Economics of European Integration
ECON 1432

Syllabus, Fall 2024

Department of Economics
Harvard University

Course description and course objectives

The aim of the course is to give students familiarity with a broad range of European policy issues: the integration of markets (for goods, services, labor, and capital) and its monetary union, i.e., the common monetary policy and its consequences for interrelated domains (fiscal policy, financial sector regulation, labor markets). The course is offered for students who would like to employ the tools they have learned in principles of economics and introductory micro and macro courses on real world cases.

That is, we will try to make sense of economic policy issues dealt with at the EU level (competition policy, trade policy, industrial policy, strategic autonomy, regional or cohesion policy and so on) – all issues with a cross-border or an externality dimension. We are ultimately interested in the conditions for the successful implementation of such policies in a deeply integrated region.

Giving students the opportunity to become economically conversant in European (or general economic) integration debates, is the prime objective of our course.

Contact and course information

Professor	Hans-Helmut Kotz (e-mail: kotz@fas.harvard.edu; office hours: by appointment)
Teaching Fellow	N.N.
Class time	Tuesday and Thursday: 09:00 am to 10:15 am (Adolphus Busch Hall, Lower-Level Conference Hall)
Section time	Two sections per week, covering the same material; section times TBA. Sections will start in the second week of class.

Support

Office hours: We appreciate working with students on their projects: finding an interesting topic (not difficult, in fact, there might be too many….embarrassment of choices), defining the scope (a bit more demanding), thinking about a structured approach to writing the paper, the *plan d'attaque*. This implies quite some involvement on our side. Hence, we encourage students to make use of our offer to meet up. Incidentally, one of the great advantages of our home base, the Center for European Studies, is its marvelous courtyard where we can meet outdoors.

One section will be devoted to tool-building: how to get access to data, how to use them and how to write an empirical paper. In early December, we will also have a "paper clinic".

Admission process

Given the features of Econ 1432 (writing requirement, student presentations of a draft of their term papers, with subsequent discussion, in a workshop in mid-November; intense engagement with students), class size is capped. To express your interest in enrolling in our course, we would ask you to petition on my.harvard, writing a few lines on your background as well as why you are interested in taking the course.

Grading

Students will write a (short) response paper as well as a (longer) term paper (see *How to write a response/term paper* on our course website). Students are supposed to choose their paper topics, with some guidance, of course. This might appear a bit demanding, but that's part of the learning experience. It allows students to pursue research questions they are really interested in.

The course permits students to fulfill the concentration writing requirement.

The response paper (double-spaced, up to 1,700 words, to be submitted on October 8), will count for 20% of the grade. The main project will be a term paper (up to 5,800 words, to be submitted until December 12), 40 % of the grade. (On our course website, you will find two pieces on "How to write a response/term paper".) A preliminary version of term papers will be presented (10%) and discussed in a workshop-type environment in mid-November. In this smaller setting, students will also discuss the paper of a fellow student (10%), leading-off a debate. The purpose of this discussion is to constructively support students in writing the final version of their term paper. Students are supposed to participate actively in class, including in a simulation exercise in the final class (20%).

Prerequisites

It would be helpful if students had taken Ec 10a and 10b, or equivalents. During the course, however, essential tools deployed will be reviewed [these are the **Toolboxes**, referred to below].

Textbooks, reading material

The **main textbook** we will use is:

> **Richard Baldwin and Charles Wyplosz (2023)**: *The Economics of European Integration*, 7th ed., London: McGraw-Hill.

As **complementary** (more specialized) texts we will also refer to a few chapters from:

> **Paul de Grauwe (2023):** *The Economics of Monetary Union*, 14th ed., Oxford: OUP
>
> **Jacob de Haan et al. (2020):** *Financial Markets and Institutions: A European Perspective*, 4th ed., Cambridge: CUP

For each class, we will assign a book chapter as well as one or two short articles. We will use particularly extensively VOX, a policy-oriented forum, hosted by the Center for European Policy Research, a (arguably *the*) European network of economists.

