

## European Capitalism: Varieties of Crisis

Ingo Schmidt

**Abstract:** The article rejects the notion that countries of the EU periphery, some of which were recently labelled as PIIGS, are prone to fiscal and sovereign debt crises because of spend-thrifty governments and their negative impact on private investments. As an alternative to such views, the article argues that the EU periphery is prone to crisis because its economies can't successfully compete with exports from core countries, especially Germany. It will also be argued that world market integration in a time of economic stagnation, combined with an explosion of debt, speculation and recurrent financial crisis, is no way to overcome a country's peripheral position. These arguments will be developed on the basis of some mini case studies on core and peripheral EU member states.

**Keywords:** European capitalism, centre-periphery relations, fiscal crisis, sovereign debt crisis

### Introduction

In the midst of the 2008/9 crisis of the world economy (European Commission 2009), a new term crept into financial parlance: PIIGS, short for: Portugal, Ireland, Italy, Greece, Spain. At that time, the broader public was still trying to understand the meaning of CDOs (Collateralized Debt Obligations), CDSs (Credit Default Swaps), and other fancy financial products including their role in the financial crisis. Governments and central bankers were busy working to contain a sharp recession and save private profits with huge infusions of zero-interest credit, government spending and bank bailouts. As a result of these efforts, the crisis of private finance and capital more generally was transformed into a fiscal crisis of the state. Neoliberal economists and media pundits happily used their chance to point at rapidly rising levels of public deficits and debt but downplayed the share

of bank-bailouts in rising deficits. At the same time, they constructed the PIIGS to show how spend-thrifty governments run the risks of capital flight and state bankruptcy.

The old familiar message: States, not markets, are the problem. Since states can't be totally abolished—after all, they serve capital interests quite well as protectors of private property and spenders of last resort—one has to carefully distinguish between good and bad. Good states turn the fiscal tap off as soon as big money asks them to do so. Bad states are either unwilling or too weak to turn to austerity once big money sees that as a necessity. Bad states need to be punished by disinvestment that will deplete their finances and drive them into the arms of financial parole officers like the IMF who offer urgently needed credit at high interest rates and unwanted policy advice. Retired government officials from around the world, from then socialist Eastern Europe through the Global South to the Asian Tigers and post-Soviet Russia can tell of their experiences with fiscal and sovereign debt crisis and IMF-intervention. Yet, the Wall Street crash and its aftermath offered an ironic turn of capitalist history.

When the Dow Jones was plunging and investment banks were defaulting, a number of European governments used the chance to advocate their variety of regulated capitalism as superior to the American model of free market capitalism. Then German finance minister Steinbrück, a Third Way social democrat and usually a good Atlanticist, went so far as to proclaim the end of Dollar-supremacy. But then the PIIGS destroyed the European dream of a multilateral world in which American great power politics would be replaced by European multilateralism. Rising levels of public and foreign debt, the neoliberal argument went, put the PIIGS at risk of state bankruptcy.

In the spring 2010, Greece, apparently the weakest member of this group, came close to bankruptcy, indeed. However, the reason was neither an uncontrollable explosion of debt, nor runaway inflation that neoliberal theory presents as an inevitable by-product of government debt. The risk of the Greek state defaulting was produced by international financiers who, fired up by the neoliberal PIIGS-story, denied credit to the Greeks at a rate of interest that would have allowed continuing circulation of capital within the country and beyond its borders. A €110bn credit from the EU, which the IMF co-sponsored and enriched by a structural adjustment program, solved this acute fiscal and sovereign debt crises, momentarily at least. This intervention, which essentially represents another case of throwing public money at private finance, certainly satisfies the short-term interests of international financiers. Whether it helps to avoid recurrent crises in the future is another question though. In this article, it will be argued that the reasons for the Greek crisis (Moschovis, Servera 2009) were not the ones presented in the PIIGS-story.

