Objectives

This course deals with the economic integration of Europe given the fact that countries at different level of economic and social development now constitute the enlarged European Union. One may assume that the EU faces the option either to converge economically or further to diverge, or even to break up (as the former Soviet Union did). While most of the Eastern European countries performed in their early transition period in terms of DGP growth well, there is no guarantee they may sustain higher growth rates in the long run. But this is required to converge on the West.

What are the determinants of catching-up in Central and Eastern Europe? Is this the EU membership alone? But if so, why then were Greece and Portugal performing worse than Ireland and Spain (all of them Western European catch-up nations)? Will one day Poland be wealthier than France and Hungary better-off than the Netherlands?

The EU is an ambitious project which employs many tools to achieve greater cohesion and to be economically, technologically and socially an international front runner.

In a first seminar block (ca. September through mid October) we will discuss Europe’s strategies for growth. We shall look at the Lisbon strategy, and here at the somewhat confusing call for knowledge based growth. What is the economic content of Europe’s goal, to become soon the worlds most dynamic knowledge based economy? (Isn’t China the most dynamic nation; what about the US?)

How is the EU helping poorer countries and regions to raise their standard of living? Some 40 billion euros per year are spent on regional development, but is this a good investment? Transfers from the rich West to the relatively poor East of the Union may even be detrimental to growth (some critics say). The experience of Italy (Mezzogiorno), Germany (the new lander), Britain (Midlands) and others seem to prove this. At the same time even more, roughly 45 billion, euros are devoted to agricultural policies. The EU wishes to be
independent from agricultural imports and over time it emerged as one of the greatest producers of food and reproducible raw materials in the world. But does this so far successful policy have a promising future? Who is paying the bill – domestically and internationally – of Europe’s agricultural success, and can the EU help to moderate the food price crisis in some parts of the world?

In a second theme block (roughly in October) called **Europe’s energy problem and energy suppliers** we shall try to understand the place of Europe in a rapidly changing world. Highly endowed with physical and human capital, the EU is increasingly dependent on a functioning system of international trade relations and division of labor. Europe must export to import – especially energy. Here Russia is crucial, but Moscow always has been a difficult partner. While suffering a severe crisis in the Yeltsin era, now Russia is flexing its muscles. Many envy the country for its abundance of deposits and predict Russia bright future.

But is a resource based growth a blessing or rather a curse? What if oligarchy, social injustice and economic slow down prevail and become a source of permanent instability on the eastern border of the EU? Are there alternative supplier of natural gas and oil to replace Moscow? And if not, is wind and solar energy a lifeline? Why do some Western member countries begin to reconsider nuclear energy?

A third seminar block (ca. in the first half of November) shall try to shed light on the current Grand project of the EU: the **Economic and Monetary Union**, shortly the common currency euro. In the late 1980s the European Commission put forward the idea „One market – one money“ and some then years later the euro sprang to life. Now it is stronger than the greenback (what does mean stronger?), but a fierce discussion emerged among economists and politicians whether the euro has a positive effect on the process of integration. Was the EU doomed to a common currency? Some theoretical considerations say yes. But what does the theory of Optimum currency areas predict and how does the EU fit into? A reality check should help to better understand the costs an benefits of the euro and its role as a leading (one day THE leading one?) international reserve currency.

Last but not least the seminar shall investigate something very European – the claim social justice is hingh on the agenda in Europe. We will look at this in our fourth and last block in November-December. Is there a genuine **European social model**? Is Europe more just than other regions/competitors like the US? What are the criteria and indicators to mesure equity and income gap in the society? Is a big government good for a social cohesion? How does globalization and integration of Eastern Europe modify the current social model? Unlike the
early postwar period now there is a tendency towards higher income differentiation in (Western) Europe.

We will try to understand what is causing „the rich to become richer“ and „the poor to become poorer“ in Europe, also by looking at the US.

