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Grexit and Brexit: Incidents, accidents and wake-up calls on the bumpy road of European (dis)integration

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George Petrakos
University of Thessaly, Greece

Alexandra Sotiriou
University of Thessaly, Greece

Abstract

Almost 30 years since the Maastricht Treaty and 20 years since the introduction of the euro, it is clear that the European Union (EU) has lost its appeal to wider constituencies and citizen groups that realize that the promises for convergence and prosperity have not been delivered. Rising dissatisfaction and Euroscepticism (expressed both in the ballot box and in Eurobarometer reports) is evident even in traditional pro-EU countries of the European core. As this long decade comes to an end, incidents (or accidents) like these ones, either in the form of open discontent, or in the form of rising populism, will exert pressure on the EU policy agenda that will either increase the frequency of deadlocks and inefficiency in policy making or will eventually lead to an honest effort to address the roots of these phenomena. This paper examines the drivers behind these two incidents (and the ones that may follow) and the limits of the current market and policy integration arrangements in the EU, arguing that a new policy agenda addressing the real weaknesses of the Union is inevitable if disintegration is to be avoided. Luckily enough, some elements of this new policy agenda may already be here.

Keywords

Brexit, development policies, EU integration, Grexit, regional policies

Introduction

It is approaching almost 30 years since the Maastricht Treaty and 20 years since the introduction of the euro. However, it is clear that the European Union (EU) has lost its appeal to wider constituencies and citizen groups who realize how the promises for convergence and prosperity have not been delivered. Rising dissatisfaction and Euroscepticism, (expressed both in the ballot box and in Eurobarometer reports), are evident even in traditional pro-EU countries of the European core. The architecture of the European economy seems ineffectual and unable to generate adequate growth as well as employment positions in

Corresponding author:
Alexandra Sotiriou, Department of Planning and Regional Development, University of Thessaly, Pedion Areos, 38334, Volos, Greece.
Email: alexandrasotiriou@gmail.com

the places that need them the most, and appears overly rigid and unprepared to respond effectively to occurring asymmetric or symmetric crises.

Although dissatisfaction and discontent is widely observed in a variety of places in the EU, there are two particularly striking events in the long range of incidents and accidents that have threatened the existence of the EU as we know it. The first one is the referendum in Greece against the proposed EU and 'Troika's'[1] bailout conditions in July 2015 which was the dramatic reaction to the pressure from the EU and International Monetary Fund (IMF) to accept an extremely strict austerity program. Then secondly, almost a year later, in June 2016, the Brexit referendum took place. It is not known, to what extent, the large margin of the 'No' vote in Greece or the management of the debt crisis in Greece by the EU establishment affected the 'Leave' vote in the UK. However, the 2015 Greek referendum was the first time that disintegration in the EU became a true possibility. Less than a year later, the most significant referendum in the EU's history challenged the European institutions, as the people of the UK voted to leave the EU (Terzi, 2020).

Albeit on the surface, the Grexit and Brexit crises could be perceived as sui generis events, attributable to external factors – poor political and financial handling in the case of Greece (Pedi, 2017) and chronic Euroscepticism in the case of the UK – there are common denominators that affected voter motivation. These are related to unbalanced growth, unequal allocation of costs and benefits of European integration and the architecture of the EU institutions.

As this long decade comes to an end, incidents or 'accidents' like these, either in the form of open discontent, or in the form of rising populism, will exert pressure on the EU policy agenda that will either increase the frequency of deadlocks and inefficiency in policy making or will eventually lead to an honest effort to address the roots of these phenomena.

This paper examines the drivers behind these two incidents (and the ones that may follow) and the limits of the current market and policy integration arrangements in the EU, arguing that a new policy agenda addressing the real weaknesses of the Union is inevitable if disintegration is to be avoided. As luck would have it, numerous elements of this new policy agenda may already be here.

The drivers of (dis)integration

One of the key features of the EU integration process is the enormous opportunity presented for deeper trade integration across member states. The aforementioned is expected to unravel a multitude of benefits in terms of growth-inducing factors including larger market access, improved variety of intermediate and final goods, productivity and knowledge transfer gains. Nevertheless, it may also pose a series of threats to regions that are not prepared to meet higher levels of competition (Autor et al., 2013; Petrakos et al., 2012).