This story neglects three factors that are crucial for an understanding of the Greek crisis. First, it does not recognize that the current account deficits of one country are matched by respective surpluses of other countries. Second, poor countries are not the only ones who produce deficits (European Commission 2010). Current accounts and public households in the US and Britain, to name just the most two outstanding examples, are as deep in the red as those of the average PIIGS-state. Third, governments and central banks can't freely choose to either run deficits or surpluses; they may try either way but the ultimate outcome of their efforts will be determined by the competition for world market share. This competition has considerably stiffened during the neoliberal era. During that era, some states, like Britain and the US, found out that they can afford to run deficits and actually make them part of their accumulation strategy while Greece and countless other peripheral countries, were pushed into deficits by stronger competitors and then found structural adjustment policies imposed onto them.

Presenting experiences from a number of EU countries, this article will look at centre – periphery relations, macroeconomic imbalances and the design of the EMU as key factors that can explain why speculative attacks against an economically small country like Greece, contributing about 2.5% to the EU's total GDP, translated into a severe crisis of European capitalism (European Central Bank 2010). These case studies will show how neoliberal capitalism could successfully be established in the West, in some cases against left strategies of socialist transformation, and invade Eastern Europe after the collapse of the Soviet empire. They will also show that the crisis of neoliberal capitalism in Europe takes on a variety of different forms, which depend on a countries' position in the hierarchy of states and world markets.

### **Case Studies on the Crisis of European Capitalism**

The country sample under consideration here connects the core countries France, Germany, and the UK, to the peripheral country Greece, Ireland, and Hungary. Italy is included in this sample because its position as part of the EU core was recently challenged by its inclusion into the PIIGS-group.

In this sample, Germany is the bullying powerhouse that puts weaker economies under competitive pressure through the export-orientation of many of its companies and the hardcore neoliberalism its political class managed to inscribe into EU-institutions. German export success is often presented as the result of high savings, hard work, and long-term perspectives as opposed to the allegedly wasteful way of short-term speculation in the Anglo-Saxon world. However, while it is true that the financial markets in the US play a key role in neoliberal capitalism, and the City of London can certainly be seen as the European outpost of the Dollar-Wall-Street-Regime (Gowan 1999), it is also true that German capitalists happily funnel

their money through the financial centres in London and New York. Thus, the picture of European capitalism would be incomplete without understanding how the UK, once the workshop of the world, developed into such a powerful centre of world finance.

The recurrent quests of France to complement the European Central Bank (ECB) and its political impact on accumulation with some sort of economic government on the EU level is often understood as a Keynesian alternative to the combined powers of Germany's export economy and British financial markets. Yet, it will be shown that French Keynesianism was defeated by the interplay of domestic and international forces in the early 1980s. Since then, French governments have embraced, not always as successfully as they were hoping, neoliberalism and seek to institute European economic policies in such a way that would compensate French capital for its competitive disadvantages vis-à-vis German export companies and British financial firms.

The Italian experience represents the significance of centre-periphery relations within the EU. On the one hand, Italian governments are constantly struggling to keep the country's place in the core group of EU powers, which didn't stop international finance from classifying Italy as part of the PIIGS. On the other hand, centre – periphery divisions within the country have posed a key problem of internal cohesion which has undermined Italy's position within the EU. The inability to overcome such divisions domestically contains some lessons for the future of the EU with its even deeper divisions between centres and peripheries.

Another variation of this theme is the Irish case. For a while, Ireland seemed to prove neoliberal claims according to which free trade within the EU would allow poor countries to catch-up to the rich countries. However, neither a temporary spurt in foreign direct investment nor a housing boom could prevent a US-style financial crisis in Ireland. Hopes to catch up with the rich were not only dashed in Ireland but in Hungary, too. Like other Eastern European countries after the collapse of the Soviet empire, Hungarians had to recognize that a place in the periphery was all the EU had for them.

The last of the mini case studies in this article looks at Greece, which is obvious because this was the first target among the PIIGS. Apart from that, Greece shows that even a country that could never aspire to escape its peripheral position can play key roles for the core countries. Greece's enormously big merchandise fleet and its strategic position as a NATO-outpost on the borders to the Muslim and Arabic worlds are indispensable for European capitalism and its American allies.

