**Berlin Consensus and Disintegration.**
**Monetary Regime and Uneven Development in the EU**

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## Introduction

When Greece became the tenth member of the European Communities (today: European Union -EU) in 1981, the capitalist world economy was in the middle of the second global recession after world war II, US-president Ronald Reagan and England's prime minister Margret Thatcher were kingpin and queenpin of a global coup that would enforce liberal policies (liberalization, privatization) justified by a mixture of neo-liberal ideology, neo-classic economics and postmodern ideas. Peripheral countries had been lured into debt that was supposed to bring catching-up developments during the 1970s, when international liquidity was abundant after the end of the Bretton Woods regime. The Volcker shock of 1979 stood at the beginning of the credit (″debt″) crisis. Peripheral countries were ″conditioned″ to agree to neoliberal policies, which were later dubbed ″Washington Consensus″ in order to receive (meanwhile) scarce financial credits.

Three decades later, in yet another crisis of the global capitalist system, it seems as if European clocks were turned back to 1981. A ″Berlin Consensus″ forces policies on the periphery of the European Monetary Union (EMU) that suspiciously look alike the erroneous policies that have been forced on the global south since the 1980s. In this short contribution we will briefly inquire into the structural imbalances between the main core EMU/EU country Germany and the development models of the Southern EMU periphery (Greece, Spain, Portugal), and four countries of the Eastern EU periphery (Bulgaria, Hungary, Lithuania, Romania). We will also analyze the structural and institutional problems of the EMU/EU and to what respect they influence a self-sustaining development at the EMU/EU periphery. In this regard, we will particularly focus on question in how far the monetary regimes have contributed to cement asymmetrical center/periphery relations. Finally we will point at options to counter the crisis.

## An Imbalanced Union in Crisis

The German coalition government of Social Democrats and Greens in the 2000s slashed domestic demand by the infamous policy known as "Hartz IV" which gave Germany a decisive boost of price advantage against its competitors in the EU: "The combination of high external demand and weak domestic demand", as the report by the OECD (2010a:29f.) put it, "notably private consumption, in the years preceding the crisis was mirrored in a large current account surplus which reached almost 8% of GDP in 2007 […]. […] Corporate saving increased substantially due to a shift in income distribution towards profits. Wage moderation led to sustained gains in competitiveness (in particular in the manufacturing sector) and boosted profitability. Between 2000 and 2007, the level of real compensation of employees declined by 1%, while it increased by more than 9% in the average OECD country. Over the same period, the wage share in GDP declined by more than 4 percentage points, while it remained stable in the average OECD country." German companies were able to gain market shares when low cost emerging countries were entering the global market at the expense of other OECD countries. This was mainly due to the price factor advantage that reduced unit labor costs: Real wages in Germany of 2008 were at the level of 2001. "German companies also benefited from cost reductions by offshoring and/or outsourcing parts of their supply chains to lower-cost countries in Central and Eastern Europe". (OECD 2010a:112) Stagnating domestic demand was not so much countered, however, by indebting German consumers (the saving rate of German households is unusually high, cf. OECD 2010a:31f.) but by capital export to the periphery that translated into German export stimulation. In the wording of the OECD (2010a:33): "The continuous current account surpluses since the beginning of the 2000s have turned Germany into a major creditor country. The country’s net international investment position increased from around 3% of GDP in 2000 to 25% of GDP by 2008 – the sixth largest among OECD countries […]. To some extent this is a self-perpetuating effect as the returns on the assets have a positive influence on the current account (net factor income accounted for around 30% of the current account balance in 2007). By contrast, revaluation effects through exchange rate changes and asset prices played only a minor role. […] The stock of outward FDI increased by 50% between 2000 and 2007, with the new EU countries accounting for one-fifth of this increase. However, the largest part of the capital outflows reflected banks' net lending of capital abroad […]. The net foreign asset position of the German banking sector has soared since 2000, reaching around 40% of GDP by 2007, the second largest share in value terms after Japan." At the "rapid pace", as the IMF (2010:29) put it, the German banks' foreign claims grew before the crisis, led to an increase of 160% to about 4.7 trillion US dollar between the first quarter of 2000 and the first quarter of 2008, a change of 37% in foreign claims per GDP, before contracting in the wake of the crisis. In this first quarter of 2008, 37.6% of this 4.7 trillion US dollar were claims on the Euro Area (14.6% of which: claims on Southern Europe). France's banks claimed about 4.3 trillion US dollar internationally, 41.1% of which on the Euro Area (20.6% of the Euro Area were claims on Southern Europe). 17.5% of the German banks' exposure at that point was towards the US.

**The Southern EMU Periphery from Structural Imbalances to Crisis: Greece, Portugal, and Spain**

These countries of "peripheral capitalism" had all been late comers to industrial development and then experienced dependent integration into the world market during the second half of the 20th century (which made them particularly vulnerable to the global recessions of the 1970s and 1980s). (Holman 1996:42ff, 125ff, 228) They did not develop a "Fordist" accumulation model like in the countries of the Capitalist center but a type of "peripheral Fordism" (Holman 2002:401ff.) The forms of trade-unions, for example, constituent to center Fordism were absent in the dictatorships of these countries, as Lipietz (1982:47) puts it: "[T]he lifting of political repression in Spain and Portugal rapidly led to the loss of an internationally competitive position based upon what were, for capital, highly beneficial relations. Hence the economic crisis which came hard on the heels of the 'opening towards democracy'." Vicente Navarro (2011) stresses the importance of these dictatorial legacies up to today, among others in class structure and the development of the welfare state.