The negative effects of the deepening and widening of the integration process and subsequent unbalanced growth trajectories have, at times, hit certain areas and cohorts of the population very severely, which has gradually led to an unprecedented change in the voting behavior in favor of anti-EU political parties. To this end, there is explicit empirical evidence demonstrating that the rise of anti-EU integration political parties is much higher in areas which suffered significant industrial employment losses (Dijkstra et al., 2020). The evidence is on a par with similar observations arguing that 'the anti-system vote is the response to long-term economic and industrial declines' (Rodríguez-Pose, 2017).

In Greece, the surge of trade with the EU led to deindustrialization and unsustainable high trade deficits, due to the inability of the economy to compete with the more advanced scale- and technology-intensive European counterparts (Petrakos et al., 2012). There is a nexus of industrial decline and anti-integration standing, which is not unique to the Greek case, spreading from the former industrial districts in Northern England, that reported the highest Brexit vote shares, all the way to the declining industrial regions in Northern Italy. The industrial decline and the rising inequalities which resulted from an unbalanced integration and trade system gave rise to an anti-EU rhetoric with a clear spatial footprint (Hendrickson et al., 2018).

The anti-European vote(s) can also be potentially linked to the institutional deficiencies and structural weaknesses of the EU architecture. The fiscal framework has been criticized on several occasions as an unrealistic ‘one-size-fits-all’ policy framework that lacks the flexibility required at different critical points of the economic cycle. The absence of counter-cyclical adjustment mechanisms in periods of economic crisis, asymmetric shocks and low growth has led to the inability of national governments to implement economic policies required amidst deep recession to problems which are hard to cure in a single market and single currency framework.

Market dynamics leading to a high debt is one thing, the management of this debt and the resulting debt crisis is quite another. Bounded institutionally by a strict system architecture that is based on self-correction by market adjustment mechanisms and driven ideologically by the firm belief that markets cannot fail, the EU establishment was unable to understand the roots of the problem and unprepared to examine other, less punitive policy options. The implemented austerity programs in Greece included dramatic cuts in public spending, wages, pensions and public investment, as well as dramatic increases in taxation. The ‘blame’ rhetoric of officials during the crisis period is probably one of the worst cases of policy failures in the history of the EU. The program resulted in an unprecedented deep recession, a decline of GDP by 25%, a sharp rise in unemployment to 27% and youth unemployment to 50% that led to severe social polarization, poverty and finally triggered levels of public discontent that brought extreme-right political parties to the Greek parliament (Petrakos, 2014).

The ‘accident’ of the Brexit vote has received ample scientific attention. The salient role played by spatial characteristics is revealed by the fact that regions with ‘larger shares of lower-skilled or manual employment, a greater historical role in manufacturing, and higher levels of unemployment were all more likely to vote leave’ (Becker et al., 2017).

As such, the regions and localities that were perceived to have benefited most from globalization, immigration and trade tended to vote remain, while those that were perceived to feel most threatened by these phenomena voted leave (Dijkstra, 2020). To this end, MacLeod and Jones (2018) argue that the electoral geography of the Brexit vote is indicative of the asymmetric benefits of the globalization process across income cohorts, with the working- and middle-class tipping the balance and, most importantly, giving rise to a more pronounced intra-local along with the inter-regional voting pattern across the UK. Inequalities linked to deindustrialization, austerity, a rigid or non-existent recovery framework and a spatially uneven growth experience from the actual integration process created a vicious cycle of destabilization.

A plethora of drivers behind the Brexit vote have been discussed, which include ‘concerns over national sovereignty, anger at national cut-backs in public expenditure, concerns regarding immigration as well as anger toward perceived political classes and elites. In the UK and Europe the question of Brexit is now clearly a major issue of international political economy, with likely deep-seated ramifications in international relations long into the future’ (McCann, 2018: 3).

