Syllabus:

The Political Economy of European Integration
(undergraduate course)

by

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Course objectives:
The aim of the course is to present, within a non-mainstream approach, the main policies of the European Union, putting them in their theoretical context. At this purpose substantial attention is given to the theories inspiring such a policies as well as to alternative theoretical approaches that could usefully support a project for a progressive Europe.

General references:

JOVANOVIĆ, Miroslav N. 2005. The Economics of European Integration. Limits and Prospects, E. Elgar, Cheltenham (UK)
MOUSSIS, Nicholas 2009. Access to European Union: institutions and policies, Euroconfidentiel, Rixensart (Belgium)

Additional reading:

Examinations
Two written examinations will be organised at the mid and the end of the course. The final assessment will be the average of the two results.
I. General background for an understanding European economic policy

1. Economic policy is guided by theory: a survey of paradigms
   - the dominant paradigm (neoclassical)
   - alternative paradigms:
     Marxian, Keynesian, post-Keynesian, institutionalist, etc.

2. Background information on the economic history of the post-World War II period in Europe
   • The facts: (i) macroeconomic evolution and economic structures; (ii) social situation and social struggles; (iii) economic institutions: national, international
   • Their interpretation
     neoclassical
     the French “régulation” theory
     the long waves approach
   • Social values and ideology

3. The theoretical inspiration of the European economic policy

4. The stakeholders:
   (a) employees; (b) unemployed people; (c) other marginalized people;
   (d) capitalists: (d.1) financial capital, (d.2) productive capital, (d.3) big corporations, (d.4) small firms; (e) consumers, (f) gender aspects (when applicable); (g) future generations (environmental aspects)

Suggested readings:


♦ REATI Angelo and Jan TOPOROWSKI 2004 An economic policy for the fifth long wave, Banca Nazionale del Lavoro Quarterly Review, vol. LVII, n. 231, December, only pp. 395-408.

REATI Angelo 2000 The complementarity of the post Keynesian and Marxian paradigms: the case of labour value, Cahiers économiques de Bruxelles, n. 168, only pp. 482-489.
II. Macroeconomic and Fiscal Policies

1. Recalling some basic notions on public finance
   (i) definition of monetary aggregates; (ii) the quantity theory of money; (iii) the credit multiplier; (iv) functions of the Central Bank; (v) optimal currency areas

2. The theoretical approaches at stake:
   Neoclassical, Keynesian and post-Keynesian

3. The present agreements:
   • the Maastricht criteria
     – definition of sustainable public finance
     – discussion
   • the Growth and Stability Pact
   • the Lisbon strategy
   • the 2005 guidelines

4. Assessment:
   what is a sustainable public finance
   the Maastricht criteria: arbitrary but a (politically) “second best”? who benefits?

Suggested readings:

BUTI, Marco and FRANCO, Daniele 2005. Fiscal Policy in EMU. Theory, Evidence and Institutions, E. Elgar, Aldershot
(The mainstream view: chapt. 1: Theory in historical perspective; chapt. 2: The Maastricht Treaty and SGP)


III. Monetary Policy and the European Central Bank

1. Recalling some basic notions

2. Competing theories on money and monetary policy:
   • the new classical economics
   • the Keynesian endogenous money

3. The progressive establishment of the European Monetary Union (EMU)

4. The European Central Bank (ECB) and the European System of Central Banks (ESCB)
   (i) the objective of ECB; (ii) basic rules; (iii) instruments of monetary policy

5. The strategy of the ECB
   The background for the ECB decisions: (i) the monetary indicator (M3);
   (ii) supplementary indicators (the “economic analysis” pillar)

6. The Exchange rates
   • Exchange rate of European countries outside the €
   • External exchange rate of the €

7. Assessment
   (i) the objective of ECB; (ii) the theoretical background; (iii) democratic and representative aspects; (iv) transparency on the rationale for decisions; (v) accountability

Suggested readings:


see chapters 3 (pp. 42-71) and 4 (pp. 72-91)
IV. Employment Policy and the Unemployment problem

1. Unemployment: a tragic event
   evidence: EU and the US;
   effects

2. A problem for whom ?
   opposite interests:
   workers: stable full employment and good working conditions
   capitalists: (a) a flexible and skilled labour force; (b) keeping a certain degree of
   unemployment to control wages and assure workers’ discipline
   society as a whole (and public powers): loss of output + non-economic costs (frustration,
   social exclusion, social unrest)