Some critics say this is the result of wrong – neo-liberal – policies and can be reversed. But how? By more regulation, e.g. imposing import tariffs, legislating tax harmonization among all – old and new – member states, restricting the four liberties, introducing mandatory minimum wages? Or by further accomplishing the internal market, removing barriers to integration and growth, encouraging competition and benefiting from globalization (what does this mean?). Isn’t – given that Europe lacks natural resources - more and better education the key (i.e. investment into human capital)?

**Prerequisites for participation:**

This seminar is an introduction to the political economy of Europe’s integration and is designed for students interested in European affairs or dealing with a particular country (e.g. Russia). It is open to freshmen, sophomores and any student in her early semesters. The material is interdisciplinary but some background knowledge of and interest in

- macroeconomics, growth theory and production function included
- international economics, the Heckscher-Ohlin Model included
- fundamentals of the EU economy (size, per-capita income, public debt, inflation and unemployment rate, trade, share of total output by country, FDI flows, etc.)
- statistical data processing and international statistical comparisons would be an asset.

**Class format:** lecture, student’s presentation and discussion

**Readings and literature:**

You are not required to buy books. However, some paragraphs in economics textbooks will be recommended for a given class. All other literature you will need is available online and stated in the course outline.

**Credit Requirements**

1) Participations in all classes

2) Reading of the references and active discussion in class.
3) Students prepare (roughly once a month) a power point presentation on a pre-agreed topic. Any PPP is 15-20 slides long, contains an introduction to the issue, the student’s interpretation and her conclusions/suggestions.

4) Term paper of 5000-6000 words, spaced 1.5 lines at 12 pt. Online submission due December 10 at 5:00 p.m. Students suggest the topic of their TP by Oct. 31 or earlier. A preliminary version can be presented to the instructor for review.

There are no oral exams for this course.

**Grading** combines the following:

1) Class presence and discussion in class  20%

3) PPP 30%

Term paper 50%

**Course outline (41 sessions, 15 weeks)**

**Week 1**

**Session 01, September 3. Introduction to the seminar, get to know, questions, assignment of PPP**

**Session 02, September 5. Overview of the EU27**: The EU enlargement to the East. Europe after four enlargement rounds – improving or worsening? Power point presentation by the instructor and discussion.

**Week 2**

**Session 03, September 8. Lecture** The catch-up process in the EU 10. Towards a real convergence?

**Session 04, September 10. Power Point Presentation (PPP)**: The successful?? development of Central and South-East Europe: Political and economic requirements for a catching-up.

**Session 05, September 12. Discussion of the lecture and PPP**. Special topic: Economic Motives for an EU membership. Considerations by country.
Literature for this week:


http://pioneer.netserv.chula.ac.th/~kkornkar/international_trade%20course/geography.pdf

EU Commission, Enlargement website: Conditions for enlargement, at:
http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_en.htm

O. Hishow: Economic Effects of EU Eastern Expansion. SWP Research paper, July 2004, at:


Week 3

Session 06, September 15. Lecture Has the enlargement to the East been just a political gesture? The EU membership as an engine of growth and integration

Session 07, September 17. PPP The limits of enlargement of the EU

Session 8, September 19. Discussion of the lecture and PPP. Special topic: The cost of the Eastern expansion born by the new and old MS

Literature this week:

http://emlab.berkeley.edu/users/eichengr/econ_impact_euro_integ.pdf

M. Muhlberger, The economic catching-up process in the new EU member states. What are the drivers of the convergence process? Deutsche Bank Research Paper, March 13, 2008,
http://www.dbresearch.de/PROD/DBR_INTERNET_EN-PROD/PROD00000000000223164.pdf
E. Brimmer and St. Froehlich (Eds.): The Strategic Implications of European Union Enlargement, esp. Chapters “The Agenda 2007 Proposals: a real paradigm shift?” and “Economic competition in the enlarged EU: race to the bottom or chance for structural reforms?”, http://transatlantic.sais-jhu.edu/Publications/eu_enlargement/Intro_Froehlich.pdf


Literature on the division of labor between the old and new members: Basics of International Economics, esp. Heckscher-Ohlin theory:


On the political aspects of the EU enlargement visit the website of the Directorate General “Enlargement” of the EU Commission: http://ec.europa.eu/enlargement/index_en.htm


Week 4

Session 09, September 22. Lecture The European Grand Project for development. The Lisbon strategy for growth and employment.

