

Economics 0063 (Call # 22951)

THE ECONOMICS OF THE EUROPEAN UNION

Braker 118, Mondays and Wednesdays 4:30 — 5:45 pm (K+).

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<http://econpapers.repec.org/RAS/pio6.htm>

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Office hours: Mondays, 1:30–3:00 pm; Wednesdays, 5:45–7:00 pm.

Other times by appointment. You may also contact me by email in order to set up an appointment to see me if it is not at the set times above.

1 Course Description

The course uses economics to understand the development and functioning of the European Union. We will deal with such standard topics as European economic integration, customs union and the single market; free movement of labor and capital; monetary unification, but we will emphasize the problems that the (incomplete) design of the Eurozone has created for national macroeconomic policy. Thus, the course will emphasize macroeconomic aspects, and in particular the European crisis, which is actually serious enough to be threatening the Eurozone's survival (if not the the EU's), and the reforms the crisis has led to.

The European Economic Community has grown from a common market of six countries in 1958 to the current twenty eight-member European Union. The latest, the twenty-eighth member is Croatia, which joined July 1, 2013. Nineteen countries now share a common currency, the euro, which has replaced several national currencies. Individuals and firms may now move mostly freely within much of the European Union. Numerous barriers to trade within the European Union have disappeared, but many still remain. EU-wide institutions are entrusted with decisions about investments in human and physical infrastructure and technological development. They are overseen by the (Europe-wide elected) European Parliament. Still, the EU institutions amount to a mere fraction of US federal institutions.

The free movement of labor which is key to the EU's existence is problematic for some of the countries, and especially for the UK, which voted to exit the EU (*Brexit*).

How has increasing European economic integration affected the structure of individual European economies? Has it affected the rest of world? How has adoption of a common currency affected the options European economies have in dealing with shocks? How about the world economy? What does the European Union do and what are its prospects for the future, politically and economically? The European Union looks very much like the United States, but is it? Some formerly poor countries have grown rich since they entered the European Union. Will the European Union strengthen further its wealthy members and increase disparities, or is it now having an equalizing effect? How will the European Union resolve its current economic and political difficulties, in the aftermath of the Great Recession of 2007–2009, the onset of the European debt crisis and its lingering effects.

The European Central Bank is entrusted with policies that affect price stability and employment, but at the same time, the governments of the member nations still exercise sovereignty in ways (including fiscal policy) that also have bearing on macroeconomic conditions and economic development. Britain, Denmark and Sweden are members of the European Union but have not adopted the common currency. Several of the latest entrants are economically much less developed than older members. What is the likely impact of the latest enlargements?

This course will provide some essential tools from international trade and will use models from macroeconomics and international economics to better understand such issues. It will provide a thorough analysis of the European crisis, its origins, its current state, what has been done about it and what are key remaining issues.

1.1 Requirements

The course grade will be based on students' performance in

- *debate performance and report*, to count for 15 % of the course grade.
- two exams:
 - a midterm (30% of the grade), to take place on March 1.
 - a final (45% of the grade), take place on May 10, 7:00–9:00pm (as scheduled by the registrar).
- homework and book report, to count for 5% of the grade. There will be about 4-5 homework assignments during the term.
- class participation, to count for 5% of the grade.

1.1.1 Important dates

Please note the following dates:

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Monday, February 20 and April 17 are holidays. We meet on *Thursday*, February 23 to make up for Monday, February 20.
- Midterm Exam, March 1.
- Book review, April 19.
- Debates, April 24, 26, and May 1 (1/2).
- Monday, May 1, is our *last* class.
- Final exam, May 10, 7:00–9:00pm (as scheduled by the Registrar)

Please read

[http://students.tufts.edu/student-affairs/student-life-policies/
academic-integrity-policy](http://students.tufts.edu/student-affairs/student-life-policies/academic-integrity-policy)

Matters of academic integrity are very important and violations will not be tolerated.

1.1.2 Debate: presentations and reports

In order to help focus on some key issues through the bewildering maze and fantastic volume of materials, and fast-evolving facts on the European Union, I have chosen three topics on which the class will participate in debates. We will allocate the last two and one-half classes for the term, April 24 and 26, and May 1, to debates. The topics are:

1. The *Brexit* Debate [full session, 15+ students], with two sub-debates, that is
 - (a) whether or not the United Kingdom should exit the European Union [April 24]
 - (b) How should it conduct its negotiations [April 24].

