

21962 EUROPEAN ECONOMY
Academic year 2014-2015
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). CV accessible at <http://www.econ.upf.edu/docs/cvs/p275.pdf>

Lectures — twenty 1.5 h. sessions in ten weeks, from Sept. 25 to Nov. 28, 2014; Thursday and Friday, from 9 to 10.30 am, classroom 40.154. One main topic per week (a precise schedule follows).

Seminars — six 1.5 h. sessions in six weeks, starting on Oct. 22, 2014; classroom 40.154

Subgroup 101, from 9 to 10.30 am

Subgroup 102, from 1 to 2.30 pm

Subgroup 103, from 2.30 to 4 pm

1st seminar, discussion of *The spirit of 1945*, documentary film by Ken Loach, 2013.

2nd seminar, discussion of Barry Eichengreen, “Institutions and economic growth: Europe after World War II”, in Nicholas Crafts and Gianni Toniolo (eds.), *Economic growth in Europe since 1945*, Cambridge: CUP, 1996, pp. 38-72.

3rd seminar, discussion of Thomas Piketty, *Le capital au XXI^e siècle*, Paris, Les Livres du Nouveau Monde, 2013 (translated as *Capital in Twenty-First Century*, 2014) – exact pages yet to be determined.

4th seminar, “The European Monetary System: *Deutsche mark über Alles*”, chapter 7 of Larry Neal and Daniel Barbezat, *The Economics of the European Union and the Economies of Europe*, New York – Oxford, Oxford University Press, 1998, pp. 141-170.

5th seminar, discussion of 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; and of Jay C. Shambaugh, “The Euro’s Three Crisis”, Brookings Papers on Economic Activity Spring 2012, March 2012

6th seminar, preparatory session for the final written exam.

A very useful reading for a large part of the course is Barry Eichengreen, *The European Economy Since 1945. Coordinated Capitalism and Beyond*, Princeton University Press, Princeton and Oxford, 2007 (1st edition).

Tutoring — after class (without request) and at room 20.227 (upon request)

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

1. Final exam: 70% (December 10th, from 9 to 11 am)
2. The quality of student intervention during the seminars: 20%
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).

Basic contents — This 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 of not describing 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.

Week/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

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

Week/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. The Marshall Plan opened up very sophisticated, unprecedented mechanisms for cooperation among the sovereign and independent West European nations. Why were they conceived in a given, how were operated, and what effected did they cause.

3.1. Was the Marshall Plan necessary?

3.2. The short-, medium-, and long-term consequence of the Marshall Plan

Week/Topic 4 – The emergence of Germany as Western Europe’s central economy and the origins of European integration

The transformation of Germany from a war-dislocated economy into the central piece of Western Europe’s industry was not an anticipated event. Nor it could be anticipated the ‘integration’ (as distinct from cooperation) of Germany and other West European economies. How could it happen? This is the purpose of this topic.

4 The emergence of Germany as Western Europe’s central economy

Week/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). Furthermore, the students should be able to determine 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?

5.1. Causes of growth and exhaustion of the growth engines

5.2. The contradictory nature of the first EEC policies

Week/Topic 6 – The end of exceptionality (1968-73)

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 the East and West

6.2. Financial turbulences in the West

Week/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. The return to exchange-rate stability on a European scale (1972-1992)

7.2. From Single Market to Single Currency?

Week/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. The Treaty of Maastricht: *raison d'être* and implications

8.2. Reforms in Eastern Europe?

8.3. The process of nominal convergence

Week/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

Week/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?

Time schedule:

European Economy, Academic Year 2014-2015 - Prof. Fernando Guirao			
Course schedule			
Session	Full class (F) / seminar group (S)	Day	Contenido
1	F	September 25	Introductory session
2	F	September 26	1.1. Planning the postwar during the war: the Bretton Woods System
3	F	October 2	1.2. The material impact of WWII: dislocation rather than destruction
4	F	October 3	2.1. New rules of the game in the West of Europe
5	F	October 9	2.2. Forging the Soviet Empire in the East
6	F	October 10	3.1. Was the Marshall Plan necessary?
7	F	October 16	3.2. The short-, medium-, and long-term consequence of the Marshall Plan
8	F	October 17	4 The emergence of Germany as Western Europe's central economy
9	S	October 22	Discussion of <i>The spirit of 1945</i> , documentary film by Ken Loach, 2013
10	F	October 23	5.1. Causes of growth and exhaustion of the growth engines
11	F	October 24	5.2. The contradictory nature of the first EEC policies
12	S	October 29	Discussion of B. Eichengreen, "Institutions and economic growth: Europe after World War II"
13	F	October 30	6.1. Social and political turbulences in the East and West
14	F	October 31	6.2. Financial turbulences in the West
15	S	November 5	Discussion of Neal and Barbezat, "The European Monetary System: Deutsche mark über Alles"
16	F	November 6	7.1. From Single Market to Single Currency?
17	F	November 7	7.2. Reforms in Eastern Europe?
18	S	November 12	Discussion of chapter 11 of Eichengreen, <i>The European Economy since 1945. Coordinated Corporatism and Beyond</i> , Princeton/Oxford, PUP, 2007, pp. 335-378.
19	F	November 13	8.1. The Treaty of Maastricht: raison d'être and implications
20	F	November 14	8.2. The process of nominal convergence
21	S	November 19	Discussion of Fernandez-Villaverde, Garicano and Santos, "Political credit cycles: The case of the Euro zone" and of Jay C. Shambaugh, "The Euro's Three Crisis"
22	F	November 20	9.1. The nature of the second European Golden Age
23	F	November 21	9.2. The failure of the Lisbon Strategy for Growth and Competitiveness
24	S	November 26	Preparatory session for the final written exam.
25	F	November 27	10.1. Recession and unemployment split the euro zone in two
26	F	November 28	10.2. The call for 'more Europe' ... of which kind?