European Economic Policies (19763200)

University of Twente, Master European Studies Fall Semester 2013-2014, Quarter 2

Convenor

Dr. Shawn Donnelly
Dept. of Public Administration
RA 4250, Tel ext. 3259, s.donnelly@utwente.nl

Objectives

This course deals with the policy contents, institutional set-up, theoretical background, and assessment of selected EU economic policies. Throughout the course, specific attention will be paid to issues of convergence/divergence of economic policies in the enlarged EU and the degree of delegation from the member states to the European level.

The course assumes only a modest background of economics and will focus on economic policy rather than economic theory. The main points of certain economic theories will be discussed in class where they help to make predictions about what economists expect, so that the EU policy results can be contrasted with expectations and the power of institutions and politics illuminated.

Literature

Readings will be provided on the course website in PDF format, which you can then download to read. You are also encouraged to read a copy of Philip Coggan's *The Money Machine*, which the university bookstore has on stock and *read it before the third week of class*, when we deal with monetary policy. If you do not read the book, you will not understand a good number of the things about financial markets that the European Central Bank must consider during the current financial crisis (and that regulators and lawmakers must consider in the aftermath).

I recommend that you get yourself a free statistical publication from Eurostat, Key Figures on Europe. You can download a free PDF version here: or order a free copy from Eurostat here. It is useful for getting an overview of economic performance data.

Preparation

The class meets as both a teaching and discussion group in which the fundamentals or economic policy in Europe are reviewed. Prior to each session, the instructor provides a list of questions which seminar participants should consider whilst reading that week's material, and an introductory lecture which lays out the principle issues and actors involved.

Students should note that analysis plays an important role for the study of economic policy and European governance more broadly. You should be able to describe the thematic material of the policy in question, the main actors, their roles in formulating,

implementing and evaluating economic policy and draw conclusions about how the policy is governed. Which levels of governance are involved and how are the policies and actions of the actors coordinated?

Assessment

Students have the choice of writing a research paper of 6000 words on a topic related to the course, or writing 3 small written assignments of 2000 words each testing their knowledge of the course material. This counts for 75% of the grade. The other 25% is graded seminar participation.

Week 1: Introduction

Week 2: European Central Bank and the Euro

Reading:

- 1) ECB Institutional Provisions
- 2) EU Economic Governance (European Commission Website)
- 3) Salines et al (2012) 'Existential Crisis, Incremental Response: The EuroZone's Dual Institutional Evolution, 2007-2012', Journal of European Public Policy 19, 5: 665-81.
- 4) Kenneth Dyson (2011) 'Norman's Lament: The Greek and Euro Area Crisis in Historical Perspective', New Political Economy 15,4: 597-608.

Recommended:

Benjamin Cohen (2007) 'Enlargement and the international role of the euro', *Review of International Political Economy* 14, 5: 746-73.

Tal Sadeh, Erik Jones and Amy Verdun (2007) Legitimacy and efficiency: revitalizing EMU ahead of enlargement', *Review of International Political Economy* 14, 5: 739-45.

David Howarth (2007) 'Running an enlarged euro-zone-reforming the European Central Bank: efficiency, legitimacy and the national economic interest', *Review of International Political Economy* 14, 5: 820-41.

Nicolas Jabko (2010) 'The hidden face of the euro', *Journal of European Public Policy* 17, 3: 318–34.

Questions for study:

1. Describe the institutions of the ECB. Who is authorised to make decisions? What kind of decisions?

2. What is the relationship between monetary and fiscal policy in the EU (for the EMU member states)? How are they governed differently in terms of the division of responsibilities and rights between the member states and EU institutions?

Week 3: Monetary policy and fiscal policy

Monetary policy is the management of the currency. This leads the central bank to manage the supply of money and interest rates to achieve both price stability (in the euro zone) and the stability of the financial system overall, by which we primarily mean banks. Although the euro zone favours price stability, it has had to weaken this goal in order to ensure financial system stability since 2007. Outside the euro zone, central banks remain under periodic pressure to favour conditions promoting rapid economic growth, even if price stability is weakened. In this weak, the choices available in monetary policy will be outlined along with the thinking behind them.

Reading

Paul de Grauwe and Yuemei Ji (2013) 'From Panic-Driven Austerity to Symmetric Macroeconomic Policies in the Eurozone', *Journal of Common Market Studies* 51, Annual Review, 31-41.

Dermot Hodson (2013) 'The Euro Zone in 2012: Whatever it Takes to Preserve the Euro?', *Journal of Common Market Studies* 51, Annual Review: 183-200.