Basic Resources: eBook: *Brexit Beckons*.” 2016.

eBook <http://voxeu.org/article/new-ebook-brexit-beckons>

eBook: “What To Do With the UK? EU Perspectives on Brexit.”

eBook: <http://voxeu.org/article/new-ebook-what-do-uk-eu-perspectives-brexit>

2. Why did Ireland and Portugal succeed in exiting their assistance programs and Greece did not? [full session, 6 students, April 26] See sources below.

A guide to Voxeu.org Greek crisis columns is here:

<http://voxeu.org/article/voxeu-told-you-so-greek-crisis-columns-2009>

3. The Cyprus crisis [half session, May 1]. (2 students)

Michaelides, Alexander. 2014. "Cyprus: From Boom to Bail-in." *Economic Policy*. 2014. On Trunk.

4. Markus K. Brunnermeier, Harold James and Jean-Pierre Landau. 2016. *The Euro and the Battle of Ideas*, Princeton University Press. On reserve at Tisch.

The class will be divided into groups, and each group will present and discuss a section of the Brunnermeier *et al.* book. This will take place on April 19th.

Your participation in these activities is compulsory. You may choose which activity to join, but I reserve the right to make sure that the assignment of work is fair. I anticipate a commitment of effort roughly proportional to the number of students indicated below.

The topics are chosen from the viewpoint of providing in-depth coverage of the burning issues associated with the European Union. These are the European sovereign debt crisis; issues associated with enlargements (new members brought in), with candidate countries like Turkey; why Denmark and Sweden said *Yes* to the EU but *No* to the Euro; why The United Kingdom originally said *Yes* to the EU, but *No* to the Euro; the cases of Norway and Switzerland, which are discussed as models for a status for the UK; is the the European Union too heterogeneous to deal with the world economy; absence of a Banking union had major financial consequences; how committed is the European Union to reducing regional differences; barriers to fiscal integration.

1.2 Books and other resources

The fifth edition of an excellent textbook

- **Baldwin, Richard, and Charles Wyplosz**, *The Economics of European Integration*, fifth edition, McGraw-Hill Education, 2015. ISBN: 9781308934006

This edition will go on reserve at Tisch. It is currently on reserve at Ginn. Please note that while this edition is updated, earlier editions that you might be able to purchase online would be close substitutes. There is a lot of material online, and we will draw on such material extensively.

It has been ordered and is available for your purchase at the Tufts Bookstore. I will put an earlier version on reserve in Tisch. Reading assignments below, e.g. in the form of “Chapter 10,” refer to Baldwin and Wyplosz, unless otherwise indicated. A number of articles are referred to below but will be used to a much lesser extent most of the time and in an auxiliary fashion only. This is indicated below by means of an asterisk (*). The book is a bit more advanced than the level of our class, because it is pitched to sophomores in Europe, but I will avoid the most technical material and will provide additional material and guidance, when necessary.

The textbook also contains extensive documentation of additional resources, including web-based resources, at the end of every chapter (with all links posted on the **Trunk site** for EC 063) that will help you in broadening your reading, preparing for class participation and for researching your contribution to the class debates. For details, please see below. In addition, I strongly urge you to follow the site voxeu.org, that regularly hosts a lot of topical studies, interviews, and contains several ebooks, all free.

In addition, there are web sites around the world focusing on European countries in trouble or crises. Care is needed when using their resources. I look forward to helping you filter them for quality, and that is sometimes not easy.

The publisher maintains a site, which has helpful summaries and weblinks, and I urge you to explore it:

http://highereducation.com/sites/0077169654/student_view0/index.html

A web site has been set up for this class at: <http://trunk.tufts.edu>. It will be used for course administration, including announcements, placement of class materials of various kinds, including details on assignments and external links for web resources. Material there will accumulate, and I urge you to check it out regularly. It also includes links to the publisher’s site. Please also note a subdirectory titled Ioannides EU Spring 2017 “Blog”, where I will be posting links to current coverage in the popular press.

Only materials that are not otherwise accessible by you electronically are placed on line at the course Trunk site. My lecture slides in pdf will become available there as we move along.

The European sovereign debt crisis has dominated the press for a long time, and there is a vast amount of material on it online. Many economics papers are available at www.nber.org, <http://bruegel.org/>, and www.cepr.org. To download such documents for free, go to the main library site,

www.library.tufts.edu (which I recommend) or <http://tischlibrary.tufts.edu/> (which is awkward for the standard stuff but more convenient for web-based material and non-library holdings),

click on `database finder`, then click on `N`, then click on `NBER working papers`, or on `C` and then `CEPR discussion papers`, and then find the actual paper. You may work in like manner for electronic journals, again going through the catalog of the main site of the library. If you work from a workstation with Tufts URL, you don't need to go through the library to access such subscription-based resources as `nber.org` and `cepr.org`.