3. Types of unemployment

4. Alternative theoretical approaches
   (i) Marxian; (ii) Neoclassical; (iii) Developments within the mainstream; (iv) Keynesian
   theory; (v) Post-Keynesian developments (the role of structural change)

5. From theories to policies
   • the neoclassical recipe;
   • the Keynesian macroeconomic policy;
   • structural change strategies

6. The European social model

7. The Treaty provisions on employment

8. The policy of the Union
   • fighting structural unemployment
   • an instrument for the knowledge based society (the Lisbon strategy)
   • the annual employment guidelines
     (with particular reference to the 2005 guidelines)

Suggested readings:
V. Public Sector: Privatisation and Liberalisation

1. Preliminary
   definition of public services, public sector and the mixed economy

2. Economic analysis of public enterprises
   rationale
   alternative institutional settings

3. Liberalisation and privatisation: what is at stake

4. The European legal provisions on public services
   • services of general interest versus services of general economic interest
   • articles 16 and 86 of the Treaty
   • article 86 of the Charter of Fundamental Rights

5. The policy of the Union
   • The White Paper on Services of general interest
   • The liberalised sectors
     basic principles
     postal services: an emblematic case

6. Assessment: hints
   prices; quality of the service; level of employment

Suggested readings:

VI. Competition Policy

1. Power and domination: the ubiquitous feature of markets and society
   • asymmetrical relationships and the domination effect (Perroux);
   • power at the macro level:
     macro unities and macro decisions; propulsion effect and constraining effect
   • power in the market;
   • power outside the market

2. Market, planning or both?
   • the inadequacy of a pure market economy;
   • private planning (Galbraith);
   • indicative planning and economic policy;
   • competition as an instrument of economic policy

3. Which kind of competition?
   • perfect competition and the free market ideology;
   • the second best theorem: from perfect to “workable” competition

4. A self-destroying system
   • free competition leads to monopoly
   • restrictions of competition: agreements between enterprises, mergers and acquisitions
   • abuses of dominant positions

5. Assessing power and competition
   • the relevant market;
   • market structures
     concentration and its measurement; barriers to entry; product differentiation

6. The competition policy of the Union
• the Treaty of the Union and the present liberal approach
• provisions of the Treaty and regulations
  restrictive agreements (article 81); concentrations (regulation 139/2004); abuses of
dominant positions (art. 82); public enterprises (art. 86); State aids (articles 87 and 88)
• selected examples

7. Assessment

**Suggested readings:**

Entry: PERROUX, François (1903-1987), pp. 425-432 in: ARESTIS, Philip and SAWYER,
Aldershot (UK).

New York, see chapters 2, 3 and 5

see chapter 11 (A strategic view of competition), pp. 281-310


articles 81, 82, 86 to 88 of the Treaty of the Union
Council regulation on mergers No 139/2004 dated 20 January 2004
Commission notice on the definition of relevant market, dated 9 December 1997
(this material will be provided by A. Reati)

**VII. European Research Policy**

1. Introduction: effects and sources of technical change
   definition of technical change; effects; sources of technical change; the linear versus the
   evolutionary model of innovation; systems of innovation

2. Historical perspective: the long-waves theory

3. How to promote innovation
   • intellectual property rights
   • public support of research: justifications
     (a) market imperfections and market failures
     (b) public goods

4. The innovation effort: EU and USA
   • evidence
   • the European paradox
6. The European Framework Programs

7. The Broad Economic Policy Guidelines 2005

Suggested readings:


♦ REATI, Angelo and TOPOROWSKI, Jan 2004. An economic policy for the fifth long wave, *Banca Nazionale del Lavoro Quarterly Review*, vol. LVII, n. 231, December, see pp. 427-431 on intellectual property rights


VIII. Common Agricultural Policy (CAP)

1. General characteristics of agricultural markets

2. The rationale for a Common Agricultural Policy (CAP)
   the situation in 1958 (Treaty of Rome);
   CAP: a trade-off between France and Germany;
   objectives of the common agricultural policy in the EEC Treaty

3. The system: basic principles.....
   market unity and common prices
   Community preference
   financial solidarity

4. .....and their consequences
   • immediate effect: self-sufficiency
   • perverse effect: surpluses

5. The system: instruments
   • the European Agricultural Guidance and Guarantee Fund (EAGGF)
   • the intervention stores

6. Evolution over time
   • the first monetary developments;
   • from the Unit of account to the ECU (1979) to € (1999);
   • the changing structure of the EAGGF
   • reduction of external and internal support