Public debates are crucial for understanding economic policymaking. In Europe, these discourses, however, take mainly place in national fora, characterized by distinctive idiosyncrasies. While there is no region-wide public, two publications are de facto European platforms, the Financial Times as well as The Economist – at least among….economists. We will frequently make use of articles from both when beginning class (the "News" section). Your Harvard ID allows you to access both, as it does for Project Syndicate and the Wall Street Journal. We will in particular use websites from European institutions: the

EU Commission and the ECB and regularly refer to work from Think Tanks, addressing European issues, mainly Bruegel and CEPS.

Reading material will be made available on the course website, which will also have regular (at least weekly) hints to current debates in Europe (our Econ 1432 blog: *Things to ponder*). The idea is to support you in finding interesting topics for your papers. And, obviously, we would like to stay on top of things European.

General approach, structure of the course

Europe's economic integration started with goods markets. After the breaking-up of the Bretton-Woods-System (with fixed, but adjustable exchange rates) in the early 1970s it was complemented with a monetary dimension, an exchange-rate mechanism on a EU scale. This was initially the so-called 'Snake', then, from 1979 onwards, the (fixed-, but adjustable rate) European Monetary System (EMS). In the wake of the liberalization of cross-border capital flows in the late 1980s – and a subsequent (causality?) deep crisis of the EMS in 1992/1993 –, EU member states embarked on the common currency project. In a highly influential Report to the EU Commission – *One market, one money* – abandoning national currencies and establishing a common money was rendered as a quasi-logical corollary. From this historical evolution – a chronology which can also be read as a *logical* trajectory – derives the structure of our course.

Our course will be taught interactively. Therefore, students are very much encouraged to participate in the debate in class. Each term we have one guest lecture by a European policy maker. As already mentioned, in mid-November, we will have workshops in which students present first drafts of their term papers and fellow students discuss their work constructively. We will also have a couple of "meet-the-class" events, to get to know each other. The first one in mid-September. Econ 1432 is a joint learning experience.

Class schedule

1 Sept 3rd **Introductory class: What to expect**

Administrative and organizational issues, 30,000 ft overview of course, data and data sources, i.e., Eurostat, ECB Data Portal etc.

Tony Judt (2005): Europe vs. America; Adam Tooze (2021): Shifting politics in the EU

Historical and institutional background

The ambitiousness of Europe's *supra*-national integration project, initially between six nation states, can only be understood against the background of World War II's devastating consequences. Therefore, our course will begin with a sketch of economic background conditions in the second half of the 1940s. Then, Europe's institutional evolution will be outlined, including issues of its governance structure – to be taken up again at the end of the course. The story of an "incomplete union".

2 Sept 5th **When and why it all began – Europe after World War II**

Devastation after WWII, desire to construct a peaceful Europe. Reconstruction (Marshall plan, OEEC), Monnet's method: step-by-step, the Schuman plan, Treaty of Rome, "ever closer union", removing obstacles/barriers to trade – integration concepts

Baldwin/Wyplosz (2023), ch. 1; HHK, Charles S. Maier (2017): Cautious and courageous; from the official EU website, a brief historical sketch

3 Sept 10th **The EU's institutional evolution: law and institutions**
integration objectives, institutional set-up ("Big Five"); EU law: principle of supra-nationality, tools: regulations, directives

Baldwin/Wyplosz (2023), ch. 2; Fabbrini (2013): Intergovernmentalism

4 Sept 12th **Europe's variant of federalism (1): decision making procedures**
decision making procedures; voting mechanisms and power distribution across member states; efficiency and ability to act

Baldwin/Wyplosz (2023), ch. 3; Fabrizio Coricelli et al. (2021): Institutional integration; Beetsma, Kopits (2020): Subsidiarity

5 Sept 17th **Europe's variant of federalism (2): allocation of competences (2)**
Europe's (evolving) variant of (genuine) federalism; context: US federalism; allocation of competences, tasks between policymaking levels, principle of subsidiarity; EU budget and procedures until 2020

Baldwin/Wyplosz (2023), ch. 3; EU COM: EU budget, Jean Pisani-Ferry, C. Fuest (2020): Financing the EU, Henning/Kessler 2012: Lessons from U.S.