Recommended:

Philip B. Whyman (2006) *Third Way Economics*. Basingstoke: Palgrave, Chapters 3-4, pp. 55-111.

Philip Coggan *The Money Machine*. Penguin.

Questions for study:

1. Monetary policy manages the currency through interest rates and other mechanisms, pursuing a combination of goals. These include ensuring confidence in the value of the currency (price stability or exchange rate stability) and confidence in the supply of the currency (sufficient cash to ensure economic growth and a functioning financial system).

Orthodox, Keynesian and Third Way monetary policy have different accounts of whether it is possible to manage the currency to generate growth by injecting cash into the economy. What are these differences? What practical policy implications do they have for monetary policy and for fiscal policy (government budgetary policy)?

- 2) Describe the division of labour between monetary policy and other policies (fiscal and labour market policies) in achieving development and growth. What are the consequences of focusing on supply-side impacts of labour markets on the NAIRU?
- 3) Explain the rationale for granting central bank independence using the argument of time inconsistency and commitment. Whose interests are being served by such a

policy?

4) Explain the vision of economic rejuvenation under endogenous growth theory.

Week 4: The euro zone crisis

Reading:

Shawn Donnelly (2013) 'Power Politics and the Undersupply of Financial Stability in Europe', *Review of International Political Economy*, June.

Jean Pisani-Ferry and André Sapir (2010) 'EU Banking Policies', *Economic Policy*. April, 343-71.

Nicolas Veron (2012) 'Europe's Single Supervisory Mechanism and the Long Road to Banking Union', Paper for European Parliament, Committee on Economic and Monetary Affairs. Brussels, October.

European Commission (2012) explanation of TSCG fiscal policy reforms http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm

Recommended:

Marion Salines, Gabriel Glöckler and Zbigniew Truchlewski (2011) 'Existential crisis, incremental response: the eurozone's dual institutional evolution 2007–2011', *Journal of European Public Policy* 665-81.

Matthias M. Matthijs (2011) *Germany's Role in Crafting a Solution to the 2010 EMU Sovereign Debt Crisis: Persuading with Power or the Power of Persuasion?* Paper Presented at the Twelfth Biennial International Conference of the European Union Studies Association (EUSA). Boston, 4-6 March.

European Commission (2012) *A blueprint for a deep and genuine economic and monetary union: Launching a European Debate*. http://ec.europa.eu/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf

European Parliament (2012) *A First Step Towards Banking Union*. http://www.europarl.europa.eu/eplibrary/A_first_step_towards_banking_union.pdf

Week 5: Competition policy

Competition policy is responsible for ensuring that there is a level playing field for companies to compete within the single market. This includes restrictions on help or protection for specific companies and industries from the EU's member state

governments, so that companies from other parts of the EU have a fighting chance to sell their own products and services. Competition policy therefore encompasses state aid, protectionism and even industrial policy (strategic state aid to business by the state).

Competition policy is also responsible for ensuring that companies do not restrict competition within the single market through the establishment of cartels or the development of a dominant position in the market (an overwhelming provision of its own goods and services to potential customers), both of which make it difficult for competing firms to do business. Cartels keep prices high, production low and innovation low, whilst dominant positions can be used to the same effect.

The competition policy of the EU is centrally directed by the European Commission, which has direct regulatory powers, and carried out in part by national competition authorities.

Questions for Study:

- 1. Describe the competition policy regulators in the single market and how they interact. This includes the European Commission and national competition authorities.
- 2. How does competition policy shape the economy in general? What important differences exist within the single market in how competition policy is used? What implications does this have, and what does it mean for a common competition policy?

Readings:

Dima Bartalevich (2013) EU Competition Policy Since 1990: How Substantial is Convergence to U.S. Antitrust?. *JCC: The Business and Economics Research Journal*, 6, 2: 273-94.

Lee McGowan (2005) 'Europeanization unleashed and rebounding: assessing the modernization of EU cartel policy,' *Journal of European Public Policy*, Vol. 12, No. 6, pp. 986 – 1004.

Nikolaos Zahariadis (2010) 'Discretion by the rules: European state aid policy and the 1999 Procedural Regulation', *Journal of European Public Policy* 17, 7: 954–970.

Further Reading:

Andrea Wigger & Andreas Nölke (2007) 'Enhanced Roles of Private Actors in EU Business Regulation and the Erosion of Rhenish Capitalism: the Case of Antitrust Enforcement,' *Journal of Common Market Studies*, Vol. 45, No. 2, pp. 487–513.

Michael Blauberger (2009) 'Of Good Law and Bad Subsidies: European State Aid Control through Soft and Hard Law', *West European Politics* 32, 4: 719-37.