The defeat of anti-capitalist ambitions of the French social democratic-communist government under Francois Mitterand's presidency in 1983, seems to have ultimately set the course for a (neo)liberal European integration led by German monetary policy. Capital flight and speculation would have made necessary massive counteracting policies. Jacques Delors, who eventually became president of the EU commission, orchestrated the U-turn in French policy. Under the slogan ″modernize or decline″ France adopted policies that abandoned proposals of an active industrial policy, but were in favor of privatization and liberalization of financial services, and of deflation and austerity, which tied a strong Franc to the German Mark within the European Monetary System. (Moravcsik 1998:260ff., 269ff., 335ff.; Yergin and Stanislaw 2008:312ff.) The integration dynamic "of the 1980s began with the rejection of all "euro-Keynesian" strategies and a monetarist new orientation of economic policy" (Ziltener 2000:88). It was this environment that Greece in 1981, Portugal and Spain in 1986 entered, when accessing what later would become the European Union (EU). While the Portuguese and Spanish social democrats subscribed to austerity policies immediately after coming into power, the Greek PASOK experimented with a stimulation policy before U-turning to austerity as well. (Holman 1996: 141f.) Spain had lived through a period of relative de-industrialization (that was accompanied by a process of tertiarization) already before the accession to the EC/EU. (Holman 1996:126, 228)

Entering the EU implied a loss of tariff protection and industrial policy options. Regional policies of the EU did not provide a replacement because they were targeted at infrastructural development, but not at industrial development. Core exporting countries like Germany were definitely not interested in regional policies geared toward industrial development in the periphery. They wanted to promote their own industrial exports. This constellation led to a first wave of part de-industrialisation directly after EU accession (López/Rodríguez 2010: 161 cc, Moravcsik 1998:258, Santos/Jacinto 2006, Stathakis 2010: 110). First tendencies towards a financialised trajectory with credit-financed real estate development could be observed at this early time, particularly in Spain, where the real estate boom, stimulated by government tax incentives, would lead to a real appreciation of real estate prices by 130% from 1996-2006. (OECD 2007:75ff.)

In the early post-EU accession period, these countries still preserved the option to devalue as a protectionist device. With the orientation towards entering the euro zone and the final accession to the euro zone, the Mediterranean countries renounced this option as well. The euro zone membership implied a further erosion of the industrial structures. The time series for manufacturing production (volume, adjusted by working hours, 2005=100) since 1995 (Greece: 89.45, Portugal: 90, Spain: 84) reached its peak in Portugal in 2002 (112.09), in Greece in 2000 (107.7), and in Spain before the crisis (2007:107.56). Greece's manufacturing has been falling ever since the pre-crisis level (2007:104.14) to 76.6 (2011), clearly signaling that the austerity programs have a negative impact on production. Portugal's production went down from 104.16 (2007) to 89.83 (2009), in order to decrease again after a slight increase in 2010 (2010:91.76; 2011:90.8). Spain's manufacturing production plunged dramatically from 107.56 (2007) to 82.52 (2009), and remained at that level in 2010 (83.03) and 2011 (82.19). The patterns of Italian and French manufacturing production volumes follow those of Spain and Portugal, while Germany's manufacturing production increased into the crisis (2008:113.04), and reached beyond that level in 2011 (113.89), interrupted only in 2009 (93.64), growing to 104.60 already in 2010. (Eurostat w/o. y_b)