Integration of goods and factor markets

To foster productivity and growth, a reduction of barriers to cross-border, intra-European trade was deemed essential. From the European Economic Community's very beginning in 1957 until the end of the 1960s, therefore, the elimination of intra-European tariffs and the creation of a customs union (vis-à-vis the rest of the world) were high on the agenda – and achieved, in time. Then, non-tariff barriers (famous Cassis de Dijon case) and market-access restrictions came to the fore. The "Europe 1992" project – launched with a "White paper" from 1985 – was an attempt at further buttressing competition, deepening integration.

6 Sept 19th **Market opening and economic welfare: benefits and costs**
benefits and costs of cross-border trade, comparative advantage (specialization), import demand/export supply schedules
[**Toolbox:** demand (marginal utility)/supply (marginal cost)]

Baldwin/Wyplosz (2023), ch. 4; Thierry Mayer et al. (2018): Revisiting the cost of non-Europe

7 Sept 24th **Removing barriers: From customs union to the Single European Act**
costs and benefits of tariffs/barriers to trade, trade liberalization, customs union, common (single) market (Europe 1992): reducing non-tariff barriers
[**Toolbox:** tariff analysis]

Baldwin/Wyplosz (2023), ch. 5; ; Gabriel Felbermayr et al. (2020): Complex Europe; Dani Rodrik (2017): Free trade losers

8	Sept 26th	**One (large) market – benefits of size and scale** market size and scale: market structure, firm size, economies of scale, imperfect competition, European market widening [compensating for small size of European nations], pro-competitive, demanding sectoral restructuring/adjustment [**Toolbox:** monopolistic competition, increasing returns to scale: BE-COMP curves] Baldwin/Wyplosz (2023), ch. 6; Melitz/Redding (2014): Missing gains from trade
9	Oct 1st	**EU competition policy (1): Dealing with market abuse and state aid** competition policy: principles/objectives, preventing anti-competitive behavior collusion, why Europeanize? constraining market power (dominant firms) and controlling subsidies/state aid (anti-competitive behavior from member states) Baldwin/Wyplosz (2023), ch. 11; Thomas Philippon (2020): Great reversal (Podcast); Sébastien Jean et al. 2019: EU competition policy should not be sacrificed
10	Oct 3rd	**EU competition policy (2): Cases, trade-offs** comparing EU competition policy with US anti-trust policy; cases from old and new industries; regulating network and platform industries; trade-offs: competition policy in crises environments: bank bailouts in GFC, pandemic and unequal state aid across member states Baldwin/Wyplosz (2023), ch. 11; Xavier Vives (2021): Superstar firms; Hal Varian (2018): Google Android; Cristina Caffarra (2020): Regulation for digital platforms
11	Oct 8th	**Factor market integration (1): Growth effects of a wider market** sources of growth, productivity, growth and regional integration, [**Toolbox:** Solow growth model, capital accumulation, ideas, creative destruction] Baldwin/Wyplosz (2023), ch. 10; Francesco Mongelli et al. (2020): Long-run EA growth
12	Oct 10th	**Factor market integration (2): Labor markets and migration** Europe's variety of labor market institutions [industrial relations], migration within a monetary union; migration from without [**Toolbox:** labor demand and supply, institutions, incentives] Baldwin/Wyplosz (2023), ch. 8; John Driffill (2013): European labor market reform; Altemeyer-Bartscher et al. (2016): Refugee distribution; Vasiliki Fouka et al. 2018: Great Migration
13	Oct 15th	**Factor market integration (3): Geography of jobs and income** Regions: small open economies, factor endowments, relative attractiveness, firms' location decisions, agglomeration forces, EU regional policy, "Lessons from Massachusetts" for EMU Baldwin/Wyplosz (2023), ch. 8; Simona Iammarino et al. (2018), Regional inequality; Daniel Gros et al. (2017): European regional and cohesion policies

European Monetary and Financial Market Integration

The European Monetary System (EMS) was created to cope with the demise of the Bretton-Woods System of (world-wide) fixed exchange rates in the early 1970s. It had a bumpy start and three clearly distinct development phases. Because of its *incompleteness*, it was at the same time conducive to creating the Single Market and ultimately, the European Economic and Monetary Union.

