

BOSTON UNIVERSITY

Department of International Relations

THE POLITICAL ECONOMY OF THE EUROPEAN UNION

IR 760

Spring Semester 2008

Class Hours: Mondays 2-5

Location: IRB 101

Instructor:

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appointment

IR 760: THE POLITICAL ECONOMY OF THE EUROPEAN UNION

Professor Vivien A. Schmidt

COURSE DESCRIPTION:

Between the launching of the euro in 1999 and the completion of the single market in 1992, the European Union in less than a decade has achieved a level of monetary and market integration that has no equivalent among other regional trade organizations. With the euro taking its place next to the dollar as the second reserve currency in the world, and with the European market already larger than that of the U.S., Europe has become an economic giant rivalled only by the U.S. How this happened and what this means for European member-states in terms of changes in their own national political economies are the main focus of this course.

A course such as this, however, must first address the influence of globalization and Europeanization on the economic adjustment of EU member-states as well as on the transformation of the Central and Eastern European accession countries. Global economic forces have served as a major impetus for European integration and for the transformation of European national economies through market liberalization and deregulation. But while the European Union has served as a conduit for global forces, by opening member-states up to international markets and trade; it has also served as a shield against them, by reducing member-state vulnerability to global economic forces through monetary integration and the single market. The net result for EU member-states is greater protection from global forces through a shared supranational authority which has fostered a set of common rules governing their macroeconomic and microeconomic policies. In exchange, though, they have given up a good measure of national autonomy, that is, the ability to make decisions independently, without regard to external economic forces and actors, and national control, that is, the effective power to influence economic forces and actors in the national economy.

For all the common pressures from the forces of globalization and/or Europeanization, however, there is no major convergence in European countries' political economies. Different countries not only start with very different economic profiles, political-economic institutions and processes, and politico-cultural traditions, they also respond to global and European forces in very different ways and/or at different speeds, in keeping with their differing realities.

Thus, for a course such as this, a full understanding of the political economy of the European Union requires the examination not only of the EU itself as a major currency zone and trading block but also of the individual political economies of its member-states. The structure of business, the structure of state relations with business and labor, the structure of industrial relations, and the structure of the welfare state continue to differ among EU member-states, even as these countries converge in the macroeconomic sphere, liberalize in the microeconomic sphere, and cut back in the socioeconomic sphere. Throughout the course, therefore, we will illustrate these differences as we explore the dynamics of economic adjustment in European countries, Western and Eastern.

COURSE OUTLINE:

- A. Introduction: European Political Economy from Postwar to Today
- B. The Challenges of Globalization, Europeanization, and Transformation
- C. Macroeconomic Convergence and Microeconomic Liberalization
- D. Rationalizing Social Policy and Labour Market Flexibility
- E. The Differential Impact of European Integration on National Varieties of Capitalism
 - 1. How Many Varieties of Capitalism are there? How have they Changed? (and how do you study them?)
 - 2. How Many Families of Welfare States are there? How have they Changed in response to European Integration?
 - 3. Liberal Market Economies and Welfare States under European Integration: Britain and Ireland
 - 4. Coordinated Market Economies and Conservative or Social Democratic Welfare States under European Integration: Germany and the Smaller European Countries
 - 5. State-Influenced Market Economies and Conservative Welfare States under European Integration: France, Italy, and Spain
 - 6. Hybrid models and European Integration: Central and Eastern Europe
- F. What Next? Toward a new European Capitalism and Welfare State?

REQUIRED TEXTS:

Aslund, Anders *How Capitalism was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia* (Cambridge: Cambridge University Press, 2007)

Alesina, Alberto and Giavazzi, Francesco, *The Future of Europe: Reform or Decline* (Cambridge: MIT Press, 2006)

Eichengreen, Barry *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007)

Ferrera, Maurizio *The Boundaries of Welfare* (Oxford: Oxford University Press, 2006)

Hancké, Bob, Rhodes, Martin and Thatcher, Mark, eds. *Beyond Varieties of Capitalism* (Oxford: Oxford University Press, 2007)

Martin, Andrew and Ross, George *Euros and Europeans: Monetary Integration and the European Model of Society* (Cambridge, Cambridge University Press 2004)

Schmidt, Vivien A. *The Futures of European Capitalism* (Oxford: Oxford University Press, 2002)

Scharpf, Fritz W. and Schmidt, Vivien A. eds., *Welfare and Work in the Open Economy* Volume II: *Diverse Responses to Common Challenges* (Oxford: Oxford University Press, 2000).

