

21962 EUROPEAN ECONOMY
Academic year 2013-2014 Syllabus

Optional course in Economics, Business Administration, and International Business Economics (ECTS 5)

Instructor, Dr. Fernando Guirao, Jean Monnet Professor of European Integration History (*ad personam* chair) at UPF (fernando.guirao@upf.edu; room 20.227, Jaume I building)

Lectures – nineteen 1.5 h. sessions in ten weeks (actually 18 due to cancellation of 3 October class)

Group 1, Thursday and Friday, from 12.30 to 2 pm, from Sept. 26 to Nov. 29

Group 2, Thursday and Friday, from 5 to 6.30 pm, from Sept. 26 to Nov. 29

Seminars – six 1.5 h. sessions in six weeks, starting on Monday, 21 October

Group 1 seminars meet on Tuesday in room 20.051
101, from 12.35 to 1.55 pm, from Oct. 22 to Nov. 26
102, from 2.05 to 3.25 pm, from Oct. 22 to Nov. 26
103, from 3.35 to 5 pm, from Oct. 22 to Nov. 26

Group 2 seminars meet on Monday in room 40.213
201, from 12.35 to 1.55 pm, from Oct. 21 to Nov. 25
202, from 2.05 to 3.25 pm, from Oct. 21 to Nov. 25
203, from 3.35 to 5 pm, from Oct. 21 to Nov. 25

Tutorials: after class without request, and at room 20.227 upon request

Basic contents: The course analyses the emergence of a *European* economy and the nature of the institutional devices which have been designed to manage it collectively, from the war to the present. The course deals with the development of the various European national economies placing the focus on the specific connections among them (in the East and West) as well as on the relationship between the European economies and the international economy. Since 1947 cooperation and integration among the European countries, particularly in the West, should be considered as their *ad hoc* response to U.S.-led globalization. This course is a sort of economic history of European integration in a global context with the declared aim, not to describe the events, but to explain why the Europeans cooperate among themselves the very way they do. At the present time of troubles in the Euro zone, one of the most interesting features, from an intellectual point of view, is the poor state of the information about what could and should be done, for instance, by the European Union, single EU member States, such as Germany, or institutions like the European Commission or the Central European Bank.

The basic and mandatory reading for the course is Barry Eichengreen, *The European Economy Since 1945. Coordinated Capitalism and Beyond*, Princeton University Press, Princeton and Oxford, 2007 (1st edition). And the following three papers for the post-2005 period: Barry Eichengreen, “European Monetary Integration with Benefit of Hindsight”, *Journal of Common Market Studies*, vol. 50, no. S1, pp. 123-136; Jay C. Shambaugh, “The Euro’s Three Crisis”, *Brookings Papers on Economic Activity* Spring 2012, March 2012 (https://docs.google.com/a/upf.edu/viewer?a=v&pid=gmail&attid=0.1&thid=13aa2aa185667cb2&mt=application/pdf&url=https://mail.google.com/mail/u/0/?ui%3D2%26ik%3Df4a43ce2aa%26view%3Datt%26th%3D13aa2aa185667cb2%26attid%3D0.1%26disp%3Dsafe%26realattid%3Df_h8su20oa0%26zw&sig=AHIEtbQCUGRni9AAgDMUCOjZOZjQ6FgpCw); Jesús Fernandez-

Villaverde, Luis Garicano and Tano Santos, “Political credit cycles: The case of the Euro zone”, National Bureau of Economic Research, WP 18899, March 2013 (<http://www.nber.org/papers/w18899>). The contents of the readings will be the object of the six scheduled seminars.

One main topic per week (a precise schedule follows)

Topic 1 – The impact of World War II

How to measure the impact of World War II? Is it enough to account for the total number of human casualties and massive destruction? Many interpret the Second World War as the U-turn toward a New Europe. Actually, war-time planning for a New World after Victory-day did not contemplate any specific cooperation schemes for the Europeans. The Allies designed cooperation schemes at a worldwide scale. It was a New World, not a new Europe, what Washington, London and Moscow were talking about. The dramatic circumstances which reigned everywhere at the end of the war pointed at further confrontation – in line with the post-World War I period – rather than any cooperation, particularly if involving former enemies. The most decisive legacy of the war was the division of continental Europe, which was to last until the end of the 20th century.