There have been numerous attempts at integrating European capital markets ever since the mid-1960s. Beginning with the White Paper of 1985, however, the process gained dynamism. Its underlying philosophy has been to produce open, contested markets, also in finance and banking. As a result, the position of final users of financial markets (i.e., of investors and borrowers) should be improved in two areas: First, their choice sets were to be broadened. Moreover, the services offered should become available at lower costs.

14 Oct 17th **Monetary Integration (1): Europe's preference for exchange-rate stability**
BWS breakdown, European small-open economies' "fear of floating", fix or float?
[**Toolbox:** purchasing power and interest rate parity]

Baldwin/Wyplosz (2023), ch. 13; Paul Krugman (1989): Case for fixing; Reuven Glick et al. (2012): Fixed vs. floating rates

15 Oct 22nd **Monetary Integration (2): From EMS to EMU: the way to the Euro**
EMS, incomplete by design, vulnerabilities of hard pegs, Maastricht roadmap to common currency (convergence criteria)
[**Toolbox:** unholy trinity/impossibility triangle]

Baldwin/Wyplosz (2023), ch. 14 or de Grauwe (2023), ch. 5; Willem Buiter (2006): Sense and non-sense of Maastricht, revisited; Klaus Gretschmann, HHK (1998): Creating Wahlverwandschaften

16 Oct 24th **Financial Market Integration (1): Economics of Financial Integration**
objectives and drivers of financial market integration (FMI), metrics of market integration (flows and price dispersion), consequences of FMI

de Haan et al. (2020), ch. 6 or Baldwin/Wyplosz (2023), ch. 18; Philipp Hartmann et al. (2021): Financial market integration and Corona; HHK (2007): Europeanization of Financial Market Regulation

17 Oct 29th **Financial Market Integration (2): Europe's bank dominated financial markets**
structure and variety of EU financial markets, redesign (harmonizing) efforts: Banking and Markets' Directives, Financial Services Action Plan (of 2000), optimal financial structure?

de Haan et al. (2020),ch. 3, pp. 98-107, ch. 5; Elena Carletti et al.: Bank business models after Covid-19

European Monetary Union – a successful first decade, then crises…

Seen from a very austere perspective, EMU is just about eschewing the *nominal* exchange-rate *within* Euroland. By the same token, EMU is tantamount to the Europeanization (= de-nationalization) of monetary policy. But, rather obviously, a common currency also comes with substantial further ramifications, for example, for the conduct of fiscal policy, or labor market institutions and, as some hold, it also calls for more political union (economic governance).

With the Great Financial Crisis, which has been dubbed the North-Atlantic crisis, basic assumptions underlying the regulation of international financial markets have been reassessed. Regulators have become significantly more cautious, calling for substantially higher capital requirements as well as liquidity buffers (Basel III). Institutions to deal with the systemic – or macro-prudential – dimension have been established. This need for a reassessment has been particularly pertinent for Europe's supervisory as well as its economic governance structure. Here, the so-called banking union has been launched in 2014, including, in addition to common rules, a joint (de-nationalized) supervision, a common European (EMU-wide) bank resolution scheme as well as attempts at a common deposit insurance scheme.

18 Oct 31st **Economic and Monetary Union (1): An overview**

optimal regional/political-economic dimension of a currency union, geography of money, criteria for a functioning currency union. shock absorption mechanisms, costs of variety [**Toolbox:** theory of optimal currency areas]

De Grauwe (2023), ch. 6; Lars Jonung, Eoin Drea (2009): The Euro: It can't happen…; Marco Buti, Vitor Gaspar (2008): The first ten years of the Euro

19 Nov 5th **Economic and Monetary Union (2): ECB's policy framework – as originally (1998) conceived**

institutional architecture of Eurosystem (and the ESCB), (conventional) monetary policy concept: objective and strategy, policies, and results until 2007/8)

Paul De Grauwe (2023), ch. 8, pp. 148-172; Otmar Issing (2006): ECB's monetary policy strategy