#### *Germany: Export über alles*

In the early 1990s, when the terms and conditions of European Monetary Union (EMU) were negotiated, the German export-model, which was established

with US-support after WWII and maintained its dominant position in world markets even during the crisis-ridden 1970s and the growth slowdown of the 1980s, was under stress. Accession of formerly socialist East Germany to capitalist West Germany in 1990 had boosted domestic demand including government spending significantly and produced current account and public deficits that reminded the German bourgeoisie of the much despised Twin Deficits their American friends and mentors were running under Reagan and Bush senior. Germany's balance on current accounts deteriorated from a 4.2%-surplus 1986-90 to a -1.2%-deficit in 1991-95, public deficits increased from -1.4% to -2.8% over the same period.<sup>1</sup> In an attempt to reign in its deficits, regain current account surpluses and extend its mercantilist model of accumulation (Schmidt, 2007) to all prospective EMU members, the German government pushed for tight limits on public deficits and debts, 3% and 60% of GDP respectively, and a maximum inflation rate of 2% as a precondition of EMU membership. The institutionalization of austerity policies in the Maastricht Treaty, 1992, and the Stability and Growth Pact, 1997, helped Germany to re-start its export-oriented growth machine (see Tables 1&2) after recessions in 1993 and 2002/3. Constant pressures on government spending and wages kept inflation and unit labour costs low. Yet, the same means that spurred exports put a lid on domestic growth. As a result, current account surpluses were soaring, producing complementary deficits on the side of most of Germany's trading partners, and increasing the German economy's dependence on demand created elsewhere (Lapavistas, 2010, ch. 2-4). This dependence on foreign markets notwithstanding, the German ruling class is clinging to its export-orientation and keeps on pointing at other countries' deficits as a source of financial instability, although they are largely a result of German export surpluses.

*France: European integration as a means against German domination*

French governments used European integration in the post-war period as a means to contain Germany's real or perceived appetites for dominance (Parsons, 2003). This was true for the 1950s European Steel and Coal Community that subordinated German heavy industries, the long-time economic backbone behind German imperialism, to multilateral control. French consent to the EMU, including Germany's austerity prescriptions, was also motivated by an attempt to tie post-unification Germany into multilateral institutions. German governments agreed to this kind of political containment by integration because they clearly understood that the US, the unchallenged though sometimes unloved leader of the Western bloc, supported Germany's transformation from a great political power into an economic export power.

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<sup>1</sup> All data in the text: European Commission.

Hosting the world's largest corporations and controlling the world's money, the US found it easier to cope with German export competition than the French. However, this does not mean that the French bourgeoisie was necessarily hostile to the monetarist principles that Germany used, even in the Keynesian era from the 1950s to the 1970s, to fuel its export machine. Faced with a socialist-communist coalition government that tried to stem the general tide from Keynesianism to Monetarism in the early 1980s, French capitalists were quite happy that the German Bundesbank's tight monetary policies put pressure on the French balance of payments. A perfect invitation to capital flight, which was then used to urge the socialists in the government to abandon their left-Keynesian program and offend their communist coalition partners (Lombard, 1995). The French bourgeoisie was as eager as their German, American and other counterparts to embrace neoliberalism. Thus, French quests for EU-wide coordination of macroeconomic policies are not inspired by attempts to pursue Keynesian policies but are a recognition of the superior competitiveness and market power of German export industries. Policy coordination, from this angle, is meant to contain current account deficits and its negative impact on domestic growth and employment. Considering how much the French balance on current account deteriorated since the introduction of the Euro in 1999, which eliminated the possibility to limit imports through currency devaluations (see Table 2), it is understandable that the current Euro-crisis was accompanied by French complaints about Germany's beggar-thy-neighbour policies and new quests for macroeconomic policy coordination within the EMU.

