changing their position and supporting pro-EU governments. Consequently, they would also reduce their anti-EU stance and more often than not experience electoral decline. Greece is probably the most dramatic example where Syriza's acceptance of the EU bailout conditions meant that the central polarizing issue of Greek politics ceased to be politically salient (Bosco and Verney, 2020). Similarly, a drastic U-turn was performed by the Italian Lega after its experience in government. From advocating a referendum on Italy’s EU membership and toying with the idea of exit from the EMU, Lega has subsequently turned into a supporter of a pro-EU government led by a former European Central Bank President. Whereas the overall support for Eurosceptic parties in Italy increased (Conti et. al., 2020), the strength of their anti-EU rhetoric substantively declined by 2019 (Jones and Matthijs, 2020; Fabbrini and Zgaga, 2022). Spanish and Portuguese politics show a similar trajectory. In Portugal, discontent with austerity brought about a first minority left government with the support of the Eurosceptic Communist party, but despite some policy reversals, the government maintained austerity by stealth (Moury at. al., 2020). Whereas this strategy turned out to be electorally successful for the center-left, it was detrimental for the communists. As a result, the overall vote for the Eurosceptic parties in Portugal declined from the mid-2010s to 2019 (Lisi, 2020). Similar developments have been apparent on the Spanish left, with Podemos witnessing
a dramatic decline from 20.7% of the vote in 2015, when it emerged as the third largest political force in the country, to only 12.8% in November 2019. Moreover, while their 2019 electoral program contained bold proposals for reforming the EU institutions, none of these became part of the coalition agreement made with the center-left when forming the government after the elections (Real Dato and Sojka, 2020).

The situation is dramatically different in the East where anti-EU parties have been able to form governments, directly challenge the EU institutions, and gain further political support. This has been particularly stark in Hungary and Poland where right-wing governments have engaged in different forms of economic nationalism by seeking to favor domestic firms, reduce FDI dependency, and build national capitalism (Scheiring, 2021; Naczyk, 2021; Toplisek, 2019; Johnson and Barnes, 2015; Ban and Bohle, 2020; Sebok and Simons, 2021). Political illiberalism and the undermining of the rule of law that has accompanied such strategies in Hungary and Poland triggered increased conflicts between national and EU institutions. So far, such conflicts have resulted in little change in course by domestic governments. The EU has proven much less able to impose rule of law discipline in the East than has been the case with economic discipline in the South. Moreover, in contrast with the South, the sovereigntist projects in the East, combined with a robust culturalist frame, have also been electorally successful (Fabbrini and Zgaga, 2022). Ever since 2010, when it won elections campaigning on strong opposition to the EU and IMF crisis management, the Fidesz party has maintained power in Hungary and increased its vote share between 2010 and 2022. Similarly, the Polish Law and Justice party has also seen the rise of their popularity between the 2011 and 2019 elections, therefore remaining in power after its first electoral victory in 2015.

To be sure, not all Eastern European countries saw the rise of economic nationalist policies and rule by anti-EU sovereigntist parties. Despite being hard hit by the crisis, the Baltic countries have retained their economic liberalism and technocratic approach to economic policy making, outliberalizing the EU austerity requirements (Eihmanis, 2014) and keeping their stable, if hollow, democratic orders (Cianetti, 2018). The Visegrad countries also vary in their strategies of
managing dependency, with the Czech Republic and Slovakia displaying more stability than Hungary and Poland (Scheiring, 2021; Simons, 2021). The attempts to build a new national-neoliberal model have also been stalled in Romania, largely due to the inability of local politicians to create a stable political alliance supporting such a development model (Ban et. al., 2022). While an economic nationalist agenda is not a universal response to neoliberalism and dependency in the East, it is nevertheless an agenda that can be pushed forward in the East much easier than in the South.

Why are the Eastern European sovereigntists so much more successful than their Southern counterparts? This discrepancy is not a result of different citizens’ attitudes towards the EU or their disillusionment with democracy. As shown by Armingeon et. al. (2016), in the case of the citizens of the South observers could find a particularly sharp decline in trust in the EU institutions as well as detachment from national democratic institutions after the crisis. Such public opinion data reflect rather well the actual economic and social deterioration of the South. Yet the translation of such dissatisfaction into an effective sovereigntist “anti-Brussels” strategy was hampered by another factor: the form of dependency of peripheral countries upon the core and the asymmetry of power that such dependency entails.