The books are all available at Barnes and Noble.

All other readings will be available either via the internet or will be emailed to you, as indicated.

Students are also strongly encouraged to get a subscription to the Financial Times and The Economist.

Also, please also check out the internet. The EU has a very elaborate site, with a great deal of information. Check it out at www.eurunion.org or www.europe.org. There is a short guide for Americans at www.eurunion.org/infores/eurguide/eurguide.htm There is also a list of internet sites on my websites at: <http://people.bu.edu/vschmidt>

COURSE REQUIREMENTS:

There will be one major paper (25-30 pages) worth 70 percent of the grade and one or two minor papers (3-5 pages) worth 20 percent of the grade. The major paper will be a comparison of two EU member-states focused on a given aspect of their political economies and the impact of European integration, e.g., deregulation of a given sector, privatization, meeting the competitive challenges resulting from the single market, the constraints of monetary integration, and so forth. It is due the week before the last class. The short paper(s) will be based on readings from the syllabus and presented in class (15 minute presentation). It will be due a week after the class presentation. Class participation will be 10 percent of the grade. Presentations of the major paper will take place during the last week of the class.

The College of Arts and Sciences (CAS) Dean's Office has requested that you be informed of the following: The last day you may drop the course without a W grade is Feb. 21. The last day you may drop the course with a W grade is Mar 21. You are responsible for knowing the provisions of the CAS Academic Conduct Code (copies are available in CAS 105). Cases of suspected academic misconduct will be referred to the Deans' Office.

COURSE READINGS:

A. Introduction: European Political Economy from Postwar to Today

Class 1: Mon. Jan. 28

Schmidt, Vivien A. "European Economy since the beginning of the EU: The Miracle of Growth and the Sources of Wealth" in Richard Sakwa and Anne Stevens (eds.) *Contemporary Europe* Second Edition (Basingstoke: Palgrave, 2005). [will email]

Eichengreen, Barry *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007) (entire book)

Aslund, Anders, "Communism and Its Decline" and "Shock Therapy vs Gradualism" in *How Capitalism* (Cambridge: Cambridge University Press, 2007), pp. 1-56.

B. The Challenges of Globalization, Europeanization, and Transformation

Class 2: Mon. Feb. 4

Schmidt, Vivien A. "The Challenges of Globalization and Europeanization: The Impact on National Autonomy and Control" in *The Futures of European Capitalism* (Oxford: Oxford University Press, 2002), Chapter 1, pp. 13-58.

Alesina, Alberto and Giavazzi, Francesco *The Future of Europe: Reform or Decline* (Cambridge: MIT Press, 2006) (entire book)

Aslund, Anders "Output: Slump and Recovery" in *How Capitalism*, pp. 57-81.

C. Macroeconomic Convergence and Microeconomic Liberalization

Class 3: Mon. Feb. 11

Martin, Andrew and Ross, George "Introduction: EMU and the European Social Model" in *Euros and Europeans* eds. Martin and Ross, pp. 1-19.

Sbragia, Alberta M. "Shaping a Polity in an Economic and Monetary Union: The EU in Comparative Perspective" in *Euros and Europeans* eds. Martin and Ross, pp. 51- 75.

Schmidt, Vivien A. "The Dynamics and Mechanics of Policy Adjustment" in *Futures of European Capitalism*, Chapter 2, pp. 59-106.

Thatcher, Mark "Reforming National Regulatory Institutions: The EU and Cross-National Variety in European Network Industries" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 147-72.

Aslund, Anders "Liberalization: The Creation of a Market Economy," "From Hyperinflation to Financial Stability," and Privatization: The Establishment of Private Property Rights" in *How Capitalism*, pp. 82-181.

D. Rationalizing Social Policy, Increasing Labor Market Flexibility

Class 4: Tues. Feb. 19 (reschedule class)

Jon Erik Dolvik, "Industrial Relations in EMU: Are Renationalization and Europeanization two sides of the same coin?" in *Euros and Europeans* eds. Martin and Ross, pp. 278-308.