*Britain: Euro-Dollars in the City rather than Euros all over Britain*

While the post-war boom allowed Germany to emerge as an export powerhouse, British industries were struggling with underinvestment and permanent current account deficits. Unlike France, where similar deficits were caused by the late development of large corporations, compared to its main competitor Germany, British deficits were the result of relative industrial decline (Kitson, Michie, 1996). And whereas the French ruling class eventually decided to follow the German way of promoting national champions as core of their neoliberal model, the British bourgeoisie not only accepted but furthered industrial decline in favour of its financial sector (Radice, 1995). The shift from industrial production to financial industries was so successful that Britain—the City of London, to be more precise—could emerge as the European outpost of the Dollar Wall Street Regime (Gowan, 1999; Gowan, 2009). Obviously the City never enjoyed the close connections and support that the US Treasury offered, and still offers, to Wall Street. Yet, in one respect, the City was even more attractive to profit-hungry investors than Wall Street: its Euro-Dollar markets bypassed US regulations and thus offered the least political control over financial flows and holdings. Naturally, the British government was

eager to maintain this competitive advantage and thus rejected EMU right from the start. Ironically, a number of multinational corporations that discovered Britain as a low cost and union free location in the 1990s advocated for British membership in the EMU in order to limit the costs and risks associated with exchange rate fluctuations. EMU membership would have helped to turn Britain into a major site of transplant production to serve EU markets. Yet, the City's successful resistance against such plans made Ireland a more attractive destination for foreign direct investments in the late 1990s and early 2000s.

Just as in the US, Britain's dominant position in international financial markets went hand in hand with a depletion of household savings, a surge in real estate prices and debt-financed consumption. Though the Tories had paved the way, the British bubble economy really took off under New Labour. Private Household savings declined from 4.7% of GDP in 1991-95 to 2.2% in 1996-2000 to -0.1% in 2001-5 (see also Table 3), while GDP growth went from 1.6% to 3.4% and 2.5% over the same period. Though not impressive, this is more than the German combination of exports and domestic austerity had accomplished (respective growth rates for Germany are: 2.2%, 2.0%, and 0.6%; see also Table 1). Because of Britain's leading position in international financial markets, the financial crisis hit the British economy earlier and harder than other countries. Crisis containment consequently needed much higher doses of fiscal stimulus, which brought the British deficit close to the levels reached by the financial superpower America and peripheral countries in Europe, such as Greece and Ireland (see Table 2).

*Italy: Subordination to Euro-austerity to escape regional disparity*

From its early days, Italian capitalism developed in a highly uneven way that led to a deep polarization between the industrial North and the rural South (Goldstein, 1998). In the 1960s, the Italian bourgeoisie thought about the use of the Keynesian state to overcome this North – South divide. Yet, because the bourgeoisie was fractured as the country was divided economically, no consensus towards such an industrial policy extension of Keynesian demand management could be reached. In the 1970s, the Italian communists picked up this project as a building bloc towards the historical compromise with the conservatives who had dominated Italian politics in the post-war period but were thrown into a crisis of legitimacy and strategic reorientation by the class struggles and economic crisis of the late 1960s and 1970s. Like in France and Britain, key organizations of the left sought to use industrial policies as a means of a gradual transformation from the Keynesian welfare state towards socialism. However, the Italian version of this strategy, Euro-communism, failed as much as the Common Program of the French Socialist and Communist Parties and the Alternative Economic Strategy of the British Labour Party.

The neoliberal turn in Italy abandoned attempts to overcome the North – South divide by political means and put praise for regional economies and industrial districts in its place (Piore, Sabel, 1984). However, while Northern Italy was integrated into emerging international supply chains, the Italian South remained as dependent on fiscal transfers from Rome as ever. Continuing divisions between the Northern core and its Southern periphery were a source for right-wing regionalism, political tensions, a clientele state and the concomitant accumulation of public debt. Eventually, export-oriented factions of the Italian bourgeoisie, in conjunction with the post-Keynesian socialist party, saw EMU as a chance to escape the negative impact that political instability, accumulation of debt and recurrent currency devaluations had on their strategy of integration into international supply-chains.