- 1.1. Planning the postwar during the war: the Bretton Woods system
- 1.2. The material impact of the war: dislocation rather than destruction

Topic 2 – The reconstruction period (1945-51)

The reconstruction was the period in which the two parts of Europe shaped the fundamental institutional structures which were to define them in economic, political and social terms in the following forty years. Until the mid-1980s the reconstruction period in Western Europe did not receive *ad hoc* attention. In the West, the United Kingdom stood victoriously alone among badly defeated nations. No wonder the British people stood firm by its traditions while coalition governments and a new set of industrial relations rules were common currency among the defeated nations. The speedy economic recovery that took place in the West imposed a solution to the German question. The latter is the fundamental question around which specific cooperation – at various levels – would root in Europe since the late 1940s.

- 2.1. Forging the Soviet Empire in the East
- 2.2. New rules of the game in the West

Topic 3 – The Marshall Plan (1947-52)

The European Recovery Program (ERP – worldwide known as the Marshall Plan, as named after the then U.S. Secretary of State, George C. Marshall, who made a first explicit call for a program of aid at his speech at Harvard on 5 June 1947) is perceived as the most successful program of international assistance ever launched and therefore taken as a template for similar action. The students should be able to establish the validity of such a bold statement and the conditions under which a new Marshall Plan could ever be launched.

- 3.1. Was the Marshall Plan necessary?
- 3.2. The short-, medium-, and long-term consequence of the Marshall Plan

Topic 4 – The origins of European integration

The 1950s and 1960s saw, in the western part of Europe, the emergence and consolidation of the most sophisticated type of cooperation among sovereign and independent nations. At this point the students will confront two main questions: establishing the true nature of 'integration' (as distinct from cooperation) and determining the proper cause-effect link between European integration and the Golden Age in Western Europe. Is it that integration lead to growth or was it that growth facilitated integration?

4.1. The emergence of Germany as Western Europe's central economy

4.2. The deriving consequences of the establishment of the European Community

Topic 5 - The first golden age of growth (1950s and 1960s)

From the early 1950s to the late 1960s Europe (East and West) lived through a period of exceptional growth, much stronger and constant in the Western than in the Eastern part of continental Europe. This section will deal with the causes of growth (reconstruction, convergence, catching-up, cheap energy, abundant labor, structural change, social capital).

5.1. The causes of growth

5.2. The exhaustion of the growth engines

Topic 6 – The end of exceptionality (1968-85)

The Golden Age of growth ended progressively as its engines exhausted. The 1968 social and political turmoil – whether in France or Czechoslovakia – was a clear signal that the postwar social and political system was exhausted. A new model was necessary. In the East, the Soviet leadership went back to repression after the Khrushchev spring. In the West the governments were poorly equipped to face the new realities of stagnation and inflation. Their first reactions in front of the deceleration of growth in the early 1970s remained at the domestic level. Their collective failure forced them to cooperate, first at the international level, and then at the European level. In this module, students are required to explain why integration was not part of the policy menu that Western European leaders contemplated at that time? Again, as in module 4, the student is requested to answer whether integration is leading to economic growth or was growth what had facilitated integration in the first place?

6.1. Social and political turbulences in East and West

6.2. Financial turbulences in the West

Topic 7 – From Single Market to Single Currency? (1985-92)

European integration was limited to the parameters designed in the foundational treaties of Paris (1951) or Rome (1957). How did the single market come about and, more importantly, did the single market necessarily lead to a single currency? How much determinism was involved in the decision to launch the euro as a common and single currency? The students will have to connect such important decisions in the West with the set the radical changes that were then taken place in the East after the fall of real socialism after the summer of 1989 and of the Soviet Union in December 1991. This module will introduce a topic of much dispute in Contemporary economic history: the role of personalities. Do politicians matter, and to what extent?

7.1. Reforms in Eastern Europe?

7.2. From Single Market to Single Currency?

Topic 8 – Nominal convergence (1992-99)

The financial turbulence and the Great Depression that appeared in the late 2000s had its roots in the nominal convergence period of the 1990s. This module will show students that the implementation of the Treaty of Maastricht was far from being unproblematic. Rather the contrary, opposition to the project came from many quarters (scholars, voters, markets, and some governments). Why the many alarm-rings went unattended is a question (still) of unclear response but of maxim importance as of today.

- 8.1. Initial questioning of the Treaty of Maastricht's single currency provisions
- 8.2. The process of nominal convergence

Topic 9 – The second golden age (2000s)

The 2000s (in fact from 1998 onwards) registered a second age of growth, particularly golden in the European periphery. Tension between growth models was permanent. On the one hand, unprecedented access to cheap money by (mainly) private business led to intense activity in low-skills demanding sectors. On the other, the German government with the Agenda 2010 and the Lisbon Strategy were trying to place the emphasis on competitiveness. The natural outcome was the generation of a huge structural imbalance within the euro zone. Where does the responsibility for the present situation of crisis lie, in the original rules of the game – which might have been ill defined -- or the players – who might have acted irresponsibly?