20 Nov 7th **Economic and Monetary Union (3): … responses to crises (Great Financial Crisis, [2007…], euro crisis [2010…], Covid-19 [2020…], inflation shock (2022…)**

crisis containment and unconventional monetary policy measures: enhanced credit support, OMT, forward guidance, then (in 2015) quantitative easing, financial stabilization as implicit second (third) objective; in 2020, Pandemic response, inflation shock (2022…), new strategy, additional constraint: climate change

De Grauwe (2023), ch. 9; Mario Draghi (2013): Statement; HHK et al. (2012): Central bank liquidity management. Philipp Lane (2022): Inflation diagnostics . HHK & Jean-Paul Pollin (2024): Cost-of-living crisis

21 Nov 12th **Economic and Monetary Union (4): Banking Union and Capital Markets Union**

Stabilizing and reforming Europe's financial markets, Single Supervisory Mechanism, Europeanization of banking policy, bank restructuring/resolution, common [?] deposit insurance; single capital market, diversifying sources and uses of funds, emphasizing capital markets, securitization

HHK (2014): Supranational banking politics; Michael Thiel (2017): Methodological perspective on CMU

22 Nov 14th **Fiscal policy (1): Europe's sovereign debt stress: Bail-in or bail-out (of creditors)?**

sovereign debt distress, European Financial Stability Fund/European Stability Mechanism, exit from EMU a solution?

Carlo Cotarelli et al. (2010): Default – unnecessary; Phillip Lane (2012): European sovereign debt crisis; Paolo Angelini, Guiseppe Grande (2014): Bank-sovereign nexus

23	Nov 19th	**Fiscal policy (2): New rules of the game in response to GFC** new fiscal framework: two-pack/six-pack; fiscal compact, macroeconomic imbalance procedure, *ex-ante* coordination, enforcement, sanctions Blanchard, Olivier and Daniel Leigh (2013): Fiscal consolidation: At what speed?; Phillipe Martin et al. (2021): Reforming fiscal framework **Economics of European Integration – issues, going forward** What have we learned by using economic tools about European Economic Integration? Can other regions, pondering more (deeper) integration, learn from Europe? Or is Europe a unique case? What about exits? What is Europe heading for? All issues also discussed in the Conference on the Future of Europe.
24	Nov 21st	**New emphasis: Regional (or place-based) policies, industrial policy** Europe's core and periphery landscape, income dispersion within nations, cohesion policy (place-based policy), geography of discontent [Brexit], populism, New Cohesion Policy (2021-27) World Bank (2019): Including institutions, RER 5, pp. 69-112; Maximilian v. Ehrlich, Henry Overmann (2020): Place-based policies in Europe, Lewis Dijkstraet al. (2019): Geography of discontent; Riccardo Crescenzi (2019): Don't blame Brussels; Philippe Aghion et al. (2023): Europe's industrial revolution; Dani Rodrik (2023): Industrial policy
25	Nov 26th	**"Next Generation EU: A green, digital, resilient Europe"** Stabilization, allocation, re-distribution [Musgrave] and multi-annual financial framework, European public goods: climate change…, comparing U.S. with EU model Maarten Verwey et al. (2020): Next Generation EU, Clemens Fuest, Jean Pisani-Ferry (2019): European public goods, Jeromin Zettelmeyer et al. (2023): Long-term fiscal challenges; HHK et al. 2021: Sustained recovery; Aghion et al. 2020: Nature of capitalism; Tacke et al. 2020: Social contracts; Ghzala Azmat (2020): Climate change; Schmidt et. al. (2021): Carbon pricing at the border **Thanksgiving recess**
26	Dec 3rd	**Policy game: topic to be determined** Simulating the interaction between national authorities (member states) and the European Union (EU Commission) on an issue with European externalities.