7. The main problems and reforms
• At the EU level
  huge surpluses
  food destruction and food degradation
  cost of support
  complexity of the system and risk of frauds
  intensive farming and environment degradation
• At the international level
  EU and US far subsidies penalise developing countries
• The three successive reforms in the EU

8. The present situation
  import levies reduced
  decreased export refunds
  reduction in internal support
  new goals for the CAP

9. Assessment
  who gains and who looses

Suggested readings:

booklet providing the essential data on CAP reform
available on Website: http://europe.eu.int/comm/agriculture/index_en.htm

JOVANOVIĆ, Miroslav N. 2005. The Economics of European Integration. Limits and
Prospects, E. Elgar, Chelteham (UK), See chapter 4, pp. 209-266

STIGLITZ, Joseph E. 2006. The Tyranny of King Cotton, Project Syndicate, October,
www.project-syndicate.org

IX. Development Aid Policy

1. The present situation
  • a huge gap between the North and the South of the world
  • why should we help the poor countries?

2. Causes
  • a gap that has deep roots into history
  • the end of colonialism and the domination of the periphery

3. Alternative theories
  • neoclassical
  • structuralist approach (Lewis’s model; Technology and structural change)
dependency
the domination effect; core-periphery analysis (Prebisch-Singer); unequal exchange (Emmanuel);

4. Policy implications
neoclassical theory;
structuralist approach
dependency approach
technology and structural change

5. The European Policy
• four successive stages
  Yaoundé Convention (1963); First Lomé Convention, 1975 (STABEX); Lomé 2, 1979 
  (SYSMIN); Lomé 3, 4 and 4bis; Cotonou Convention, 2000
• political institutions
• financial instruments

6. Assessment
Stabex and Sysmin
the preference system

7. The current debate
• regulation through the market or regulation through the State?
• international cooperation and sustainable development
• the Maputo Declaration (Mozambique) June 2004

Suggested readings:

Cambridge University Press, Cambridge
see chapter 14, on foreign aid

MAPUTO DECLARATION 2004, *Meeting of Civil Society Organisations on the Occasion* 
of the *4th Africa Caribbean Pacific (ACP) Heads of State Summit*, Maputo 21 June 
[www.epawatch.net/documents/doc218_1.doc](http://www.epawatch.net/documents/doc218_1.doc)

EUROPEAN PARLIAMENT, COUNCIL, COMMISSION 2006. Joint Statement by the 
Council and the representatives of the governments of the Member States meeting 
within the Council, the European Parliament and the Commission on the European 
Union Development Policy: ‘The European Consensus’, *Official Journal of the 
European Union*, C 46, dated 24 February 2006, pp. 119

REATI Angelo 2007. *European development policy: from a progressive track to the 
Washington consensus*, paper presented at Brussels workshop of the Euro 
Memorandum Group, 21-23 September
(to be provided by A. Reati)
Development economics: 3 entries: orthodox (p. 194-196), history (p. 199-202), major contemporary themes (p. 202-206);
Structuralist theories of development (p. 118-120);
Lewis’s theory of economic growth and development (p. 661-3);
Core-periphery analysis (p. 145-148);
Structural adjustment policies ;
Uneven development ;
Comparative advantage and unequal exchange (p. 127-131)

**X. External Relations and the World Trade Organisation (WTO)**

1. Recalling the theory of international trade
   - absolute advantage (Smith)
   - comparative advantage (Ricardo)
   - factors endowments (Hecksher-Ohlin-Samuelson)
   - hints on modern developments:
     increasing returns and intra-industry trade; international trade with imperfect competition; the approach by technical change

2. Free trade *versus* protection
   discussion: when protection is justified

3. The present institutions
   - history of the policy of trade liberalisation:
     from the Great Depression to trade liberalisation
     GATT: aims; their implementations; results
   - WTO
     aims; structure; rule of decisions; general principles; main current agreements

4. What is at stake with WTO (hints)
   - general aspects: (i) Exporters’ interests; (ii) no “social clause”; (iii) ecodumping
   - critical analysis of the main agreements:
     services; agriculture; investments; property rights

**Suggested readings:**

See Chapter 15 (pp. 343-356) on free trade and protectionism, and chapter 17 (pp. 379-391), on trade organizations

see chapter 7, section 7.1 (pp. 55-70)


see chapter 49 (pp. 665-687)

see chapter 9, pp. 269-302

♦ Compulsory reading