

Political Science 254. Political Economy of Europe

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Course Info: Fall 2008

Mo-We-Fr 10:00-10:50. Classroom Mel 205

Objectives

This course deals with the economic integration of Europe given the fact that countries at different level of economic and social development now constitute the enlarged European Union. One may assume that the EU faces the option either to converge economically or further to diverge, or even to break up (as the former Soviet Union did). While most of the Eastern European countries performed in their early transition period in terms of DGP growth well, there is no guarantee they may sustain higher growth rates in the long run. But this is required to converge on the West.

What are the determinants of catching-up in Central and Eastern Europe? Is this the EU membership alone? But if so, why then were Greece and Portugal performing worse than Ireland and Spain (all of them Western European catch-up nations)? Will one day Poland be wealthier than France and Hungary better-off than the Netherlands?

The EU is an ambitious prq 0173.00 0 0 200 0 0 Tm /F1.0 1 Tf (off than ti5WploysthenTjooEu) 0 ac0 270.

independent from agricultural imports and over time it emerged as one of the greatest producers of food and reproducible raw materials in the world. But does this so far successful policy have a promising future? Who is paying the bill – domestically and internationally – of Europe's agricultural success, and can the EU help to moderate the food price crisis in some parts of the world?

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early postwar period now there is a tendency towards higher income differentiation in (Western) Europe.

We will try to understand what is causing „the rich to become richer“ and „the poor to become poorer“ in Europe, also by looking at the US.

Some critics say this is the result of wrong– neo-liberal –policies and can be reversed. But how? By more regulation, e.g. imposing import tariffs, legislating tax harmonization among all – old and new – member states, restricting the four liberties, introducing mandatory minimum wages? Or by further accomplishing the internal market, removing barriers to integration and growth, encouraging competition and benefiting from globalization (what does this mean?). Isn't – given that Europe lacks natural resources - more and better education the key (i.e. investment into human capital)?

Prerequisites for participation:

This seminar is an introduction to the political economy of Europe's integration and is designed for students interested in European affairs or dealing with a particular country (e.g. Russia). It is open to freshmen, sophomores and any student in her early semesters. The material is interdisciplinary but some background knowledge of and interest in

- macroeconomics, growth theory and production function included
- international economics, the Heckscher-Ohlin Model included
- fundamentals of the EU economy (size, per-capita income, public debt, inflation and unemployment rate, trade, share of total output by country, FDI flows, etc.)
- statistical data processing and international statistical comparisons would be an asset.

Class format: lecture, student's presentation and discussion

Readings and literature:

You are not required to buy books. However, some paragraphs in economics textbooks will be recommended for a given class. All other literature you will need is available online and stated in the course outline.

Credit Requirements

- 1) Participations in all classes
- 2) Reading of the references and active discussion in class.

- 3) Students prepare (roughly once a month) a power point presentation on a pre-agreed topic. Any PPP is 15-20 slides long, contains an introduction to the issue, the student's interpretation and her conclusions/suggestions.
- 4) Term paper of 5000-6000 words, spaced 1.5 lines at 12 pt. Online submission due December 10 at 5:00 p.m. Students suggest the topic of their TP by Oct. 31 or earlier. A preliminary version can be presented to the instructor for review.

There are no oral exams for this course.

Grading

Literature for this week:

Basics of Growth theory, esp. Steady state, in Mankiw, N.G.: Macroeconomics, 4th Edition (or newer), Worth Publishers, Chptr. Economic Growth I); very good also

Dornbusch/Fisher/Startz: Macroeconomics, 8th Edition, McGraw-Hill, Chp. 3.3;

Krugman, P.: Increasing Returns and Economic Geography, in: Journal of Political Economy, Vol. 99, No. 3, June 1991, text only, at:

<http://pioneer.netserv.chula.ac.th/~kkornkar/inter%20trade%20course/geography.pdf>

EU Commission, Enlargement website: Conditions for enlargement, at:

http://ec.europa.eu/enlargement/the-policy/conditions-for-enlargement/index_en.htm