- Hemerijck, Anton and Ferrera, Maurizio “Welfare Reform in the Shadow of EMU” in *Euros and Europeans* eds. Martin and Ross, pp. 248-278.
- Daly, Mary “A Fine Balance: Women’s Labor Market Participation in International Comparison” in *Welfare and Work in the Open Economy* vol. 2 eds., Scharpf and Schmidt, pp. 467-510.
- Aslund, Anders “An Inefficient Social System” in *How Capitalism*, pp. 182-207.

E. The Differential Impact of European Integration on National Varieties of Capitalism

1. How Many Varieties of Capitalism are there? How have they Changed? (and how do you study them?)

Class 5: Mon. Feb. 25

- Hall, Peter and Soskice, David “Introduction” in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* eds., Peter A. Hall and David Soskice (Oxford University Press, 2001), pp. 1-70 [on reserve]
- Hall, Peter A. “The Evolution of Varieties of Capitalism” in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 39-85
- Schmidt, Vivien A. “Still Three Varieties of Capitalism?” and in *Futures of European Capitalism*, Chapter 3, pp. 107-146.
- Schmidt, Vivien A. “Discourse as Framework for Analysis: Policy Construction and Legitimation for Changing Policies and Practice” in *Futures of European Capitalism*, Chapter 5, pp. 209-256.
- Schmidt, Vivien A. “Putting the Political Back into Political Economy by Bringing the State Back In Yet Again.” Paper prepared for presentation to the Garnet-JERP 5.2.3 Conference: ‘The Transformation of the State: The EU, new regionalism, multilateralism, and globalization.’ Institute for European Studies, Université Libre de Bruxelles (Brussels, Nov. 28-29, 2007).

2. How Many Families of Welfare States are there? How have they Changed in response to European Integration?

- Scharpf, Fritz W. and Schmidt, Vivien A. “Introduction” in *Welfare and Work in the Open Economy* vol. 2 eds., Scharpf and Schmidt, pp. 1-18.
- Ferrera, Maurizio *Boundaries of Welfare* (Oxford: Oxford University Press) Chapters 2, 3, 4, 5, pp. 53-203
- Soskice, David “Macroeconomics and Varieties of Capitalism” in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 90-121.

3. Liberal Market Economies and Welfare States under European Integration: Britain and Ireland

Class 6: Tues. Mar. 3

- Vivien A. Schmidt, *Futures of European Capitalism*, sections on Britain, pp. 148-164, 257-270
- Martin Rhodes, “The Adjustment of the British Welfare State” in *Welfare and Work in the Open Economy* vol. 2 eds., Scharpf and Schmidt, pp. 19-68

Niamh Hardiman, "Which Path? Domestic Adaptation to Economic Internationalization in Ireland." Paper prepared for presentation to the national meetings of the American Political Science Association (Chicago, Ill., Sept. 2-5, 2004). [will email]

4. Coordinated Market Economies and Conservative or Social Democratic Welfare States under European Integration: Germany and Smaller European Countries

Class 7: Mon. Mar. 17

Vivien A. Schmidt, *Futures of European Capitalism*, sections on Germany, pp. 165-182, 287-302.

Hassel, Anke "What does Business Want?" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 253-77.

Philip Manow and Eric Seils, "Adjusting Badly: The German Welfare State, Structural Change, and the Open Economy" in *Welfare and Work in the Open Economy vol. 2* eds., Scharpf and Schmidt, pp. 264-307.

Nico A. Siegel, "EMU and German Welfare Capitalism" in *Euros and Europeans* eds. Martin and Ross, pp. 103-125.

Börsch, Alexander "Institutional Variation and Coordination Patterns in CMEs: Swiss and German Corporate Governance in Comparison" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 173-94.

Class 8: Mon. Mar. 24

Giuliano Bonoli and André Mach, "Switzerland: Adjustment Politics within Institutional Constraints" in *Welfare and Work in the Open Economy vol. 2* eds., Scharpf and Schmidt, pp. 131-174.