Some more background – and topics worth a study project

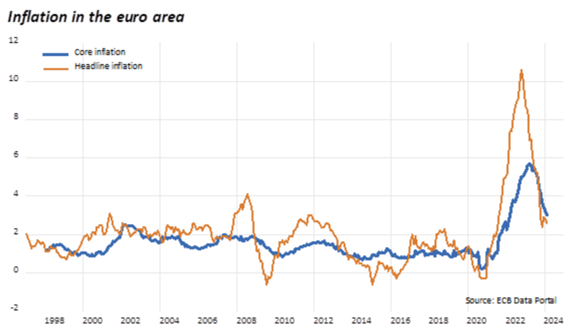
Initially, in the 1950s, the objective of the effort at European integration has been the elimination of all tariff barriers to exchange: in markets for goods, services, labor, and capital – the so-called "four freedoms", as enshrined in the Treaty of Rome (1957). Later on, in the 1970s, European nations' strive for deeply integrated markets became closely linked with their preference for stable foreign exchange rates. Moreover, given the desire for an unimpeded cross-border flow of financial capital, this (in a certain way, inadvertently) paved the way towards a common currency, the euro. Thus, since 1999, monetary policy has been conducted in the euro area – today comprising 20 of the 27 European Union (EU) member states -- by the *supra*-national European Central Bank (the ECB). Given monetary policy's inescapable inter-action with other areas of policymaking, this necessarily comes with ramifications for other national policy domains (fiscal policy, labor markets, or the regulation and supervision of financial sectors, inter alia). As a result of its ever-deeper integration, Europe has been continuously discussing and reforming its institutional framework. Typically, reforms happen in response to crises. The Covid-19 pandemic as well as the Russian attack on the Ukraine are the most recent examples, forcing EU member states to become innovative. The energy crisis, a substantial negative terms-of-trade shock, for EU member states, all net-importer of energy, relaunched debates about the design of European energy markets. They are closely related to discussions on a green industrial policy. Then there are the size and structure of the EU budget. Should the Next Generation EU program, supporting in particular fiscally weaker member states in their post-Covid-19 recovery process, be made permanent? Does the EU need more competences, a larger budget, to fund European public goods, provide for euro-area level automatic stabilization? This is what, among others, Mario Draghi, a former President of the ECB, calls for, for instance on the occasion of the Feldstein lecture at the NBER Summer Institute 2023. Until June, two reports on the future of the European project, commissioned by the EU institutions, will be published.

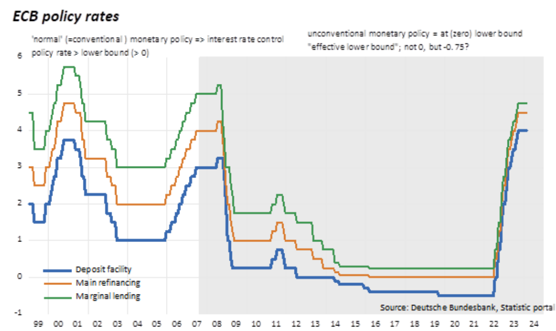
Assessed from a historical perspective, the European integration project has been seen for a long time in a benign light, regularly rendered as a tremendous success story in cooperation between nation states. First, it allowed for a peaceful reconstruction of a war-torn Western Europe, quite literally inconceivable immediately after World War II. In the 1950s and 1960s, Europe's rapid recovery was largely the consequence of integrating its economies through a progressive and finally complete elimination of tariffs. This was followed by a comprehensive reduction of almost all other (non-tariff) barriers to trade. Not 'only' harmonization, but in many domains identical rules ("Regulations") as well as Europeanized (supra-nationalized) implementation (trade policy, competition policy and, since 2014, supervision of large banks). Integrating goods, labor, services as well as – in the 1980s ("Single European Act") – capital markets almost implied, according to an understanding prevailing in Europe (*One market, one money*), also an ever-closer monetary cooperation. (Fluctuating, volatile exchange rates were deemed being detrimental to an ever-deeper integration of markets, a tax on cross-border trade.) Then, in 1999, the process culminated in the introduction of a common currency, the euro. This de-nationalization of monetary policy evidently meant a common central bank, today shared by 20 of the EU's 27 member states.

Yet, ever since the Great Financial Crisis broke in the summer of 2007, news about Europe have often been about crises and societal conflicts. (This is, obviously, not to say that other parts of the World have been spared from comparable shocks or have been doing much better.) In any case, Europe has been faced with existential challenges: the sovereign debt and banking crises in a number of peripheral Euro Area (EA) economies (early 2010s), the migration and refugee crisis (from 2015 onwards), the British referendum (in 2016), leading to Brexit, i.e., terminating the UK's membership in the EU or, most recently, the Covid-19 Pandemic as well as the ongoing Russian attack of the Ukraine and its strong ramification for the access to and the price of energy.