Partly as a result of different EU strategies of integration (Bruszt and Vukov, 2017) and partly as a result of domestic politics, East and South developed different peripheral growth models and different patterns of dependency before the financial crisis (Vukov, 2021; Bohle, 2018). The Southern consumption-led growth model was based on foreign debt, with North-South relations developing as creditor-debtor relations. Notwithstanding important internal differences, all of the Eastern economies have been fundamentally dependent on foreign direct investments in the financial and/or manufacturing sectors (Bohle, 2018; Ban and Adascalitei, 2022). The main form of dependence in the East is thus based on FDI, with East-West relations being mainly investor-host country relations.

Such patterns of dependence entail different levels of power asymmetry between core and peripheral countries. Due to the higher sunk costs linked with FDI and the higher stability of FDI capital flows compared with foreign borrowing (Eichengreen et. al., 2018), Eastern dependence entails fewer asymmetric power
relations vis-à-vis the core than is the case with the South. Credit flows are more volatile, they are subject to sudden stops, and they come with lower sunk costs than FDI flows. It is much easier for creditors to withdraw funds in the face of political or economic instability in a country, as is apparent in rising yields on government bonds, than it is for MNCs to shift their activities elsewhere. Consequently, debt-based dependence has created much stronger pressures for the South to turn into market-conforming democracies (Streeck, 2013) than is the case with FDI-based dependence in the East.

Southern policy makers have indeed been heavily constrained by the reactions of the international financial markets to national elections or policy announcements. In Italy, the costs of government borrowing closely followed political dynamics: they increased as a result of new Treasury bills introduced by the Lega government that threatened to undermine Italy’s Euro membership, they spiked with Salvini’s decision to bring down the government, and they calmed down immediately after the formation of the Conte II government (Jones and Matthijs, 2020). At the same time, such reactions from the international financial markets are closely intertwined with assessments by the EU. Greece is the most drastic example where the failure to accept the EU’s conditions threatened not only to block the bailout but also to cut the country from access to international finance altogether. Italy’s borrowing costs also declined after the government reached the agreement on its budget with the European Commission (Jones and Matthijs, 2020). Similar dynamics have been in place in Portugal where left-wing officials paid a lot of attention to meeting the EC deficit requirements precisely in order to reassure the financial markets (Moury et. al., 2020). In the words of one Portuguese official: “A country like Portugal gains a lot from having the EC saying ‘yes sir, this is an acceptable pace of deficit reduction’. So, let’s say that the concern about the way markets react to our goals is an integral part of our goals” (Moury et. al., 2020).

Nothing like that is in place in Eastern Europe, where much lower and quickly declining levels of external debt left much greater leeway to national governments to implement a wide span of heterodox policies, ranging from national neoliberalism (Ban et. al., 2022) to a more developmentalist agenda (Naczyk,
2021). Eastern European dependency on FDI turned out to be much less of a limiting factor for such heterodox approaches. Despite the nominal preference of foreign investors for liberal institutions and political stability, Western European MNCs could easily find accommodation with different sovereigntist and even authoritarian leaders in the East (Kelemen, 2020). What is more, whereas in the South conflicts with the EU prompted quick reactions from the financial markets, thus further pressuring national governments to play by the EU rules, no such dynamics developed in the East. Conflicts with the EU over the rule of law did not discourage foreign investors from further expanding their production in Poland or Hungary. To the contrary, EU membership may even be perceived as a guarantee of stability and thus offset any potential risks that might lead to disinvestment by Western multinationals (Kelemen, 2020).

At the same time, the EU itself has far fewer means to control and discipline national governments as long as they comply with the macroeconomic stability rules. After the fights with the Commission in the early 2010s, the soft sovereigntist Hungarian government discovered that meeting the monetary requirements of Brussels provides enormous freedoms for national governments in spending domestic and EU resources at will. Except for the recently added EU measures aiming to reduce corruption, EU funds may be used as free rents for strengthening domestic alliances of economic nationalists in the East, or keeping MNCs on board as a part of domestic social coalitions (Kelemen, 2020; Ban et. al., 2022).