The Brexit vote was highly concentrated in many industrial declining and disadvantaged rural areas of the North and North East England and, in fact, most prevalent – not among the poorest of the poor – but in regions that had suffered long periods of decline (Rodríguez-Pose, 2017). Ironically, most regions that voted Leave were the ones most dependent on EU trade and support (Los et al., 2017) which reflects, once again, that the spatial distribution of the growth returns from trade remains questionable and requires immediate policy attention.

In the dawn of the post-Brexit era, a new status quo is unfolding that will shape modern economic history. The ongoing negotiations and the UK’s urge to establish new trade agreements with distant countries of the Commonwealth, South East Asia, and other non-European parts of the world (McCann, 2018) is forming the foundations of the new ‘post-geography trading world’ (Siles-Brügge, 2019) questioning the importance of ‘gravity’ and geography and the very theoretical foundations of mainstream and new trade theories.

Apart from the new trade and economic landscape that will be formed in the next decade, we anticipate also a shift in both the political and cultural realm. The UK will, to some extent, become more dependent on other countries, particularly in the East and the USA. There will be a new multiculturalism wave that may further change the composition of in-migration to the UK and tip the balance toward a major repositioning of the economy in global value chains and cross-border investment strategies. This would add even greater diversity to international business activity and may open up new avenues for foreign investments in free economic and free entrepreneurship zones in UK port cities with multiplying effects in the real economy and the housing market. The challenge of preserving economic ties with the world's second largest economy (the EU) is currently creating a new precedent if another EU country exit 'accident' ever becomes a possibility.

A new European policy agenda is feasible

The common denominator of the Greek 'incident' and Brexit 'accident' seems to be the loss of industrial dynamism combined with austerity. The rage induced by employment losses due to unsustainable trade deficits and government cut-backs, leads to discontent which, in turn, poses a disintegration threat and, in several cases, a clear threat to democracy.

Despite the fact that the argument of the EU establishment during the Greek crisis was that 'no other alternative' existed other than austerity policy it is now clear that (actually) the recent management of the recession (caused by the Covid-19 pandemic) shows that, fortunately, this was not the case. To deal with a deep EU-wide recession, the response strategy of the EU eventually includes a phenomenal expansionary government intervention at the EU level with unprecedented increases in the EU budget for the support of the most affected sectors and cohorts of the population.

The fiscal framework has remained rather rigid; however, the recently agreed EU recovery plan deal 'has broken two historical taboos, first, Europe's leaders agreed that the European Commission can incur debt at an unprecedented scale' (*The Economist*, 2020). It breaches 'a former red line over substantial intra-EU fiscal transfers which would have been unimaginable just six months ago' (*The Economist*, 2020). This is the first time that debt is incurred by the EU and not individually by member states. Analysts argue that 'the hard-fought deal shows that the bloc's members have the sense of solidarity needed to respond collectively to disasters' (*The Economist*, 2020).

While it seems that there is a learning process in EU policies, this solidarity was not demonstrated during previous crises, such as in the Greek debt crisis, which could possibly threaten, via domino effects, the Union. At the end of this long decade, it seems that the EU is more prepared to deal with shocks considered to be symmetric than shocks perceived as asymmetric and less threatening for the entire EU economy. This is rather disappointing, as it undermines the principle of solidarity loud and clear. If a threat appears that affects the core economies directly, then the decision-making process is fast, action is proportional to the problem and the policy agenda can become innovative, expansionary and proactive. If the threat affects 'the others', then standard rules and procedures apply.

This selectivity in responses is often captured by the political antennas of different constituencies in 'the places that don't matter' (Rodríguez-Pose, 2017) and it may increase dissatisfaction, anti-EU sentiments and populism. Interesting questions to ask are: What would have happened in Greece if reaction to the crisis was as fast, expansionary, innovative and proactive? If the Greek Referendum would have never taken place, not even as a thought, would the anti-EU rhetoric and Brexit vote still be the same?