Doris Hildebrand, ed. (2009) *The role of economic analysis in the EC competition rules*. Kluwer Academic. http://ow.ly/3J234

Massimo Motto (2004) Competition Policy: theory and practice. Cambridge UP.

Daniel Mügge (2006) 'Reordering the Marketplace: Competition Politics in European Finance,' *Journal of Common Market Studies* 2006 Volume 44. Number 5, pp. 991–1022.

Hubert Buch-Hansen and Angela Wigger (2011) *The Politics of European Competition Regulation: a critical political economy perspective.* London: Routledge,

Week 6: Financial Market Regulation 1: microprudential regulation

Financial market regulation covers the provision of financial services, which constitute a significant and growing portion of national economies. Financial services are also at the centre of continuing concerns about the stability of the European financial system and investor confidence and protection. Regulation in these areas, in turn, are considered important prerequisites for economic robustness at home and economic competitiveness on an international scale. Covers European Supervisory Agencies for Banking, Insurance and Securities

Readings

Lucia Quaglia (2007) 'The politics of financial services regulation and supervision reform in the European Union,' *European Journal of Political Research* 46: 269–290.

Lucia Quaglia (2010) 'Completing the single market in financial services: the politics of competing advocacy coalitions', *Journal of European Public Policy* 17, 7: 1007-23.

Shawn Donnelly (2011) 'The regimes of European financial market regulation', *European Financial Review*, October.

Further reading:

The *De Larosiere Report* (2009) is for reference purposes, regarding the transformation of microprudential financial market regulation in the wake of the financial crisis.

The *Lamfalussy Report* (2001) is for reference purposes due to length, but is useful for detail and has diagrams.

Geoffrey Underhill (1997) 'The Making of the European Financial Area: Global Market Integration and the EU Single Market for Financial Services'. In Underhill, G. (ed.) *The New World Order in International Finance* (Basingstoke: Macmillan).

Elliot Posner (2009) *The Origins of Europe's New Stock Markets*. Cambridge, MA: Harvard University Press.

Lucia Quaglia (2010) Governing Financial Services in the European Union: Banking, Securities and Post-Trading. London: Routledge.

Shawn Donnelly (2010) Regimes of European Integration: constructing governance of the single market. Oxford: Oxford University Press.

Questions for study:

- 1. What is the logic behind financial market regulations when it comes to setting up the single capital market? How are decisions taken and implemented? What shortcomings are to be overcome according to the De la Rosiere Report?
- 2. How are minimum standards currently set and updated according to the Lamfalussy system?
- 3. What are the implications for the spread of financial services and for the spread of prudential regulation in the single market?

Week 7: Financial market regulation 2: macroprudential regulation

Covers the establishment of the European Systemic Risk Board and parallels to similar developments at the global level.

Required Reading:

Andrew Baker (2013) 'The gradual transformation? The incremental dynamics of macroprudential regulation', *Regulation and Governance* 7: 417-34.

Aneta B. Spendzharova (2012) *Power to the European Supervisory Authorities: Explaining the Incremental Evolution of European Financial Regulation*. Paper prepared for the 2012 UACES conference. Passau, Germany, 3-5 September 2012

Shawn Donnelly (2011) 'The public interest and the economy in Europe in the wake of the financial crisis', *European Political Science* 10: 384-92.

European Commission ESFS Report.

Further reading:

Gabriele Galati and Richhild Moessner (2010) *Macroprudential Policy: A Literature Review*. DNB Working Paper No. 267.

British Journal of Politics and International Relations (2009) vol. 11, no. 3, Special section on the Political Economy of the Sub-Prime Crisis in Britain.

Week 8: The Lisbon Agenda: EU competitiveness policy

The Lisbon Agenda, established by the European Council in 2000 and managed under the Open Method of Coordination, commits the member states to creating "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010."

Reading:

Susana Borrás and Kerstin Jacobsson (2004) 'The open method of co-ordination and new governance patterns in the EU,' *Journal of European Public Policy* 11, 2:185-208.

Susana Borrás & Claudio M. Radaelli (2011) 'The politics of governance architectures: creation, change and effects of the EU Lisbon Strategy', *Journal of European Public Policy* 18, 4: 463-84.

Further reading:

The *Aho Report* (40 pp.) (2006) reviews progress to date (which it views as unsatisfactory) and makes recommendations for future improvement.

Questions for review:

- 1) What policy components are included in the Lisbon Agenda?
- 2) What goals does the Aho Report set with regard to international competitiveness?
- 3) Explain the process by which the open method of coordination operates with regard to the Lisbon Agenda (including the institutional setting in which it takes place).