The outcomes of Italy's subordination to EMU's policy guidelines were mixed. Public deficits were reduced from -11.5% in 1986-90 to -9.0 in 1991-95 to -3.0 in 1996-2000, but growth also slowed from 3.1 to 1.3 and 1.9, respectively, over the same period. Unemployment went from 9.4 to 9.8 and 11.0, respectively. Slow growth since the introduction of the Euro helped to keep imports and thus current account deficits lower than in other countries that had higher growth rates. Thus, dependence on capital imports to finance such deficits is lower than in many of EU's peripheral member states, modest public deficits make the country a lesser target for speculative attacks like the one Greece experienced in the spring of 2010 (see Table 2). However, EMU membership was anything but a way to solve Italy's long-time problem of uneven development.

*Ireland: Showcase of neoliberal development gone bust*

Most, if not all, core and peripheral countries in Europe experienced a growth slowdown after the crisis-ridden 1970s. In this respect, they resemble core countries and peripheries in other parts of the world. However, at any point in time there were also countries that could escape the tendency to economic stagnation: Japan in the 1980s, the so-called Asian Tigers in the 1990s, and China from the 1980s until today. Ireland earned the title of Celtic Tiger because its growth accelerated from 3.8% in 1974-85 to 4.6% in 1986-90 to 4.7% in 1991-95 to a peak level of 9.6% in 1996-2000. Everything neoliberals ever said about free trade as a means to promote growth seemed to be true in Ireland. The European Single Market program, which was launched in the mid-1980s and completed in the 1990s, coincided with a surge of foreign direct investments (FDIs) and growth.

Neoliberal economists see enhanced possibilities to move capital across borders as a key to higher growth rates. Yet, if this would be true, Irish growth in the 1980s and 1990s should have been the European rule rather than its exception. Arguably, the Irish experience owes more to the accumulation strategies of US-

corporations than to the growth-effects of free trade (O'Hearn, 2001). Parallel to Britain's transformation into the European outpost of the Dollar Wall Street Regime, Ireland became a prime location for low cost production within the European Single Market and, later, the EMU. Production in Ireland allowed US-corporations to bypass import restrictions that goods coming from outside the single market are still facing. Moreover, Irish membership in the EMU eliminated the risks associated with fluctuating exchange rates. Yet, the ensuing foreign investment boom led to increasing control of foreign corporations over Ireland's economic and social development and was also accompanied by increasing social polarization (Kirby, 2004). Even in purely economic terms, FDIs had questionable results. First, the high volatility of FDI-flows translates into an unstable process of capital formation (see Table 1). Second, a significant share of foreign and domestic capital fuelled a US-style housing and consumption boom that used up much of Ireland's private household savings (see Table 3). Third, though FDIs massively contributed to the build-up of export production capacities they also led to high levels of parts imports. Together with the import of consumer goods that were spurred by the combined booms in housing speculation and consumption, Ireland was barely able to run current account surpluses at the height of its boom in the late 1990s. In the early 2000s, its current account turned negative.

The boom in Ireland was dependent on FDI-inflows, soaring house prices and debt-financed consumption. The world economic crisis in 2008/9 led to net-outflows of FDIs and a collapse of the housing market that had been so vital in propping up consumption. The combined effect of FDI-outflows and a plunging housing market made the crisis in Ireland much more severe than in the US or Britain, two countries that were also confronted with housing bubbles going bust but weren't dependent on FDI-inflows like Ireland was (Kanda, 2010). As a result, unemployment doubled from 4.7% in 2007 to 11.9% in 2009. Fiscal stimulus and a collapse of tax revenue drove public deficits to levels higher than in Greece (see Table 2) and led to an explosion of public debt from 25% of GDP in 2007 to 64% in 2009. To contain the ensuing fiscal crisis and avoid outside intervention from the EU and/or IMF, the Irish government turned to pre-emptive austerity as early as late 2008 (IMF 2009). Most likely, these policies will trigger a period of stagnation, during which the government won't be able to successfully consolidate public finances because of insufficient tax revenues. No Western European country was flying as high as Ireland before the crisis, but no other country was affected as badly by the crisis either.