Mats Benner and Torben Vad, "Sweden and Denmark" in *Welfare and Work in the Open Economy vol. 2* eds., Scharpf and Schmidt, pp. 399-466

Anton Hemerijck, Brigitte Unger, and Jelle Visser, "Austria, the Netherlands, and Belgium" in *Welfare and Work in the Open Economy vol. 2* eds., Scharpf and Schmidt, pp. 175-263

Jos de Beus, "The Netherlands: Monetary Integration and the Polder model" in *Euros and Europeans* eds. Martin and Ross, pp. 174-200.

Philippe Pochet, "Belgium: Monetary Integration and Precarious Federalism" in *Euros and Europeans* eds. Martin and Ross, pp. 201-225.

5. State-Influenced Market Economies and Conservative Welfare States under European Integration: France, Italy, Spain

Class 9: Mon. Mar 31 (reschedule class)

Vivien A. Schmidt, *Futures of European Capitalism*, sections on France, pp. 182-205, 271-287.

Goyer, Michel "Capital Mobility, Varieties of Institutional Investors, and the Transforming Stability of Corporate Governance in France and Germany" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 195-219.

Jonah Levy, "France" in *Welfare and Work in the Open Economy vol. 2* eds., Scharpf and Schmidt, pp. 308-350

George Ross, "Monetary Integration and the French Model" in *Euros and Europeans* eds. Martin and Ross, pp.76-102.

Class 10: Mon. April 7

- Vincent della Sala, (2004) The Italian Model of Capitalism: On the Road Between Globalization and Europeanization?, *Journal of European Public Policy*, November 2004. [ejournal]
- Vincent della Sala, "Maastricht to Modernization: EMU and the Italian Social State" in *Euros and Europeans* eds. Martin and Ross, pp. 126-149.
- Maurizio Ferrera and Elisabetta Gualmini, "Italy" in *Welfare and Work in the Open Economy* vol. 2 eds., Scharpf and Schmidt, pp. 351-398
- Sofia A. Perez, "Constraint or Motor? Monetary Integration and the Construction of a Social Model in Spain" in *Euros and Europeans* eds. Martin and Ross, pp. 150-173.
- Sebastian Royo, (2004) 'Still two models of capitalism? Economic adjustment in Spain', paper for the Annual Meeting of Apsa, Chicago, available at http://www.cas.suffolk.edu/royo/APSA04_Royo.pdf
- Oscar Molina and Martin Rhodes, "The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy" in *Beyond Varieties of Capitalism* eds. Bob Hancké, Martin Rhodes, and Mark Thatcher (Oxford: Oxford University Press, 2007) pp. 223-52.

6. Hybrid models and Welfare States under European Integration: Central and Eastern Europe

Class 11: Mon. April 14

- Aslund, Anders "The Role of the Oligarchs" in *How Capitalism*, pp. 256-280.
- King, Lawrence "Central European Capitalism in Comparative Perspective" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 307-27.
- Feldman, Magnus "The Origins of Varieties of Capitalism: Lessons from Post-Socialist Transition in Estonia and Slovenia" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp.323-50.
- Mykhnenko, Vlad "Strengths and Weaknesses of 'Weak' Coordination: Economic Institutions, Revealed Comparative Advantages, and Socio-Economy Performance of Mixed Market Economies in Poland and Ukraine" in *Beyond Varieties of Capitalism*, ed. Hancké, Rhodes, Thatcher (Oxford University Press, 2007) pp. 351-78.
- Cerami, Alfio "The Politics of Reform in Bismarckian Welfare States: The Cases of the Czech Republic, Hungary, Poland, and Slovakia." Paper prepared for presentation for the conference : "A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe." Center for European Studies, Harvard University (Cambridge, MA, June 16-17, 2006) [will email]

F. What Next?: Toward a new European Capitalism and Welfare State?

Class 12: Wed. April 23

- Vivien A. Schmidt, "Conclusion" in *Futures of European Capitalism*, pp. 303-310.
- Andrew Martin and George Ross, "Conclusions" in *Euros and Europeans* eds. Martin and Ross, pp. 248-277.
- Aslund, Anders "The Impact of the Outside World" and "Conclusions: A World Transformed" in *How Capitalism*, pp. 281-314.

Maurizio Ferrera, “New Boundaries, New Structuring: On the Future of Social Protection in the EU” in *Boundaries of Welfare*, pp. 205-253.

Class 13: Mon. April 28
Paper Presentations