In Spain, OECD analysis (2010b: 28f.) argues, consumer prices have risen 15-20% relative to its main trading partners Germany and France since 1995, while relative unit labor costs in manufacturing have risen 35%, mainly due to low productivity growth. The study points at the structural problems of the EMU: ″If there were a large overvaluation of the real exchange rate vis-à-vis other members in the euro area, it would be of particular concern, because it would have to be corrected through lower inflation than in the other countries of the currency area. With an inflation target of just below 2% for the euro area as a whole, a correction of a large exchange rate overvaluation could require a long period of low inflation or even deflation, and hence a long period of weak activity to generate the required downward pressures on prices.″ The real exchange rate in Portugal has risen since 1995, most pronounced until 2006, ″leading to a growing wedge in manufacturing unit labour costs relative to core European countries″. (OECD 2010c:24) OECD analysis deplores ″disappointing productivity performance and to insufficient wage moderation″, competition of Central and Eastern European countries in medium-high technology sectors (electrical machinery and transport equipment), as well as non-European competitors in the low-technology sectors (textiles, clothing) has contributed to Portugal's devastating competitive position. Recent stabilisation, since 2005, seems to be due to the ″soaring exports″ to Portugal's former colony Angola. (OECD 2010c:24ff.) A housing boom of the 1990s, an overvalued real exchange rate, and low interest rates due to the EMU regime are the ingredients of Portugal's negative current account balance and external debt. OECD (2010c:28f.) deems halting this trend ″disruptive if it were to be fully achieved in the short term. In arithmetic terms, stabilising the international investment position (as a share of GDP) at the 2009 level would require an immediate and permanent improvement of the "primary" current account (i.e., net of the income balance) close to 7 percentage points of GDP. A more orderly unwinding of current account imbalances […] in the medium term″ is judged to be dependent on ″ifs″: ″if external demand is supportive, market share losses are reversed, or at least halted, and the ratio of consumption to GDP gradually declines.″ Greece has experienced the most pronounced deterioration in the current account among the countries of the Southern EMU periphery, from average 3% between 1990-1998 to 14% in 2007-8. Interestingly, as OECD (2009:18ff.) points out, in contrast to Spain and Portugal, this trend was not owed to the goods and services balance: ″The loss of international competitiveness due to rising unit labour costs appears to have been partly offset by the geographical reorientation of external trade and gains in market share in the south-east European countries. In nominal terms, the world share of Greek exports has slightly increased since the early 2000s, although it has weakened somewhat in real terms.″ (OECD 2009:20) The Greek trade balance with EU27 deteriorated from 2001 (-15,478 Mio euro) into the crisis in 2008 (-22,563 Mio) before improving to still high numbers in 2010 (-14,317 Mio). Spanish trade with EU27 started with a negative balance of -21,691 Mio euro into the decade, deteriorating to 2007 (-48,212 Mio) before improving crisis induced to -10,945 Mio euro in 2010. Portugal's negative trade balance with EU27 somewhat reflects its manufacturing production: It slightly improved from 2001 (-11,955 Mio euro) to 2003 (-10,386 Mio) before worsening to -19,000 Mio euro in 2008. Then it decreased crisis related to  -15,631 Mio euro in 2010. (Eurostat 2011:166ff., 174ff., 270ff.). As Darvas (2012: 7) argues, the problems of the Southern euro zone countries were not confined to euro zone trade. They suffered from an overvaluation of their currency towards non-euro zone countries as well.

Germany is an important trading partner for the countries of the Southern periphery. Together with Spain, which received 23.8% of Portuguese dispatches into EU27 in 2001, Germany (23.4%) was the main EU27 importer of Portuguese products in the early phase of the EMU. This changed to pre-crisis 2007 (Spain:37.2%, Germany: 16.8%), before stagnating during the crisis (Spain: 35.3% in 2010, Germany: 17.4%). Arrivals from German products remained stable at about 18% of all arrivals from EU27 during the whole decade, arrivals from Spain increased from 35.7% (2001) to 41.2% (2010). France is most important for Spanish dispatches into EU27 (26.1% in 2001 and 27% in 2010), Germany comes second (15.9% in 2001 and 15.5% in 2010), and Portugal third (13.6% in 2001 and 13.2% in 2010). Germany leads the crowd as far as dispatches from Greece into EU27 are concerned (2001: 22.1%, 2010: 17.4%), followed by Italy (2001: 15.9%, 2010: 17.3%). We see the same picture when looking into arrivals to Greece from EU27, about 40% origin in Germany (2001:22.4%, 2010:20.5%) and Italy (2001:22%, 2010:19.3%) (Eurostat 2011: 168ff., 176ff., 272ff)

Greece, Portugal, and Spain have in common that their investment position worsened because of their growing external liabilities. The deterioration of Greece's and Portugal's current account ″is mainly due to a large reduction of net official and private transfers as net transfers from European Union have declined since 2007 and remittances by immigrants have increased. These factors are smaller in Spain.″ (OECD 2009:20) Indeed, the current account balances deteriorated before the crisis, in Greece from -7.2 of GDP in 2001 to -14.9% in 2008 (with a jump from -7.6 in 2005 to -11.4 in 2006), in Spain from -3,9% in 2001 to -10% in 2007, and Portugal from -10.3 (2001) to -12.6% (2008). (Eurostat w/o.y_d) One would expect that such structural imbalances would have negative impacts on GDP. Portugal, indeed, stagnated in GDP terms as well, loosing completely the pre EMU accession drive with high growth rates, and recovering from stagnation only in 2007 (2.4%) before plunging into crisis. Quite the contrary happened in Spain, which enjoyed high GDP growth rates in the years before the crisis (2001:3.7%, 2007:3.5%). Also for Greece, still provisional data suggest high growth rates: 4.2% in 2001, 3.0% in 2007. (Eurostat w/o.y_c)

**Central and East European Periphery**

In Eastern Europe, transformation to capitalism resulted in severe recessions and de-industrialisation in the early 1990s. The recession was particularly deep and prolonged in the successor states of the Soviet Union and Yugoslavia where it went hand in hand with the disintegration of the two multinational states. In the Baltic states, industrial output declined by about 30% p.a. for two years in Latvia and Lithuania and one year in Estonia as part of a decline of industrial production that lasted at least 4 years (wiiw 2007: 17, tab. I/1.7). The hasty and asymmetrical liberalization of foreign trade aggravated the problems productive sectors. Recession and de-industrialisation in the early 1990’s (and at times longer) had durable consequences, particularly enhanced import dependence. With the exception of Slovenia, the Central and East European government did not adopt exchange rate policies in order consciously to prevent currency appreciation and to promote industrial development. The Baltic states even opted for exchange rate policies that had an anti-industrial bias. In order to reduce inflation, make their currencies “credible” and severe their links with the post-Soviet space, they opted for forms of fixed exchange rates (and even currency boards in Estonia and Lithuania; Feldmann 2008: 245 f.) what produced overvalued exchange rates. In these countries, the current account has displayed particularly high deficits between the early/mid-1990s and the beginning of the present crisis, hardly ever falling below the critical limit of 5% of the GDP (wiiw 2007: 27, tab. I/2.1).