*Hungary: Lost between the Soviet empire and the empire of capital*

The implosion of the Soviet empire in the early 1990s led to a period of economic downturn and political instability across Eastern Europe. These were the conditions under which new capitalist classes struggled to constitute and consolidate themselves. EU membership appeared as one of the ways to achieve this goal (Green & Petrick, 1999). In this respect, Hungary is just one case in point (Andor, 2000). Like other Eastern European countries who found themselves on the periphery of world capitalism after the state socialist system was gone, the new Hungarian ruling class thought of EU membership not just as a way to gain political stability but also to attract foreign capital and promote economic growth (Barnes & Rander-son, 2007). This strategy to 'import' stability and growth through EU, and possibly EMU, membership is actually similar to Italian attempts of overcoming a domestic deadlock of the political system through subordination to EMU policy guidelines and Irish efforts to use the European Single Market as a springboard for FDI-led growth. Such attempts failed in Hungary as they failed in Italy and Ireland.

In the early 2000s, Hungary did achieve growth rates of GDP and capital formation that were significantly higher than the respective rates in core countries of the EU (see Table 1). Thus, it seemed as if Hungary, along with some other Eastern European countries, had taken the road towards European integration and catch-up growth as successfully as Ireland had done two decades earlier. However, the period of high growth was short and followed a sharp and prolonged downturn in the 1990s. Moreover, the integration of Hungary into the capitalist world market went hand in hand with massive imports. Hungary's new rich were keen on Western luxuries to demonstrate their new status, and capital formation on the ruins of the former state socialist economy created a market for Western makers of investment goods. As a result, Hungary's current account was deep in the red until 2008, when the combined effects of IMF-intervention (IMF 2010), which the government called for in November 2008, and recession led to import reductions that were significantly higher than the crisis-triggered decrease of exports (see Table 2). Another reason for the improvement of Hungary's current account position was the return to currency devaluations. The Forint had massively depreciated against the Euro and its predecessor-currencies during the 1990s and could be stabilized in the early- and mid-2000s when Hungary's rulers were hoping to move from EU membership, which they achieved along with nine other Eastern European countries in 2004, to the introduction to the Euro. The current crisis dashed such hopes. At this point, the Hungarian government is busy enough to deal with IMF policies and may actually be quite happy that it doesn't also have to deal with EMU policy advice. Failure to join the EMU and catch up with the per-capita incomes of EU core countries are not the only disappointments for Hungary's rulers and ordinary

citizens. Measures taken to achieve these goals have led to the country's domination by Western corporations and international organizations like the IMF and the EU. There was just a short moment of independence between the collapse of the Soviet empire and Hungary's integration into the Western empire of capital as a subordinate state and peripheral economy.

*Greece: Weak economy in a strategic location*

Greece didn't experience a phase of accelerated growth since the 1980s like some other countries of the European peripheries. Its growth pattern is more like that of core countries with a strong post-war boom, a growth slowdown in the 1970s and 1980s and a limited resurgence of growth in the 1990s and 2000s (Maniatis, 2005). Consumer spending that used up household savings drove this resurgence—the savings rate deteriorated from 3.9 in 1996/2000 to -5.8 in 2001/5 (see also Table 3)—and was increasingly dependent on credit financing. Because of a lack of domestic funding sources and production, consumption-driven growth was accompanied by increasing foreign debt and extraordinarily high current account deficits (see Table 2). Thus, Greece showed all symptoms of a peripheral country whose hopes for prosperity are long gone. Yet, this macroeconomic picture should not conceal Greece's strategic importance for European and other core countries of world capitalism. During the Cold War, Greece served as NATO-outpost on the Balkans and today it balances Turkish influence in the Middle East. Though the latter is also a NATO member because of its strategic location on the borders of the Soviet Union, now Georgia, and oil-rich Iran and Iraq, Western governments see Turkey with suspicion because of its mostly Muslim population. Greece's strategic role partly explains continuing public deficits and current account deficits: Relative to GDP, Greece spends more than double the amount of money on the military than the NATO average, which includes the chief-military spender US (Kollias & Rafailidis, 2003). Moreover, Greece shipping companies operate the largest merchandise fleet of any EU member by far (Unctad 2007). They own and control 40% of EU's and 15% of the world's carrying capacity and contribute around 8% to the Greek GDP. Control over merchandise trade has become increasingly important since world market integration and international supply chains became key ingredients of neoliberal capitalism.