Last but not least, a key resource for economics research, completely *free* to all (tell your parents!), with the compliments of the American Economic Association: *The Journal of Economic Perspectives*: <http://www.aeaweb.org/jep/index.php>

2 Class Schedule and Reading List

* denotes more advanced, optional, material.

2.1 Introduction: History and Institutions

From the customs union of the European Economic Community — from the Six to the Nine to the Ten to the Twelve — to Economic and Monetary Union in Europe, to the Twenty Seven. Spending and Revenue, and European Institutions.

- Introduction, history and institutions

Chapter 1, 2.

Spolaore, Enrico. 2013. “What Is European Integration Really About? A Political Guide for Economists.” *Journal of Economic Perspectives* 27(3):125–144.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.125>

2.2 Decision Making

Subsidiarity, fiscal federalism

- Chapters 3, 4

2.3 Essential microeconomic tools for open economies

The facts of international trade: Tariffs and other forms of protection, costs and benefits. Industry protection.

- Chapter 5

- Baldwin, Richard, “World Trade Facts,” in `trunk.tufts.edu`, under “course resources.”
- See document “MS-MD Diagram Explained,” under course resources.

2.4 Preferential liberalization

Trading blocks, customs union versus free trade agreements. Impact on those outside. Larger markets, economic efficiency and competitiveness.

- * Chapter 6
- See “PTA (Preferential Trade Agreement) Diagram explained,” under course resources.

2.5 Growth and factor market integration

From the removal of trade barriers and creation of the Single Market to complete freedom for EU citizens to relocate within the EU. Does free movement of capital and labor across the European Union accelerate growth? Impact on individuals states versus on the entire EU.

- Chapter 8

2.6 Economic Integration, Labor Markets and Migration

- Chapter 9

2.7 Location of Industry, Economic Geography and Regional Policy

Economic integration causes relocation of industry and new economic agglomerations and change the spatial distribution of economic activity. Can regional policy affect these processes? European Union Cohesion and the European Union “periphery.”

- Chapter 11

2.8 Monetary Integration: Essential Macroeconomic Tools

International macroeconomics and exchange rate regimes. Fixed versus variable exchange rates: benefits and costs to individuals and entire economy. Effects on trade and on exercise of macroeconomic policy.

- * Chapter 14

2.9 Essential Facts of European Monetary Integration

A brief survey of the history from the Gold Standard and the Bretton Woods system to the European Monetary System to the common currency.

- * Chapter 15

2.10 Optimum Currency Areas and European Monetary Union

When does it make sense for a group of countries to adopt a single currency? How will the common currency affect macroeconomic performance? How is the European Monetary Union functioning?

Chapter 16, 17

2.11 Monetary versus Fiscal Policy

How does the common currency affect macroeconomic policy?

- Chapter 18
- Krugman, Paul, “The Euro is Flat,” NY Times, June 6, 2012,
<http://krugman.blogs.nytimes.com/2012/06/22/the-euro-is-flat/>
- A comparison with the US Union:
Reinhardt, Uwe E., “How Richer [U.S.] States Finance Poorer Ones,” NY Times, April 2012,
[http://economix.blogs.nytimes.com/2012/04/27/
how-richer-states-finance-poorer-ones/](http://economix.blogs.nytimes.com/2012/04/27/how-richer-states-finance-poorer-ones/)
- The real problem:
Krugman, Paul, “Lessons of Massachusetts for EMU,” 241–266, Giavazzi, Francesco and Torres, Francisco, eds., *Adjustment and Growth in the European Monetary Union*, Cambridge University Press, 1993. On Trunk.

2.12 Financial markets, the euro and the rest of the world

What are the implications of the EMU for the world economy? For the US? Will the Euro emerge as an international currency? What are the benefits and costs? This is developing into a vast and to some extent speculative topic. Yet, it is on many people's minds.

- Chapter 18
- Chapter 19

3 Current issues: The Crises

- Chapter 20

Baldwin, Richard, and Chalres Wyplosz. Eds. 2015. "The Eurozone Crisis: A Consensus View of the Causes and a Few Possible Solutions." eBook.