At the late 1990s, the growth models in Central and Eastern Europe became more neatly defined. In the Visegrád countries (Czech Republic, Hungary, Poland and Slovakia), export-orientated industrialization and dependent financialisation were combined whereas in the Baltic countries and South Eastern Europe dependent financialisation was the predominant trait. These growth models corresponded to the accumulation strategies of West European companies – the outsourcing of production by German manufacturing companies and the export of money capital. The European Commission facilitated the expansion of West European business towards Eastern Europe during the accession talks. With the exception of Slovenia, the key sectors of the two models (export industry and banking) became dominated by West European companies.

The Visegrád countries and Slovenia were very closely linked to the German export industry. In the smaller countries, the specialization profile is narrow, usually with a very strong focus on the car industry. The effects of the export industrialization on the current account were contradictory. On the one hand, export growth tended to outstrip export growth. On the other hand, profit remittances grew very rapidly, particularly in Hungary and the Czech Republic where it reached 6.5% resp. 5.7% of the GDP in 2006 (Mencinger 2007: 112). In the immediate pre-crisis years, the current account deficit used to around the critical level of 5% of the GDP resp. a bit lower in the Czech Republic (wiiw 2007: 27, tab. I/2.1). For the growth regime, financialisation was relevant as well. Private household indebtedness grew rapidly. This rising debt sustained consumption and a tendency towards real estate bubbles. The real estate bubble was particularly strong between 2004 and 2008 in Slovenia and relied in this country on heavy external refinancing (Košak et al.2011: 259 f.). Slovenia's external debt reached 105.0% of the GDP in 2008 (Astrov/Pöschl 2009: 355, tab. 5). Slovenia's 2007 entry into the euro zone was in line with this strong financialisation since it made the exchange rate risk with the euro zone disappear. Its effect on the trade balance was negative (Živković 2012: 212). The other country of the group that relied heavily on external refinancing of its domestic credit boom was Hungary. Hungary's external debt reached 120.2% of the GDP in 2008 (Astrov/Pöschl 2009: 355, tab. 5). Contrary to other Visegrád countries and Slovenia, the Hungarian domestic debt was primarily in foreign currency (Myant/Drahokoupil 2011, tab. 17.3). The Western owned banks in Hungary burdened their debtors with the exchange rate risk. Both banks and their foreign exchange middle class debtors were clearly in favor of a stable exchange rate because devaluation was to bring them into immediate trouble. Thus, the Hungarian government offered relatively high interest rates in order to assure the capital inflows that were necessary to maintain the exchange rate.

In the Baltic states and the Southeast European countries, financialisation was the main motor of the growth regime. Financialisation relied on huge capital inflows. The monetary regimes and policies were geared towards maintaining the momentum of financialisation. Bulgaria, Estonia, and Lithuania adopted currency boards already in the 1990s, Latvia had likewise a very rigid exchange rate regime. All these countries displayed a significant real currency appreciation in the pre-crisis years. Romania maintained a flexible exchange rate. However, the country pursued a policy of high interest rates (presumably to combat inflation) what resulted in a very strong nominal and real currency appreciation (Onaran 2007: 146, fig. 5). These monetary regimes made capital placements in these countries attractive. They fed real estate booms and sustained consumption. FDI went predominantly into the financial sector, real estate and retail trade, especially in Bulgaria, Estonia and Latvia (Hunya 2008: 51, Tab. I/19). In Bulgaria and the Baltic countries industry was not a central plank of the accumulation model. Particularly in the Baltic states, the industrial base is very small (Leitner 2010: 48).

In the Baltic states and the Southeast European countries, the increase of private indebtedness was even stronger than in the Visegrád countries (Frangakis 2009: tab. 3.8). The domestic debt was predominantly in foreign currency. In Latvia and Estonia, the share of foreign exchange credits even surpassed 80% (Myant/Drahokoupil 2011: 319, tab. 17.3). Due to the overvalued exchange rates, credit-fed demand stimulated imports very strongly. The current accounts turned deeply into the red. In 2007, the current account deficits ranged between 13.9% of the GDP (Romania) and 25.4% of the GDP (Bulgaria; Myant/Drahokoupil 2011: tab. A 13). The main source of the current account deficit was the negative trade balance though profit remittances were quite substantial as well in Estonia (Mencinger 2007). The external debts rose quickly and reached more than 100% of the GDP in Latvia, Estonia and Bulgaria in 2008 (Astrov/Pöschl 2009: 355, tab. 5). Whereas the external debt burden tended to be lower than in the Mediterranean countries, the current account deficit tended to be even more pronounced.

