

European Economic Policies (176320)
University of Twente, Master European Studies
Fall Semester 2009-2010, Quarter 2

Convenor

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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

Most readings will be provided on the teletop site in PDF format, which you can then download to read. In addition, you will need to purchase and 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 on a topic related to the course, or writing 4 small written assignments testing their knowledge of the course material. This counts for 80% of the grade. The other 20% is graded seminar participation.

Week 1: Introduction

Week 2: Excursion (no class)

Week 3: European Central Bank and the Euro

Reading:

1) ECB Institutional Provisions (for reference only)

2) Jorgen Mortenson (2004) 'Economic Policy Coordination in EMU: what role for the SGP?' CEPS Working Document 202.

3) Bob Hancke (2003) 'The Political Economy of Fiscal Policy in EMU,' European Political Economy Review Vol. 1, No. 1 (Spring 2003), pp. 005-014

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

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 4: Monetary policy and the financial crisis

Reading

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.

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 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.

Readings:

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.

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.

Further Reading:

Mitchell P. Smith (2005) *States of Liberalization: Redefining the Public Sector in Integrated Europe*. SUNY Press.

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?

Week 6: Regional policy (Prof. Gert-Jan Hospers)

Readings

European Commission (2006) *Constructing Regional Advantage: principles, perspectives, policies*. (Cooke Report), pp. 10-42.

European Commission (2006) *InfoRegio Panorama*, No. 21

Gert-Jan Hospers (2005) 'Best practices' and the dilemma of regional cluster policy in Europe,' *Tijdschrift voor Economische en Sociale Geografie*, Vol. 96, No. 4, pp. 452–457.

Week 7: Financial market regulation and the financial crisis

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.

- Opportunities and risks of financial market development
- Securities trading (stocks, bonds, certificates, other derivatives)
- Prospectus regulation
- Insider Trading and Market Abuse regulation
- MiFiD (Transparency in Financial Services)
- Takeovers

Required Reading:

De la Rosiere Report (2009).

Further reading:

James Borth, Gerard Caprio & Ross Levine (2006) *Rethinking Banking Regulation*. Cambridge UP, pp. 19-74.

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.

Committee of European Banking Supervisors (2007) Consultation paper on the establishment of a mediation mechanism between banking supervisors. <http://www.c-eps.org/Publications/Consultation-Papers/CP11-CP20/CP13.aspx>

European Commission (2001) *Draft for a Common Decision establishing the Committee of European Securities Regulators (Text with EEA relevance)* (2001/..EC)

European Commission (2001) *Draft for a Common Decision establishing the European Securities Committee (Text with EEA relevance)* (2001/..EC).

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

Goodhart, C. *et al.* (1998) *Financial Regulation: Why, How and Where now?* (London: Routledge).

D. Hardy (2006) 'Regulatory Capture in Banking'. IMF Working Paper 06/34, Washington D.C.

R. Kroszner and P. Strahan (1999) 'What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions'. *Quarterly Journal of Economics*, Vol. 114, No. 4, pp. 1437–67.

Markus Lederer (2003) *Exchange and Regulation in European Capital Markets*. Muenster: LIT.

Michael Moran (1991) *The Politics of the Financial Services Revolution* (Basingstoke: Macmillan).

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

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

Jean-Charles Rochet (2008) *Why are There So Many Banking Crises?* Princeton UP, chapter 1, pp. 21-34.

Securities Experts Group (2004) *Financial Services Action Plan: progress and prospects*. Brussels.

Simmons, B. (2001) 'The International Politics of Harmonization: The Case of Capital Market Regulation'. *International Organization*, Vol. 55, No. 3, pp. 589–620.

Underhill, G. (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).

<http://www.c-eps.org/>

http://ec.europa.eu/internal_market/bank/index_en.htm

http://ec.europa.eu/internal_market/bank/regcapital/index_en.htm

http://ec.europa.eu/internal_market/financial-conglomerates/supervision_en.htm

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 prudent regulation in the single market?

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:

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).