O. Hishow: Economic Effects of EU Eastern Expansion. SWP Research paper, July 2004, at:

E. Brimmer and St. Froehlich (Eds.): The Strategic Implications of European Union Enlargement, esp. Chapters “The Agenda 2007 Proposals: a real paradigm shift?” and “Economic competition in the enlarged EU: race to the bottom or chance for structural reforms?”, http://transatlantic.sais-jhu.edu/Publications/eu_enlargement/Intro_Froehlich.pdf

Hishow, O.: EU extension to the East and exporting jobs. SWP Comment, May 2004, at: http://www.swp-berlin.org/en/common/get_document.php?asset_id=1303

Literature on the division of labor between the old and new members: Basics of International Economics, esp. Heckscher-Ohlin theory:

Krugman/Obstfeld, International Economics. Theory and Policy, 8th ed., Chapter 4, pp. 54, 70-75.

On the political aspects of the EU enlargement visit the website of the Directorate General “Enlargement” of the EU Commission: http://ec.europa.eu/enlargement/index_en.htm

On the economic limits of the EU’s enlargement see Walter Christaller’s Central places theory (a w

A. Sapir et al: An agenda for a growing Europe. Making the EU Economic System Deliver.
Report of an Independent High-Level Study Group established on the initiative of the

Theory: R. Baldwin and C. Wyplosz: *The Economics of European Integration* (2nd ed.),
McGraw Hill, 2006, Chap. 2.7.

For a critical review: P. Becker: *More Money for Europe*, SWP Comments, 4/2006:

1. Overview “An Energy Policy for Europe”, at:
<http://europa.eu/scadplus/leg/en/lvb/l27067.htm>
2. Research paper containing assessment and outlook:
http://ec.europa.eu/dgs/energy_transport/figures/trends_2030_update_2007/energy_transport_trends_2030_update_2007_en.pdf
3. EU COM statistical pocketbook: Various data, very informative:
http://ec.europa.eu/dgs/energy_transport/figures/pocketbook/doc/2007/2007_energy_en.pdf
- 4.

On the GHG polluters: EU Commission: Environment fact sheet – climate change, at http://ec.europa.eu/environment/climat/pdf/cc_factsheet_aug2005.pdf

On the EU policies: EU COM, EU action against climate change. Leading global action to 2020 and beyond, http://ec.europa.eu/environment/climat/pdf/bali/post_2012.pdf

On the official US position: <http://www.epa.gov/climatechange/>

On the US non-official: (German research)

[http://www.dbresearch.com/servlet/reweb2.ReWEB?addmenu=false&chapno=3170&document=PROD0000000000020732&noautotitle=true&rdTitleSource=Url&rwdspl=0&rwnode=DBR_INTERNET_EN-PROD\\$NAVIGATION&rwobj=ReDisplay.Start.class&rwsite=DBR_INTERNET_EN-PROD&title=Talking+point](http://www.dbresearch.com/servlet/reweb2.ReWEB?addmenu=false&chapno=3170&document=PROD0000000000020732&noautotitle=true&rdTitleSource=Url&rwdspl=0&rwnode=DBR_INTERNET_EN-PROD$NAVIGATION&rwobj=ReDisplay.Start.class&rwsite=DBR_INTERNET_EN-PROD&title=Talking+point)

Climate economic modeling:

<http://www.epa.gov/climatechange/economics/modeling.html#intertemporal>

Week 9 Excursus on Russia

Session 23, October 27. Lecture Russia's revival and its implications for the EU

Session 24, October 29. PPP Russia as THE energy partner of the EU – advantages and pains

Session 25, October 31 Discussion of the lecture and PPP

Literature for this week

On the EU-Russia relationship: S. Fischer, The EU and Russia. Conflict and potential of a difficult partnership, SWP Research paper, RP1, January 2007, here pp. 12-14 on the **PCA** and pp. 18-19 on the **EU as an external democratizer**, at

http://www.swp-berlin.org/en/common/get_document.php?asset_id=3653

On Russia's energy power: A. Goldthau: Resurgent Russia? Rethinking Energy Inc. Five myths about the “energy superpower”, at