**EMU and EU Peripheries in the Crisis**

The EU peripheries were hit by the crisis in an uneven way. The majority of the Visegrád countries and – to a lesser extent – Slovenia were mainly affected by the steep decline of the exports whereas the highly financialised economies of first Eastern Europe and later Southern Europe were mainly affected via the financial channel. Due to its high degree of informal euroisation, Hungary was mainly hit by international credit restriction and capital outflows, thus, was closer to the crisis processes in the primarily financialised economies.

The direct initial shock by the crisis was taken relatively well by the Greek economy, argues OECD (2009:18f.). Beside the geographical diversification of trade, the Greek banks were not exposed as much to toxic assets. The initial impact seems to have been indirect, driven by expectations and ″re-evaluations″ of possible consequences caused by Greece's large structural imbalances: ″[T]he spread on long-term government interest rates with Germany rose more than in the rest of the euro area since end 2008 […] as rating agencies lowered their rating of Greek sovereign debt and of the country’s main banks. Some foreign capital withdrew from the Athens stock exchange, contributing to weaker share prices.″ German policies of wage deflation aggravated the competitive and structural problems of the other euro zone countries, particularly in the South of Europe, but as well in France (cf. Sapir 2012). (Lapavitsas et al. 2010: 13, fig. 4).

Although the initial impact of the crisis has been "indirect", Greece plunged into the crisis very deeply in 2009, due to soaring capital costs on financial markets. The IMF-led austerity programs since 2010 have aimed at massive social cuts, what is called in the language of the IMF "improving competitiveness by internal devaluation". The risks of default seem to be considerable: "In the absence of continued official support and access to ECB refinancing operations, a disorderly euro exit would be unavoidable […]." (IMF 2012a:1). The economic indicators seem to support the thesis that austerity in times of crisis slashes economic development, with consequences to the debt/GDP relations: "GDP growth has turned out lower than envisaged […], and the recession has deepened further. […]. Economic sentiment remains poor. […] The outlook for employment continues to be negative...[…] Forward-looking indicators suggest that export growth is likely to lose momentum. […] ...and export expectations have recently weakened […] ...and the manufacturing PMI is at historic lows." (IMF 2012a:52)

The Portuguese situation does not seem to give much reason for hope, either. The IMF (2012b:4ff.) judges the cuts in fiscal policy positive, and observes a positive export development. It also views the economic activity – in the light of the difficult external framework – as surprising because it contracted in Q 1 2012 milder than e year before. Still, "a turnaround in investor sentiment has nonetheless proved elusive, reflecting the formidable challenges that remain": Unemployment rose further to some 15 percent in the first quarter of 2012 (from 14 percent in the last quarter of 2011); youth unemployment now exceeds 36 percent. And this labor shedding has been accompanied by more nominal wage adjustment than hitherto evident […]: in 2011, average nominal compensation fell for the first time on an annual basis since the mid-1990s. This adjustment in the labor market should serve to accelerate the required improvement in competitiveness. However, it also points to the tensions between internal devaluation, corporate deleveraging, and GDP growth in the near-term."

The private capital inflow, that had financed Spain's current account deficit for a decade, came to a halt in 2011. The modest recovery from the 2008-9 crisis peak stopped, Spain fell back into a "double dip" recession. The recovery of industrial production reversed. Production and service sector indices point to continued recession. The decline in construction continues. The unemployment rate is predicted to be 24.9% in 2012. On June 25, 2012, the Spanish government formally asked EMU governments for assistance in recapitalizing its banking sector. After emergency measures in 2011, in July the Spanish government announced an additional program with fiscal measures, including raising standard VAT from 18 to 21% and cutting unemployment benefits and civil servants wages. (IMF 2012c: 2f., 6ff., 18, 37) "The outlook is very difficult", as the IMF (2012c:10) puts it: "Large fiscal consolidation is planned and unavoidable. Coupled with high unemployment and household and corporate deleveraging, this will continuously drag domestic demand and dampen underlying inflation. Output will likely decline this year and next, and over the medium term the effects of fiscal consolidation will have to be fully factored in. Potential output growth is also projected to turn negative reflecting high structural unemployment and a permanent decline in capital accumulation."

The prospect for 2012 is sober. Industrial production (excluding construction) in the euro area was down 0.6% in the euro area (0.9% in EU27) compared with May 2011 (seasonally adjusted), the largest decreases reported by Italy (-8.2%), Spain (-6.3%), the United Kingdom (-4.6%) and Portugal (-4.4%). Greece remained "stable" (+/- 0%), after heavy (annual) minuses in January (-7.4%), February (-9.2%), and March (-8.6%), Portugal (up to -7.7% in April) and Spain (up to -8.4% in April) have also seen worse figures this year already. Compared with 2005 (=100), June 2012 saw industrial production (excluding construction, working day adjusted) in Greece: 73.6, Spain: 78.4, and Portugal 86.0. (Eurostat 2012)