The media campaign that accompanied speculation against Greece's sovereign debt in the spring of 2010, presented the country as one that is run by spend-thrifty and corrupt governments who faked deficit and debt figures to sneak into the EMU without actually matching its macroeconomic accession criteria. Corruption is certainly not a privilege of governments in Athens and the faking of economic data has been an integral part of high-flying stock markets in the centres of world capitalism before the crisis revealed the poor performance behind much fancy-fake data.

What media commentators fail to mention is that EU core countries were eager to get Greece on board the EMU to underscore the country's strategic position and get some level of control over its merchandise fleet. So important were these goals that even Germany's chief Monetarists didn't ask too many questions when they approved Greece's EMU membership. Of course, these days the Germans happily use the chance to use speculative attacks against Greece as a pretext to reinvent austerity as the sole means to overcome economic crisis.

## Conclusions

Some conclusions can be drawn from the 'mini case studies' above. The first one is that macroeconomic imbalances within the EMU, and the EU more generally, are largely caused by Germany's efforts to spur exports and growth through wage restraint and other anti-inflationary policies. The downside of these export-boosting measures is that they limit domestic demand so that export-growth didn't translate into growth of overall-GDP but into increasing current account surpluses. This was only possible because demand growth in other countries was high enough to absorb German export surpluses without their governments turning towards protectionist measures to reign in their current account deficits. This group of foreign deficit countries includes not only peripheral countries like Greece, Hungary and Ireland but also the EU core countries Britain and France. The difference between core and periphery is not that the former are, with regards to their current accounts, surplus countries and the latter are deficit countries; the difference is that, in times of economic crisis, core countries have the power to intervene politically, either directly or through international organizations like the EU or the IMF, in the periphery. This is the reason why crisis-management in high-deficit countries like Britain and the US is left to the respective ruling and political classes of these countries, whereas peripheral countries with similar or even lower deficits are either faced with direct EU- or IMF-intervention, for example Greece and Hungary, or are threatened with such interventions if their governments shy away from pre-emptive austerity policies like the ones adopted by Ireland during the 2008/9 crisis.

The second conclusion is that the integration of peripheral countries into international supply chains and world markets did not allow them to gain the same strength that Germany could acquire through the making of its export economy during the post-war prosperity. The build-up of additional capacities for export production can contribute, in a world economy that is already plagued with overcapacities, to short-lived investment booms like the ones Ireland and Hungary experienced. But this neither helped their economies to gain any significant share in world markets nor their states to climb up in the international hierarchy of states.

The significant share of construction in Ireland's investment boom—one of the reasons why the Irish boom lasted longer than the one in Hungary—leads to the third conclusion that can be drawn from the case studies above. Ever larger overcapacities can only be avoided if consumer demand keeps up with increasing production capacities. Housing construction, concomitant surges of house prices and the expansion of consumer credit based on rising property values have been key for the growth of consumer demand over the last two decades. The US, though most prominent for its housing bubble and subprime crisis, was not the only country witnessing such housing-speculation and debt-driven increases in consumer demand. The same is true for Britain, Ireland, Spain and Japan. To be sure, the financial instruments used to prop up house prices and consumer-demand are largely 'Made on Wall Street'. The City of London was crucial in making them available to European countries including those of the Euro-zone. Far from representing an alternative to the unregulated and speculative world of the Dollar Wall Street Regime (Schmidt 2009a), EMU is well integrated into the US-dominated system of world finance. Without the bubble economies in the US, Britain and a number of peripheral economies, German export success would have been impossible. Monetarist economists are right, and surprisingly close to many of their Keynesian counterparts, when they point at the instability that such bubbles produce. Yet, this was the way neoliberal capitalism solved the problem of insufficient demand after a decade of crises in the 1970s—until another 'great crisis' hit the world in 2008 (Schmidt 2009b).

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