<http://www.hoover.org/publications/policyreview/14931716.html>

On Russia's search of a new role: Elena Prokhorova: Russia is Back - What Next?, EURussia Centre, June 2007, at: <http://www.eu-russiacentre.org/column.asp?id=1069&lng=en>

On Russia's economy: Macroeconomic overview by IMF: IMF Country Report No. 351, Russia, Paragraphs *I* and *V*, at:

<http://www.imf.org/external/pubs/ft/scr/2007/cr07351.pdf>

On Russia's economic freedom ranking: WSJ&HF *Index of Economic Freedom*, at:

<http://www.heritage.org/Index/country.cfm?id=Russia>

Week 10: Excursus on Russia continued

Session 26, November 3. Lecture Russia endowment with natural capital - a blessing or rather a curse? A cost-benefit approach

Session 27, November 5. PPP Resource based growth in Russia versus labor based development in the NMS

Session 28, November 7. Discussion of the lecture and PPP. Special focus on the blessing of lack of natural capital in the NMS.

Literature this week:

On Leamer Triangle:

Edward E. Leamer et al: Does Natural Resource Abundance Increase Latin American Income Inequality? *Journal of Development Economics*, 1998, at

Rudiger Ahrend: How to Sustain Growth in a Resource Based Economy? The Main Concepts and their Application to the Russian Case. OECD Economics Department Working Papers No. 478, Paris, February 2006, at:

[http://www.oilis.oecd.org/olis/2006doc.nsf/809a2d78518a8277c125685d005300b2/26b99deae2340addc1257116005a6c04/\\$FILE/JT00200755.PDF](http://www.oilis.oecd.org/olis/2006doc.nsf/809a2d78518a8277c125685d005300b2/26b99deae2340addc1257116005a6c04/$FILE/JT00200755.PDF)

Th. Gylfason, G. Zoega, Inequality and Economic Growth: Do Natural Resources Matter? in <http://www.hi.is/~gylfason/pdf/gini593.pdf>;

Michael E. Porter and Christian Ketels, with Mercedes Delgado and Richard Bryden: Competitiveness at the Crossroads: Choosing the Future Direction of the Russian Economy, CSR Report, only Part 5 Conclusions, at: http://www.csr.ru/_upload/editor_files/file0029.pdf

Sapir, A.: Globalisation and the Reform of European Social Models. BRUEGEL Policy Brief, November 2005, at: <http://www.bruegel.org/1425>

Thomas Blanke & Jürgen Hoffmann: Towards a European Social Model Preconditions, Difficulties and Prospects of a European Social Policy, CIS Papers No. 11, Centre of International Studies Hamburg, July 2006, at:

www.wiso.uni-hamburg.de/fileadmin/wiso_dwp_cis/CP_11_Blanke_Hoffmann.pdf

On the NMS and globalization (Session 37)

Krugman/Obstfeld: International Economics, International Economics. Theory and Policy, 8th ed., Chap. 3, pp. 28 and 40-41;

O. Hishow: [Pressure from the East European Member States](#) SWP- SWP Comments, 2004/C24, September 2004

Kohler, W.: Eastern Enlargement of the EU: A Comprehensive Welfare Assessment.

HWWA Discussion Paper 260, Hamburg 2004, at:

www.hwwa.de/Forschung/Europa/Publikationen/2004.htm

Session 38, December 3. Please notice: no PPP, lecture instead: Unemployment as a social problem

Session 39, December 5. Simulation/brainstorming: The EU27 without unemployment - a brainstorming

Literature: Mankiw, N.G.: Macroeconomics, op. cit., p. 364-367;

Iwona Mertin and Ognian N. Hishow: Analysis of the Success and Failure in the Labour Markets of Selected EU Member-States. Macroeconomic Aspects. Institute for world economics, Hungarian academy of sciences, Working Papers No. 176, September 2007, at: <http://www.vki.hu/workingpapers/wp-176.pdf>

Week 15 (last week in class)

Session 40, December 8. A look into the Crystal ball: The EU in 2040. Special focus: How did the core-periphery gap develop? The NMS still a periphery?

Literature for the brainstorming:

