

**IA STD 160: THE 'UNITED STATES' OF EUROPE:  
UNDERSTANDING THE POLITICAL ECONOMY OF EUROPEAN INTEGRATION**

UCLA  
Summer 2014 Session C  
Time: MW 12-2:05pm (Public Affairs 2238)

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**COURSE OVERVIEW AND OBJECTIVES**

Outside of the allure for a European semester abroad - walking down the Champs Elysees in Paris, floating through the Venetian canals, or climbing the steps to the Athenian Acropolis - why should we study the political economy of the European Union? First, the EU is the largest economy in the world when considered as a single entity and thus the policies of the EU have ripple effects throughout the global economy. Second, the US and EU are heavily intertwined, both politically and economically: the first banks to go under in the 2007-2008 financial crisis were small German *Landebanks* who bought the risky mortgaged backed securities offered by the largest Wall Street banks. Moreover, the US and EU are currently engaged in negotiations for the largest free trade agreement in history, representing 60% of global GDP and 33% of total world trade. Finally, in the wake of the Great Recession, the EU is in the midst of making vast changes to its structure of governance, financial regulation, and monetary policy, taking cues from the successes and failures of the United States. The question we will hope to answer by the end of our six weeks is "Will the European Union become more like the *United States of Europe*?"

The objective of this course is to gain a better understanding of the interactions between the politics and economics of the European Union from three dimensions: sovereign states, a supranational economic and political union, and the highly globalized system of the 21<sup>st</sup> century. To do this we will consider the historical rationale for establishing the European Union (as well as the Euro-zone monetary union), evaluate the institutions created by this union, and how these institutions have affected and continue to affect politics and economics in the EU and the world at large.

The structure of the course will closely follow the textbook of Baldwin and Wyplosz, *The Economics of European Integration, 4<sup>th</sup> Edition* (henceforth "BW"); however, a thorough understanding of undergraduate economics is not necessary (although helpful). Each week the lectures will build the economic and political foundations of the major themes to be covered, followed by the current debate on these topics. The lectures will come from the textbook and the current debates will come from contemporary news articles (provided on the course webpage, unless stated otherwise). These new articles will come mostly from *The Economist*, Voxeu.org, or other international magazines/journals. You may find yourself hung up on the theoretical material in the BW textbook; do your best to get through the readings and I will help you to understand the material in lecture. The articles will be easier to follow.

## REQUIREMENTS

1. Final Memo (40%): Students will assume that they are an economic or political advisor to the Prime Minister (or President) of an EU country (or the head of an EU institution) and will prepare a memorandum addressed to them on one of the policy issues discussed in class. The memo will have three parts: first, a well-researched background section discussing the country/institution, the issue under consideration and its theoretical underpinnings (making direct reference to the relevant assigned readings); second, a section addressing the importance of the issue in the selected country and EU at large in light of class discussions; and third, a section giving specific policy recommendations about how to confront the issue. A memo proposal defining the issue under consideration and a preliminary bibliography is due by the end of Week 4. We will discuss the due date of the final paper in our first meeting.
2. Two short (approx. 2 pages, double-spaced) analytic response papers (25%), which should be a critical review of the discussion articles and how they relate to the weekly theme. Papers should be emailed to me on **Tuesdays by 10PM**.
3. Class participation (35%).

## GRADING

Written work comprises 65% of the grade. The remaining 35% is determined by class attendance and regular and active participation in discussions. Students are expected to complete the readings assigned for the week with a focus on the starred readings, and come to class prepared to actively participate.

## COURSE THEMES

### **1. History: Wars, Monarchies, Colonial Expansion, Wars, Modern Democracy, and....Wars**

Week 1: The history of European integration, the institutions created, the structure of the political system, and its legal foundations under the Maastricht Treaty.

Discussion: will focus on critiques of the EU governing institutions – including the European Commission, the Council of the European Union, and the European Parliament – and the recent elections.

#### Readings (Week 1):

- BW: Chapters 1-3
- Timothy Garton Ash. “The Crisis of Europe.” *Foreign Affairs*. Sept./Oct. 2012. [Great overview of the entire course!]
- “The Euro Crisis: The New European Union.” *The Economist*. 16 Dec. 2013.
- “Europe’s Elections: The Eurosceptic Union.” *The Economist*. 31 May 2014.

## 2. Trade and Economic Geography: *“Is that a Louis Vuitton?”*

Week 2: Overview of basic trade theory and Paul Krugman’s predictions for a unified Europe. Discussion: How has a single market affected trade in the EU, looking at the “core” and the “periphery”; how have value chains proliferated in the EU; were Krugman’s predictions about the EU correct?

### Readings (Week 2):

- BW: Chapters 4-5, 10 (you may want to skim chapters 4 and 5 if you have a background in economics (micro and international) - we will review this material in lecture; focus carefully on chapter 10)
- Krugman and Obsfeld, Chp. 4 (available on course webpage and will support chapter 10 from BW; not required, but very helpful for understanding economic geography)
- “Fawlty Europe.” *The Economist*. 2 Nov. 2013.
- Francesco Daveri. “The German Surplus and the Eurosceptics.” *Voxeu.org*. 28 May 2014. [Article found here: <http://www.voxeu.org/article/german-surplus-and-eurosceptics>]

## 3. Single Labor Market: *“They took ‘r jobs!”*

Week 3: Overview of the economics of a single labor market, labor migration, and social welfare systems.

Discussion: We will look at analyses of the recent accession to the EU of several “periphery” countries and how it has impacted the labor markets in the “core” as well as in the “periphery”. We will also discuss the integration of future member states and how ethnic fractionalization in countries is causing a change in public opinion about welfare.

### Readings (Week 3):

- BW: Chapter 8
- “EU Migration: The Gates Are Open.” *The Economist*. 4 Jan. 2014.
- “European Labour Mobility: On the Move.” *The Economist*. 13 Jan. 2014.
- Alesina, Glaeser, Sacerdote (2001). “Why Doesn’t the US Have a European-Style Welfare System?” *Brookings Papers on Economic Activity*. [Note: this is a long paper with responses by other academics at the end. You do not need to read it to entirety, but make sure you understand the main argument and findings.]

## 4. Monetary Union: *Why doesn’t the Eurozone just act more like the US?*

Weeks 4-5: Overview of optimal currency areas, the Euro-zone monetary union, its governing institutions, and the challenges it raises; EU fiscal policy and the Stability Act.

Discussion: What are the pros/cons of a monetary union; how does a monetary union constrain sovereign governments during a macroeconomic shock? Should governments give up more sovereignty with regards to fiscal policy for the greater good of the EU; how have debtor countries taken advantage of the Target2 mechanism to borrow for the creditor countries; what recommendations have been given for cleaning members’ fiscal house?

#### Readings (Week 4):

- BW: Chapter 13-15
- Alesina, Barro, and Tenreyro (2002). "Optimal Currency Areas." NBER Working Paper 9072. [Make sure you understand the main argument and findings]

#### Readings (Week 5):

- BW: Chapter 16-17
- "Optimal Currencies: America's Euro." *The Economist*. 7 May 2010.
- Paul Krugman: "Revenge of the Optimum Currency Area." *NY Times*. 24 June 2012.

### **5. EU Currency Crisis: *Austerity – the hangover after the party.***

Week 6: Overview of the lead-up to the Euro crisis, the effects, and the aftermath. What changes has the EU made to make sure this doesn't happen again? Can this happen again? What are the parallels to the US financial crisis?

#### Readings (Week 6):

- BW: Chapter 19
- Feldstein (1997). "The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability." *Journal of Economic Perspectives* 4(11): 23-42. [Feldstein wrote this paper in 1997; pay attention to his predictions and compare them to what actually occurred.]
- "Taking Europe's Pulse." *The Economist*. 15 May 2014. [An interactive overview of European GDP, debts, and jobs: <http://www.economist.com/blogs/graphicdetail/2014/05/european-economy-guide>]