In the Visegrád countries and Slovenia, the strong export orientation displayed its negative side in the crisis. The crisis of the German export industries induced a crisis of the export sector in the Central East European countries which is de facto closely integrated with the German productive system. Export decline impacted quite negatively on the GDP. Whereas in Poland, GDP growth only declined to 1.7% in 2009, the other Visegrád countries and Slovenia suffered from a profound recession in 2009 (Pöschl 2010: 428, tab. 1). The relatively positive Polish performance can be explained by the more inward-looking growth model (Żubr 2012: 286) and the positive effects of currency depreciation. The Poland and the Czech Republic with their flexible exchange rate fared better in the crisis than the two euro zone countries Slovakia and Slovenia (cf. Workie et al. 2009: 96, Becker 2010: 522). In Slovenia, the collapse of the real estate and credit bubble was an additional aggravating factor. The 2009 recession was stronger in Slovenia (GDP: -7.8%) than in the other countries of this group (Pöschl 2010: 428, tab. 1). Economic recuperation hinged to a large extent on the recovery of German exports. This dynamic is presently slowing down. However, the economic dynamics are not only externally determined. In the Czech Republic, Poland and Slovakia, where the banks had not relied heavily on external refinancing, the expansion of household credits continued and sustained to some extent domestic demand. Depending on the political constellation, first the Czech Republic and then Poland reverted to austerity policies. In the Czech Republic, these policies are particularly aggressive and targeted at destroying the social state. This has produced one of the strongest reductions of the GDP in the 2$^{nd}$ quarter 2012 in comparison with the year before in the EU. The social democrat Slovak government opted for more cautious austerity policies and adopted progressive tax policies. This policy seems to be more conducive to economic growth (Becker 2012). Slovenia faces massive problems to due excessive debt corporate and banking debt.

The effect of the crisis has been more devastating for the semi-euroised, highly financialised economies of the Baltic states, Hungary and South Eastern Europe. The drying up of capital inflows or even capital outflows hit the growth models at their very heart. In the Baltic states, the problems started already towards the end of 2007. The real estate prices which had grown very rapidly in the years before, e.g. tripling between 2003 and 2007 in Estonia (Leitner 2010: 49), started to fall. The banks reacted by restricting their credits. The international tightening of credits accelerated the downward spiral. In Latvia and Estonia, the GDP already declined by 4.5% resp. 3.6% in 2008. In 2009, it plummeted by 18.0% in Latvia, 15.0% in Lithuania and 14.1% in Estonia (Pöschl 2010: 428, tab. 1). In Latvia, the downfall continued until 2010, when the GDP fell by 0.3% (Astrov et al. 2012: 353, tab. 1). It was, thus, the Baltic countries with their extreme external imbalances, high and relatively short-term external debt, weak industrial sectors that suffered from the worst recession in 2008/2009. The effects of the financial dearth – like a steep fall of domestic demand – were amplified by pro-cyclical economic policies. Thereafter, the three countries experienced a certain recover though from a very low point. In Romania, Hungary and Bulgaria, the recession was not a deep as in the Baltic countries, but, nevertheless, significantly stronger than the EU average (Pöschl 2010: 428, tab. 1, Astrov et al. 2012: 353, tab. 1). In both Hungary and Romania, the flexible exchange rates came under pressure. The resulting temporary depreciation produced massive problems for foreign exchange debtors and banks. The number of non-performing credits grew rapidly. In order to halt the depreciation, very tight austerity policies were adopted which deepened the recession (Becker 2011: 275). The crisis significantly increased unemployment, emigration and – in Southeastern Europe – turning to rural semi-subsistence activities.

**Austerity Policies**

The states where export industrialization played a role and semi-euroisation was not an issue proved to have at least some leeway during the peak of the crisis. They usually did not take a clearly pro-cyclical course at that moment, at times, there were even some anti-cyclical measures (Becker 2011: 274, Živković 2012: 210). Thereafter, the EU switch to generalized austerity policies – and the relevant new resp. tightened regulations (e.g. so-called “six pack”) – reduced the space for anti-cyclical policies. However, the domestic constellation of forces has played a significant role as well. The Czech Republic does not face serious problems in the financial sector at the moment and does have one of the lowest public debt burdens in the EU. Nevertheless, the Czech right wing coalition has embarked on one the most restrictive austerity policies, obviously in order to make structural inroads into the welfare state (cf. Becker 2012a).

The allegedly anti-crisis policies in the financialised, semi-euroised countries were massively pro-cyclical from the very beginning. Hungary was the first country in the EU to apply for an EU/IMF credit in autumn 2008. Latvia and Romania rapidly followed suit. The main aim of the programs was to stop currency depreciation (Hungary, Romania) resp. to shore up the fixed exchange rate regime (Latvia). The EU and the Nordic countries which participated in the credit for Latvia were even more dogmatic about avoiding devaluation in Latvia than the IMF (Leitner 2010: 50, Wehr 2010: 45, 105). This should not come as a surprise. The Western banks – in the Baltic countries mainly from Sweden, in Hungary and Romania particularly from Austria – wanted to avoid a depreciation/devaluation of their assets in the region. They feared the consequences of devaluation on the foreign exchange debtors and the banks. The indebted middle class likewise was opposed to devaluation what provided the neo-liberal austerity policies with a significant domestic support base. Instead of devaluation, strategies of so-called “internal devaluation”, e.g. wage, pension cuts (particularly in Latvia and Romania) etc., were adopted. Social expenditure was drastically slashed (cf. Becker 2011: 275, Myant/Drahokoupil 2011: 320 ff.). The basic traits in the countries which did not resort to EU/IMF credits were similar (cf. Leitner 2010: 52).

The programs managed to restabilize the currency resp. shore up the rigid exchange rate regimes – at least so far. Nevertheless, the number of non-performing credits rose rapidly – particularly in Latvia, Romania, Estonia, Hungary and Bulgaria (Jakovčević et al. 2011: 198, fig. 4). Thus, the problem was not confined to countries with depreciating currencies and high foreign exchange debts – the heavy recession led to a rapid increase of “bad” credits in countries with a stable exchange rate and high foreign exchange credits as well. Avoiding currency depreciation did not imply avoiding a credit crisis. The issue of foreign exchange credits has only been occasionally dealt with so far. The continuing problem with foreign exchange credits made the national conservative Fidesz government which was elected into office in 2010 offer the foreign exchange debtors a time window to repay their foreign exchange debts at a more advantageous exchange rate that reflected the pre-crisis level. This produced a partial, but real conflict between the Hungarian government and the Western banks and the European Commission which fear a precedent for the rest of Eastern Europe. This measure was part of a policy package beneficiating the Hungarian upper middle class which in many respects continues neo-liberal policies (Becker 2012b, Tóth et al. 2012).

The drastic reductions of the public demand cut imports and significantly contributed to the improvement of the current accounts though there was a certain export recovery in the Baltic countries. Temporarily the Baltic countries even reached positive current accounts. However, even a slight increase in private consumption resulted in renewed, though still limited current account deficits in Latvia and Lithuania. In Romania, the current account deficit remained with 4.4% of the GDP (2011) close to the critical level in spite of the prolonged recession of the previous years (Astrov et al. 2012: 356, tab. 4). The adjustment measures did nothing to improve the productive structures. In so far, the basic limitations of the productive model still pertain. The ratio external/GDP has deteriorated since 2008. In Latvia, the debt rose from 129.2% of the GDP in 2008 to 165.0% in 2010, in Hungary from 120.2% to 158.6% and in Romania from 58.3% to 76.0% (Astrov/Pöschl 2009: 355, tab. 5, Hrvatska narodna banka 2011, 13, tab. 3). Thus, the external debt burden has increased. Thus, very modest results were achieved at an extremely high price. The structural problems remain.

The Southern euro zone countries did not immediately respond with pro-cyclical measures to the crisis. This change in policy was primarily due to the external pressures of the EU core governments, the European Commission and the IMF which increased with the unfolding of the crisis. However, the austerity policies advocated by these forces fitted to a significant extent with the agenda of the local right wing parties. The logic of the austerity policies in the South European euro zone countries has been similar to the EU/IMF programs in Eastern Europe. Whereas Greece and Portugal signed agreements with the EU and the IMF, the Spanish program is so far with the EU and is targeted primarily at the banking sector. The policies bank on so-called “internal devaluation” through extreme fiscal austerity, wage and pension cuts, dismantling of workers’ rights. Privatization plays a much more significant role in Southern Europe because there are still public companies left that can be privatized (cf. Mota/Antunes 2010, Karamessini 2012, IMF 2011). In the case of the Spanish banking program, the nationalization of “bad debts” in form of a “bad bank” is a central feature (Barrón/Mars 2012). Due to the deflationary focus and the recession, the debt burden has been increased. Greece and Portugal were the two EU countries with the strongest relative increase of the public debt/GDP ratio between the third quarter of 2010 and 2011 – 20.3 resp. 18.9 percentage points (Eurostat 2012a). The Greek problems were in so far acknowledged as a partial debt reduction was agreed on – though on unfavorable conditions for Greece. At that time, banks had already had gained time by the EU/IMF programs to disinvest from Greece. The same logic applies to other South European countries. In spite of the prolonged recession in Greece and the bad economic performance of Portugal and Spain, the current account deficits – and the external financing require linked to them – declined only slowly particularly in Greece where it still amounted to 9.9% of the GDP in 2011. In Portugal, this deficit amounted to 6.4% of the GDP and in Spain to 3.5% (Darvas 2012: 10, tab. 4). Even measured to the self-proclaimed aims, the EU/IMF programs are a failure.

**Conclusions and Alternatives**

Integration into the EU has deepened dependent growth models in the EU peripheries. The model of export industrialization plus financialisation in Central Eastern Europe has proved to be highly vulnerable, but it has at least a productive base – though usually a very narrow and extraverted one. In this model, the expansion of domestic demand has relied significantly on increasing household debt. This is not a viable growth motor in the medium run. The growth models that relied primarily on dependent financialisation have collapsed in the crisis. The productive base is usually small though there a significant differences in regard to the extent and structure of the productive base. The smaller the industrial base is, the more devastating has been the crisis. In the case of dependent financialisation, it can be concluded that EU integration has not produced viable production structures.

On the contrary, EU integration has tended to aggravate the deficits of the productive base in these countries. Entry into the euro zone (Southern Europe) resp. strong links to DM/euro (parts of Eastern Europe) proved to be detrimental to productive development and aggravated external imbalances. The monetary norm has cemented asymmetrical centre/periphery relations. The monetary norms are not appropriate for productive development in large parts of the periphery. German policies of wage deflation have been an element that widened the imbalances in the euro zone.

Much more expansive policies in Germany and some other core EU states could help to alleviate the tensions in the euro zone. However, neo-mercantilism has not been seriously challenged in countries like Germany, Austria or Finland and there is strong resistance towards strong domestic stimuli in these core economies. The austerity in the periphery has started to affect exports of the core states to Southern Europe. The German response has been to diversify exports away from the euro zone, particularly towards regional powers like China, Brazil, India and Russia (Statistisches Bundesamt 2010 & 2011: tab. 1.5.1.). In addition, the new EU regulations that tighten fiscal rules are a further impediment to more expansionary policies. The German government has been one of the main driving forces behind these increasingly restrictive rules which disempower national parliaments.

The issue is, however, not only macro-economic policies. The EU suffers from a structural and deepened centre/periphery divide. Structural changes are necessary to reduce the gulf between centre and periphery. The existing acquis communitaire, the strategic political selectivity of the EU institutions and the configuration of power pose serious obstacles to progressive structural changes that tackle the centre/periphery issue.

**A re-construction of productive sectors, particularly industry,** re-construction of the productive sectors, particularly industry, seems to be imperative. As Michael Ehrke (2009: 187) has coined in regard to former Yugoslavia: “(T)he illusion of a post-industrial economy emancipated from the production of trivial industrial goods can show a certain degree of credibility only in the United States.” This re-industrialization should be rather **inward-looking** and should be directed primarily at the domestic markets. There are several reasons for this. It is not realist to start with export industries. Strongly export-oriented industries in the periphery have proved to be quite vulnerable to crisis whereas more inward-looking Poland proved to be more resilient to crisis. In the countries with export-industrialization, industries should be diversified and inward-looking industries should be encouraged. There are strong ecological reasons for a more decentralized industrial production in Europe because transport intensity would be reduced. Industrial policies should be ecologically sensitive. The state whose industrial policies would have to be democratized should have a protagonist role in the re-industrialization. EU regional and infrastructure policies should be redirected towards industrialization and the strengthening of the local infrastructure. These policies would have a long-term perspective.

For most countries of the EU periphery, **changes in the monetary regime** seem to be necessary. In the semi-euroized economies of Eastern Europe, a first essential step would be de-euroization, i.e. the conversion of foreign exchange credits into euro credits (cf. with regard to Croatia Baletić 2011: 13 f.). This should be done with an exchange rate that is bearable to debtors. Ideally, it should be done before currency devaluation. Banks which promoted euro or Swiss franc credits would clearly oppose such policies. So far, steps towards de-euroisation have only occasionally been taken in Eastern Europe (e.g. Hungary), but the reversal of currency substitution (de-dollarization/de-euroization) has been part of anti-crisis policies in other continents (e.g. Argentina post 2001). De-euroization would enlarge the economic policy options. In most East European countries with past very high current account deficits, currency devaluation would be suitable for the development of productive sectors. Peripheral countries should desist from seeking entry into the euro zone.

In the Mediterranean euro zone countries, the issues are more complicated. Leaving the euro zone is not even an organizationally easy exercise. It would pose serious problems to the banking sector and would certainly have to be preceded by controls on capital flows (Dullien/Schwarzer 2011: 6) and massively enhanced public control of the banking sector. From a productive logic, **exiting the euro zone and devaluation** seem to be a necessity. Productive sectors obviously are in need of a protective device. Devaluation is such a device. It would provide protection for production for the domestic market and might enhance exports. It depends on the economic structure and the degree of import dependence how strong the impacts will be. Referring to calculations of the export and import elasticities, Sapir (2012: 161 f.) argues that for “practically all countries of the South of the euro zone and Ireland” an exit from the euro zone would be beneficial. Since the productive structure are more incomplete and strong domestic export sectors are lacking, the positive impact on growth and current account would probably be less than in post-2001 Argentina (cf. on this example Curia 2011) that is often cited as positive reference. Even Dullien and Schwarz (2011: 6) who are not in favor of a Greek exit from the euro zone point out that the relatively low import ratio of Greece would be rather positive in the case of exiting the euro zone and devaluation. Import prices would increase what would accelerate inflation. However, it is unlikely that the price increase would fully reflect the devaluation. Devaluation would with all likelihood be less harmful for wage earners than the present policies (Lapavitsas et al. 2011: 86, cf. on the Argentinean experience Curia 2011: chap. IV). As a consequence of devaluation, (external) **debts** would have to be **restructured** and **reduced** (Lapavitsas et al. 2011: 77 ff.). In a number of South and East European EU peripheral countries, the external debt is already now excessive. External banking debt is often a substantial part of the external debt (cf. Myant/Drahokoupil 2011: 316, tab. 17.1). As in Iceland (Coriat/Lantenois 2011: 123 ff., Sigfússon 2012: 7), the deposits should be guaranteed and the (often external) creditors should bear part of the losses if banks are restructured. They should be placed under public control. Coordination between the Mediterranean countries – and more broadly the peripheral EU countries – could enhance their negotiating position.

Though parts of the left in the periphery (and the centre) are in favor of splitting the euro zone as part of a progressive way out of the crisis, strong political coalitions in favor of such an option do not yet exist neither in the peripheral euro zone countries nor at the EU level. However, it took some time in Argentina as well for such an option to mature politically.

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