All in all, whereas the twin pressures of international financial markets and EU rules have so far kept attacks against “Brussels” based on economic nationalism in the South at bay, the opposite is the case in the East where neither the EU nor FDI-based dependency exert any pressure on nationalist governments and economic grievances can be embedded in robust culturalist frames. Different forms of economic dependency are thus translated into different levels of asymmetry in political power between peripheral and core countries.

CONCLUSIONS

Can we expect an increase in core-periphery divisions in the EU, and if yes, with what effects on integration? In this paper we have explored these interlinked
questions and have arrived at two rather counter-intuitive conclusions. First, we
expect increases in core periphery divisions once economic conditions
improve in the peripheries. This occurs at a time of improvements in core-
periphery relations when, despite an eventual increase in inequalities, all the
Member States come closer to the Pareto frontiers. Secondly, however, an
increase in core-periphery division under such conditions is unlikely to lead to
reform of the relations between EU Member States from the core and periphery.
A coalition formed by Southern and Eastern Member States might jointly demand
a decrease in the range of mandatory rules, an increase in the range of
autonomous decision-making in economic and monetary policies, change in the
rules of rulemaking, and an increase in the scope of transfers from the core
countries. Some of these demands might even lead to improvements in the
working of the Single Market and the monetary union. But to the degree that they
would include redistribution of resources and/or opportunities across Member
States, they are unlikely to generate support in the core countries.

Crises might play a role in moving ahead the case for reforming the management
of diversity within the EU. While economic crises are built into the system (Jones
et. al, 2018; Fabbrini, 2018), and according to neofunctionalists can act as a
catalyzer for integration, we argue that the effects of crises on the EU
fundamentally depend on the way they distribute costs and pains across the core
and the periphery. Because of the internal diversity in growth models, economic
crises are more likely to be asymmetric, making it easier to absorb them within
the existing system without much mutualization of the burdens of the crisis. The
post-2008 settlement in the monetary union is a case in point.

A transformative crisis that could generate change in the EU institutions would be
one that affects the core and both peripheries simultaneously. The pandemic, a
non-economic crisis, provided an example of such a situation in which
simultaneous economic trouble in both of the EU’s peripheries went hand in hand
with economic troubles in the core Member States. In this case, the settlement
included a considerable one-time mutualization of the costs of crisis-
management. However, the Member States from the core and the periphery
could not commit themselves to longer term reform of core-periphery relations.
Constrained by the confederal system of representation, core Member States could not commit to institutionalizing risk mutualization, which implied increased redistribution and automatic transfers, whereas the Member States from the peripheries could not commit to deeper sharing of economic sovereignty that could have kept the need for future transfers under control.

Lasting mutualization of the costs and gains of economic integration among diverse economies is an arduous task even under federal political systems that have institutions to counteract the fragmentary effects of the separate representation of the potentially conflicting interests of the (Member) States (Schelkle, 2017). Based on an institutional analysis, we might conclude that achieving lasting mutualization of the costs and gains of integration within the framework of confederal political institutions might be a mission impossible. In the confederal structure of representation, the survival chances of EU level policymakers depend primarily on idiosyncratic political struggles in 27 diverse political arenas without the counterweight of an effective institutional representation of the common interests of the Member States. In this system it is an uphill struggle for incumbents to enter into cross-Member States redistributive settlements, except for the rare situations in which pain in the core countries can directly be linked to pains in the peripheral economies.

But these are exactly the types of crises that might induce political learning, the search for new ideas, and attempts at forming new cross-territorial (and cross-class) alliances. The pandemic induced learning for EU policymakers might not have led to a Hamiltonian moment of systemic change in 2020. But it has forced policymakers to learn about some of the weaknesses of their previous institutional solutions and it has induced promising scholarly debates about ways out within the existing institutional structure (Buti and Fabbrini, 2022; Schelkle 2021).
## APPENDIX