Session 10, September 24. PPP Employment, unemployment and ageing in Europe. Can the LS help?

Session 11, September 26. Discussion of the lecture and PPP with special focus on the way the NMS cope with the core goals of the LS

Literature for this week:


On the economic effect of Europe’s demography:


Week 5


Session 13, October 1. PPP: On the structural policies of the EU. More cohesion achieved?

Session 14, October 3. Please notice: Simulation “EU’s spring meeting on redistribution of funds. Net payers (Germany, Britain, NL, SE) vs. net receivers (NMS). Other players - COM and Parliament” … or Special Topic: The economics and ethics of the EU transfers to the new member states (Bulgaria).

Literature for this week:

Official site of the DG for budget of the EU Commission:
http://ec.europa.eu/dgs/budget/budget_glance/index_en.htm
Week 6

Session 15, October 8. Lecture The EU agricultural policy.

Session 16, October 10. PPP On the effects of the EU agricultural policy in developing countries. The food crisis deepened?

Literature for this week


EU Commission, official web site: http://ec.europa.eu/agriculture/index_en.htm

Also the Commission’s view of the CAP:
http://ec.europa.eu/agriculture/capexplained/change/index_en.htm

For a critical assessment of the CAP: Niek Koning: Agriculture, development and international trade: Lessons to be learned from the Common Agricultural Policy of the European Union, Forum on Food Sovereignty, Niamey, 7-10 November 2006,


Week 7

Session 17, October 13. Lecture Europe’s energy challenge. Pipelines and geopolitics.

Session 18, October 15. PPP The energy mix of the EU and its sustainability

Session 19, October 17. Discussion of the lecture and PPP. Special topic on wind and solar energy, and bio-fuel.

Literature for this week:
1. Overview “An Energy Policy for Europe”, at:

2. Research paper containing assessment and outlook:

3. EU COM statistical pocketbook: Various data, very informative:

4. On individual country’s energy interests and how to coordinate them:

5. On the impact of biofuel: Juan Delgado and Indhira Santos: The new food equation: Do EU policies add up? Bruegel policy brief, July 2008, at:
   http://www.bruegel.org/Public/PublicationPage.php?ID=1174#8104

Week 8

**Session 20, October 20. Lecture** The EU’s response to the global warming/climate change challenge: The EU’s ETS

**Session 21, October 22. PPP** The Kyoto Protocol and its outcome – who is doing well, who worse, in the EU?

**Session 22, October 24. Discussion of the lecture and PPP.** Special focus: The economics of Europe being greener than the US – why?

Literature for this week:

Stern Review on global warming: http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

On the EU ETS

1. EU Commission Introduction to the ETS:


On the official US position: http://www.epa.gov/climatechange/

On the US non-official: (German research) http://www.dbresearch.com/servlet/reweb2.ReWEB?addmenu=false&chapno=3170&doctype=PROD00000000000020732&noautotitle=true&rdTitleSource=Url&rwdsp=0&rwnode=DBR_INTERNET_EN-PROD$NAVIGATION&rwobj=ReDisplay.Start.class&rwsite=DBR_INTERNET_EN-PROD&title=Talking+point

Climate economic modeling: http://www.epa.gov/climatechange/economics/modeling.html#intertemporal

**Week 9  Excursus on Russia**

**Session 23, October 27. Lecture** Russia’s revival and its implications for the EU

**Session 24, October 29. PPP** Russia as THE energy partner of the EU – advantages and pains

**Session 25, October 31 Discussion of the lecture and PPP**

Literature for this week


On Russia’s economy: Macroeconomic overview by IMF: IMF Country Report No. 351, Russia, Paragraphs I and V, at:


On Russia’s economic freedom ranking: WSJ&HF Index of Economic Freedom, at:
http://www.heritage.org/Index/country.cfm?id=Russia

Week 10: Excursus on Russia continued

Session 26, November 3. Lecture Russia endowment with natural capital - a blessing or rather a curse? A cost-benefit approach

Session 27, November 5. PPP Resource based growth in Russia versus labor based development in the NMS

Session 28, November 7. Discussion of the lecture and PPP. Special focus on the blessing of lack of natural capital in the NMS.

Literature this week:

On Leamer Triangle:


http://www.som.yale.edu/faculty/pks4/files/research/papers/jde_17_fig.pdf


Th. Gylfason, G. Zoega, Inequality and Economic Growth: Do Natural Resources Matter? in

http://www.hi.is/~gylfason/pdf/gini593.pdf;


Федоров, В.П., Трагедия России , in: http://www.ieras.ru/pub/Tragedy_2.txt

L. Aron, Russian Oil: Natural Abundance and Political Shortages, AEI Short paper (only pp.4-6), at: http://www.aei.org/publications/pubID.24251/pub_detail.asp

**Week 11**

**Session 29, November 10. Lecture** The EU as an EMU

**Session 30, November 12. PPP and discussion:** The Euro to replace the Greenback as a reserve currency. Cost and benefit of being No 1? (Special focus on the international weight of the euro)

**Session 31, November 14. Please notice: No discussion, lecture instead:** The Maastricht convergence criteria and the Stability and Growth Pact (beneficial or detrimental to the NMS?)

**Literature for this week:**

On the common currency: EU Commission:
http://ec.europa.eu/economy_finance/the_euro/index_en.htm?cs_mid=2946

On the Maastricht criteria:
http://ec.europa.eu/economy_finance/the_euro/the_euro6480_en.htm

On the StGP: Ch. Wyplosz, The European Monetary Union: The Dark Sides of a Major Success, in: www.hei.unige.ch/%7ewyplosz/emu_EP.pdf

On the international role of the euro


**Week 12**

**Session 32, November 17. Lecture** The adoption of the common currency by the NMS
**Session 33, November 19. PPP and discussion: Will the EMU fail?**

**Literature for sessions 32 - 33:**


On the problems of the common currency:


---

**Session 34, Friday, November 21. Please notice: No discussion, lecture instead: The European economic and social model – a success story**

**Week 13**

**Session 35, November 24. Lecture** The EU social model under pressure – what does globalization change?

**Session 36, November 26 cancelled**

**Week 14**

**Session 37, December 1. PPP and discussion: The NMS in a globalized world**

**Literature for sessions 34 - 37:**

On the theory of distribution: Mankiw, N. G., Macroeconomics, op. cit., p. 46-53;


On the European social model:

Thomas Blanke & Jürgen Hoffmann: Towards a European Social Model Preconditions, Difficulties and Prospects of a European Social Policy, CIS Papers No. 11, Centre of International Studies Hamburg, July 2006, at:

www.wiso.uni-hamburg.de/fileadmin/wiso_dwp_cis/CP_11_Blanke_Hoffmann.pdf

On the NMS and globalization (Session 37)


O. Hishow: Pressure from the East European Member States SWP- SWP Comments, 2004/C24, September 2004


HWWA Discussion Paper 260, Hamburg 2004, at:

www.hwwa.de/Forschung/Europa/Publikationen/2004.htm

Session 38, December 3. Please notice: no PPP, lecture instead: Unemployment as a social problem

Session 39, December 5. Simulation/brainstorming: The EU27 without unemployment - a brainstorming

Literature: Mankiw, N.G.: Macroeconomics, op. cit., p. 364-367;

Iwona Mertin and Ognian N. Hishow: Analysis of the Success and Failure in the Labour Markets of Selected EU Member-States. Macroeconomic Aspects. Institute for world economics, Hungarian academy of sciences, Working Papers No. 176, September 2007, at:


Week 15 (last week in class)

Session 40, December 8. A look into the Crystal ball: The EU in 2040. Special focus: How did the core-periphery gap develop? The NMS still a periphery?

Literature for the brainstorming:

Hishow, O.: Economic Effects of EU Eastern Expansion. SWP Research Paper 2004/S 26, July 2004, esp. Table 1, at:


Session 41, December 10 (last meeting). Discussion of the semester paper, miscellaneous