Hidden between the lines of official statements is the firm belief that solidarity is a form of philanthropy, a transfer of resources to the budget of less-well-performing economies that is optional and in the discretion of the 'donors' to decide the actual sum. This is a major misunderstanding of the operation of the EU economy, where weaker countries and regions are net contributors to the trade budget of more advanced ones and the latter are net contributors to the state budget of the former. Production surpluses need to treat budget deficits for the EU economy to avoid major or increasing imbalances and their consequences.

It seems that the pandemic eventually acted as a 'wake-up call' that has allowed the EU to set up the Recovery Plan with entirely new options for fiscal and tax policy. Besides Eurobonds, the recovery plans involve also innovative tax reforms that include ‘a digital levy and a tax on financial transactions that would reduce speculation’ (Stolton, 2020). Although the Recovery Plan budget may be a one-off response to the pandemic, the new fiscal and tax policies are here to stay.

Therefore, a first policy lesson seems to have been learnt: when a shock in the economy takes place, policy action is analogous in strength. Expectations that the markets will play a leading role to solve the problem are kept to a minimum. It remains to be seen whether the learning function of the EU will have the capability to learn from and digest a second lesson: increased inequalities in income and employment, as well as asymmetric shocks, can be quickly transformed to symmetric ones when ‘the places that don’t matter’ are flooding with public discontent toward the EU establishment that may eventually threaten to destabilize the European project.

Inequality in incomes and prospects across locations could be the most significant challenge that the EU will have to deal with during the next decade, as this is the root of unhappiness and even despair. Despite significant efforts and resources allocated to Cohesion Policy, results are still lagging actual needs, which means that more is required in a similar direction, as well as new directions. The Recovery Plan is of paramount importance – it is an actual landmark in EU policy because it showed that a whole new direction is actually possible.

It should not be underestimated however that the EU, in these six decades of its operation, has made tremendous progress in bringing together the identity of people, nations and governments under the same roof. It has provided the grounds for prosperity to a plethora of places and people – many but not all. In a wide range of fields, the EU introduced policies that were very successful and far-reaching. From peoples’ mobility to environmental protection: the impact is positive and permanent. In other areas, failures or poor results were more often the case. One such case is the future of the ‘places that don’t matter’. Why do the places that need development policy the most find it so difficult to take advantage of it? What background factors and market-wide or place-specific forces do not allow policy to change the picture? Have bureaucracy and procedures eventually killed policy? How much of the EU development policy is actually place-based? And do local stakeholders have the capacity to implement it?

The EU needs to address these questions in the same way as the pandemic by expanding the EU-level jurisdiction in fiscal and tax policy, promoting fiscal integration and providing the resources, the capacity and the authority to weaker places to rebuild their local productive bases in a more resilient way, all of which have been destroyed by the competitive forces of integration and globalization. In this open space, where huge transfers of money take place every moment in the production-consumption financial sphere, the net contributors to the EU budget in the North and West will show their appreciation to the net contributors to their trade surpluses in the South and the East. North–South and West–East net fiscal transfers are legitimized and, in fact, are necessary to partially balance net trade flows running the opposite direction. The latter, and especially the exceptionally unbalanced trade relations, are responsible to a large extent for shrinking industrial bases, unemployment and discontent in the weaker regions.

Given that there are limits to fiscal redistribution, the financing of cohesion and convergence policy and the fight against unemployment, discontent and populism can be partially undertaken by the super-rich. In Ancient Athens, when taxes were low, the costs of some infrastructure projects and the building of battle ships, or the costs of certain religious ceremonies, were undertaken by the very affluent Athenians (called *Horigoi*, meaning Sponsors). It was actually an honorary assignment by the City to cover the costs of certain important functions. In an open letter to the press (*The Guardian*, 2020) 87 multi-billionaires consider their tax burden very low and pledge to be taxed in order to contribute to the fight of the consequences of the pandemic. As strange as it may sound, this is a credible way forward. A tiny amount of the wealth of the super-rich can be taxed and placed in a special fund that will support actions and policies of development in the places falling behind in the global integration process.

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ORCID iD

Alexandra Sotiriou https://orcid.org/0000-0001-6542-6799

Note

1. The term 'Troika' refers to the cooperation between three institutions: the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF).

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