### Table 2. Changes in selected economic and social indicators, 2008-2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Real GDP per capita</th>
<th>Real labour productivity</th>
<th>Export market shares</th>
<th>Economic complexity index</th>
<th>R&amp;D as % of GDP</th>
<th>COMPETITIVENESS</th>
<th>Gini income inequality</th>
<th>Anchored poverty rate</th>
<th>DISTRIBUTION OF BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>-20.7</td>
<td>-12.5</td>
<td>-21.4</td>
<td>-56.7</td>
<td>78.8</td>
<td>-</td>
<td>-3.3</td>
<td>123.4</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>4.1</td>
<td>6.5</td>
<td>-7.5</td>
<td>-16.5</td>
<td>-6.8</td>
<td>+/-</td>
<td>2.5</td>
<td>28.8</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>-4.6</td>
<td>-2.0</td>
<td>-22.4</td>
<td>-0.7</td>
<td>23.3</td>
<td>-</td>
<td>7.1</td>
<td>27.0</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>7.7</td>
<td>4.7</td>
<td>2.4</td>
<td>-16.0</td>
<td>-5.6</td>
<td>+/-</td>
<td>-10.3</td>
<td>-11.4</td>
<td>+ +</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>33.1</td>
<td>27.9</td>
<td>20.0</td>
<td>12.8</td>
<td>68.9</td>
<td>+/-</td>
<td>10.3</td>
<td>-47.2</td>
<td>+/-</td>
</tr>
<tr>
<td>Czechia</td>
<td>18.3</td>
<td>15.3</td>
<td>-1.3</td>
<td>9.8</td>
<td>54.5</td>
<td>+</td>
<td>-2.8</td>
<td>-47.8</td>
<td>+</td>
</tr>
<tr>
<td>Estonia</td>
<td>24.7</td>
<td>17.1</td>
<td>12.5</td>
<td>21.1</td>
<td>12.8</td>
<td>+/-</td>
<td>-1.0</td>
<td>-59.5</td>
<td>++</td>
</tr>
<tr>
<td>Latvia</td>
<td>25.0</td>
<td>25.8</td>
<td>14.3</td>
<td>13.6</td>
<td>10.3</td>
<td>+/-</td>
<td>-5.1</td>
<td>-35.5</td>
<td>+</td>
</tr>
<tr>
<td>Lithuania</td>
<td>38.3</td>
<td>25.7</td>
<td>21.4</td>
<td>43.6</td>
<td>19.0</td>
<td>++</td>
<td>7.0</td>
<td>-34.0</td>
<td>+/-</td>
</tr>
<tr>
<td>Hungary</td>
<td>26.2</td>
<td>8.9</td>
<td>-14.1</td>
<td>8.7</td>
<td>56.1</td>
<td>+</td>
<td>13.9</td>
<td>-26.6</td>
<td>+/-</td>
</tr>
<tr>
<td>Poland</td>
<td>45.9</td>
<td>29.4</td>
<td>29.8</td>
<td>-3.6</td>
<td>101,7</td>
<td>+/-</td>
<td>-13.1</td>
<td>-67.5</td>
<td>++</td>
</tr>
<tr>
<td>Romania</td>
<td>35.5</td>
<td>42.2</td>
<td>41.4</td>
<td>31.9</td>
<td>-9.1</td>
<td>+</td>
<td>-2.2</td>
<td>-59.3</td>
<td>++</td>
</tr>
<tr>
<td>Slovenia</td>
<td>7.9</td>
<td>9.4</td>
<td>-5.3</td>
<td>10.1</td>
<td>19.6</td>
<td>+</td>
<td>0.0</td>
<td>-4.1</td>
<td>+</td>
</tr>
<tr>
<td>Slovakia</td>
<td>25.9</td>
<td>12.5</td>
<td>-2.4</td>
<td>-1.4</td>
<td>82.6</td>
<td>+/-</td>
<td>-11.8</td>
<td>-44.0</td>
<td>++</td>
</tr>
</tbody>
</table>

Note: All measures are presented as percentage change between 2008 and 2019. Real labour productivity refers to percentage change between 2010 and 2019. Bold numbers indicate that the direction of change is towards peripheralization: declining competitiveness and narrowing the distribution of benefits. Summary columns 'Competitiveness' and 'Distribution of benefits' indicate the degree and direction of change: greater peripheralization is indicated by '-' sign, while change away from periphery is indicated by '+' sign.
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