<http://voxeu.org/content/eurozone-crisis-consensus-view-causes-and-few-possible-solutions>

http://voxeu.org/system/files/epublication/reboot_upload_1.pdf

"Rebooting the Eurozone: Step 1 Agreeing a Crisis narrative."

<http://voxeu.org/article/ez-crisis-consensus-narrative>

<http://voxeu.org/sites/default/files/file/Policy%20Insight%2085.pdf>

Baldwin, Richard, and Francesco Giavazzi. 2016. "How to Fix Europe's Monetary Union: Views of Leading Economists." Voxeu.org eBook. On Trunk.

http://voxeu.org/sites/default/files/file/epub/rebooting2_upload.pdf

- Lane, Philip. 2012. "The European Sovereign Debt Crisis." *Journal of Economic Perspectives*, 26(3): 49–68.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.49>

Spolaore, Enrico. 2013. "What Is European Integration Really About? A Political Guide for Economists." *Journal of Economic Perspectives* 27(3):125–144.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.125>

O'Rourke, Kevin, and Alan M. Taylor. 2013. "Cross of Euros." *Journal of Economic Perspectives* 27(3):167–192.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.167>

* Fernández-Villaverde, Jesús, Luis Garicano, and Tano Santos. 2013. "Political Credit Cycles: The Case of the Eurozone." *Journal of Economic Perspectives* 27(3):145–166.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.3.145>

- Broader aspects of the crisis: see the Trunk site for the class.
Sargent, Thomas. 2012. “United States then, Europe now.” Nobel 2011 Prize Lecture.
https://files.nyu.edu/ts43/public/research/Sargent_Sweden_final.pdf
* Ioannides, Yannis. 2013. “Large versus Small States in the Eurozone, the Democratic Deficit, and Future Architecture.” In Michaelides and Orphanides. 2016. *The Cyprus Bail-In*. Imperial College Press. eBook. On Trunk.
Gourinchas, Pierre-Olivier, Thomas Philippon, and Dimitri Vayanos. 2016. “The Greek Crisis: An Autopsy.” <http://voxeu.org/article/greek-crisis-autopsy>
*Gourinchas, Pierre-Olivier, Thomas Philippon, and Dimitri Vayanos. 2016. “The Analytics of the Greek Crisis.”
http://socrates.berkeley.edu/~pog/academic/Greece_analytics_0614_final.pdf
- A guide to Voxeu.org Greek crisis columns is here:
<http://voxeu.org/article/voxeu-told-you-so-greek-crisis-columns-2009>

3.1 The “Troika” and its Reports: Greece, Ireland, Portugal

A lot of background material summarizing various resources that may be useful for the debate about Greece, Ireland, Portugal is available in Trunk.

1. Greece

The earliest IMF reports:

IMF. 2010 “Greece: Staff Report on Request for Stand-By Arrangement.” Country Report No. 10/110, May 10.

IMF. 2010. “Greece: Request for Stand-By Arrangement.” Country Report No. 10/111, May 10.

<http://www.imf.org/external/country/GRC/index.htm>

<http://www.imf.org/external/pubs/ft/scr/2016/cr16130.pdf>

<http://www.imf.org/external/country/grc/?type=42>

Blanchard, Olivier. 2012. “The logic and fairness of Greece’s programme.” voxeu.org March.

<http://www.voxeu.org/article/logic-and-fairness-greece-s-programme>

Troika Mea Culpa, i.e. Missteps in Greece

IMF 2013. “Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-By Arrangement.” IMF Country Report No. 13/156 June 2013.

<http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf>

Yannis M. Ioannides and Christopher A. Pissarides. 2015. “Is the Greek Crisis One of Supply or Demand?” *Brookings Papers on Economic Activity*. Fall 2015, 349373. On Trunk

<https://www.brookings.edu/wp-content/uploads/2016/07/IoannidesTextFallBPEA-1.pdf>

For additional resources, see here:

<https://www.brookings.edu/book/brookings-papers-on-economic-activity-fall-2015/>

2. Ireland <http://www.imf.org/external/country/irl/>

3. Portugal

Ricardo Reis. 2015. “Looking for a Success in the Euro Crisis Adjustment Programs: The Case of Portugal.” *Brookings Papers on Economic Activity*. Fall. On Trunk.

<http://www.imf.org/external/country/prt/>

See, in particular, Portugal : IMF. 2016. “Ex Post Evaluation of Exceptional Access Under the 2011 Extended Arrangement-Press Release; Staff Report; and Authorities Views.”

<http://www.imf.org/external/pubs/ft/scr/2016/cr16302.pdf>