- 9.1. The nature of the second European Golden Age
- 9.2. The failure of the Lisbon Strategy for Growth and Competitiveness

Topic 10 – The Great Recession (2008-2013)

In 2007 the financial crisis exploited in the United States and quickly spread to Europe. The first policy reaction was limited to defend (i.e. Spain) or rescue (i.e. Britain) the national financial and banking sectors. There was no concerted action at European or international level. Recession affected all countries of Western Europe but the euro zone broke into two distinct areas during the immediate post-recession period: peripheral Europe confronted a greater fall in output and higher unemployment figures than core Europe. The collective response was more international cooperation – in order to re-regulate the market after years of de-regulation – and, essentially, a call for 'more Europe'. At this point of the course, the student should be able to analyze and understand the different patterns of policy reaction that had taken place since 2010 when the first country-bail-out program was implemented.

- 10.1. Recession and unemployment split the euro zone in two
- 10.2. The call for 'more Europe' ... of which kind?

Evaluation

The final grade will be made out of the following components:

- 1. Written final exam: 60%
- 2. The quality of student intervention during the seminars: 30%
- 3. The quality of student participation in theory classes: 10%

If case of failure, there is the possibility to pass a **second evaluation in February** on the basis on a written exam (100% of the grade).

Time schedule:

European Economy, Academic Year 2013-14 - Prof. Fernando Guirao			
Textbook: Barry J. Eichengreen, <i>The European Economy since 1945: Coordinated Capitalism and Beyond</i> , Princeton, N.J., Princeton University Press, 2007.			
Group 1 schedule			
Session	Full class (F) / seminar group (S)	Day	Contenido
1	F	September 26	Introductory session + 1.1. Planning the postwar during the war: the Bretton Woods system
2	F	September 27	2.1. Forging the Soviet Empire in the East + 2.2. New rules of the game in the West
3	F	October 3	NO CLASS!! UPF Academic Year Inauguration Speech, 'La crisi econòmica: algunes lliçons de la història i per a la història', Albert Carreras, Ciutadella Campus Auditorium, 12.30 am
4	F	October 4	3.1. Was the Marshall Plan necessary? (including 1.2. The material impact of the war: dislocation rather than destruction)
5	F	October 10	3.2. The short-, medium-, and long-term consequences of the Marshall Plan
6	F	October 11	4.1. The emergence of Germany as Europe's central power
7	F	October 17	4.2. The deriving consequences of the establishment of the European Community
8	F	October 18	5.1. The causes of growth
9	S	October 22	Discussion of the contents of chapters 1 to 3 of Eichengreen's book (pp. 1-85)
10	F	October 24	5.2. The exhaustion of the growth engines
11	F	October 25	6.1. Social and political turbulences in the East and West in the 1970s
12	S	October 29	Discussion of the contents of chapters 4 to 6 of Eichengreen's book (pp. 85-197)
13	F	November 31	6.2. Financial turbulences in the West
14	S	November 5	Discussion of the contents of chapters 7 to 9 of Eichengreen's book (pp. 198-293)
15	F	November 7	7.1. Reforms in Eastern Europe?
16	F	November 8	7.2. From Single Market to Single Currency?
17	S	November 12	Discussion of the contents of chapters 10 and 11 of Eichengreen's book (pp. 294-378)
18	F	November 14	8.1. Initial questioning of the Treaty of Maastricht's single currency provisions
19	F	November 15	8.2. The process of nominal convergence
20	S	November 19	Discussion of the contents of chapters 12 and 13 of Eichengreen's book (pp. 379-426) and Eichengreen's "European Monetary Integration with Benefit of Hindsight".
21	F	November 21	9.1. The nature of the second European Golden Age
22	F	November 22	9.2. The failure of the Lisbon Strategy for Growth and Competitiveness
23	S	November 26	Discussion of Jay C. Shambaugh, "The Euro's Three Crisis", and of Jesús Fernández-Villaverde, Luis Garicano and Tano Santos, "Political credit cycles: The case of the Euro zone".
24	F	November 28	10.1. Recession and unemployment split the euro zone in two
25	F	November 29	10.2. The call for 'more Europe' ... of which kind?