To take a recent example from monetary policy: Two shocks, the Covid-19 pandemic, and the Russian war in the Ukraine, contributed to an abrupt and very substantial decline in the purchasing power of households and firms – obviously, a major challenge for the ECB, charged with underwriting price stability for EA member states (see graphs, next page). To perform its duties, the ECB embarked in mid-2022 on a tightening course. The "policy rate" (the "deposit facility") rose from -0.5% to 4% in September 2023, at an historically unprecedented speed. It was in response to an abrupt and very substantial surge in the harmonized consumer price index(es), peaking at 10.6 % in October 2022. This loss of purchasing power has, however, been distributed very unevenly across households as well as within member states: The Baltics had up to 25%, at the same time, other member states were experiencing price-level growth rates of between 5 to 7%. Moreover, lower-income households, with larger shares food and energy in their consumption baskets, were particularly hard hit. They had to deal with what has been called a "cost of living crisis". (For an excellent introduction, here's a *EconoFact Chat* with Philip Lane, the ECB's Chief

Economist, on current macroeconomic challenges in the EA. In class, we will think about these issues, using a standard, simple macro model.)





More generally, EU member states are – what international economists call – *small, open economies*, i.e., characterized by a large share of trade (exports plus imports) in their value added. Hence, their "business models" are strongly impacted by recent, highly conflictual geopolitical developments (friend-shoring, striving for strategic autonomy, risks of climate change etc.) Also, they are net importers of energy – thus suffering from a substantial terms-of-trade shock in the wake of the Russian attack of Ukraine and the subsequent developments in energy markets – though to different degrees between them.

However, many of Europe's challenges – fostering productivity and employment (inter alia, addressing the challenges of digitalization), sustainable growth (i.e., facing up to climate change) and – as it is called in Europe – cohesion [social inclusion], dealing with high levels of sovereign and private debt, and building a resilient and efficient framework for financial markets are evidently of a general nature. Many other countries and regions are facing similar (identical) challenges. Therefore, Europe is also an experiment in how far supra-nationalization can go. A highly pertinent question in view of *global* public goods (think of addressing the consequences of climate change).

In other words, during the coming fall term we will have numerous economic policy issues to ponder, all revolving around the costs and benefits of coordinating policies in small, open, deeply integrated economies.

Dubbed "NextGenerationEU", a substantial recovery effort was launched in 2020. It came with a host of innovative features. A most important one was its financing structure: €390 billion would come in the form of grants, i.e., transfers, with conditions attached. Net beneficiaries are in particular Southern and Eastern European member states. In addition, another first, the EU began to issue its own bonds, which could, as some hope, develop into a Euro Area safe asset.

The ECB had started the reassessment of its framework to guide monetary policy decisions in 2019. After the one conducted in 2003, this was only the second review of the operation manual. From 1999 onwards, the launching of the common currency, the ECB had pursued a two-pillar strategy, interpreting signals from (1) the evolution of money supply and (2) short- to medium-run economic perspectives and their impact on the primary objective: keeping inflation below 2 percent. While much of the debate focused on the upshot of adjusting the compass from the previous "below 2 percent, but close to 2 percent" towards the new symmetric objective, the two additional changes – more flexible use of monetary policy tools and accounting for climate risk – might come with at least as significant consequences.

While the EU was always able to muddle through, for more than a decade now, Europeans have been reflecting on options going forward. All the institutional refurbishing since 2010 notwithstanding, the prevailing EU architecture is deemed in need of a fundamental reappraisal and, ultimately, an overhaul.

While much blame has been laid at the door of European institutions, in fact, during the initial phase of the financial crisis, between the summer 2007 and the fall of 2009, the common currency was perceived as a most effective shield against the shockwaves emanating from a turbulent international environment. Since 2010, however, with sovereign debt crises erupting in several European countries, Europe's overall policy framework has been up for a fundamental reappraisal. This does not only concern the common currency, the euro, but Europe's institutions and policy objectives more generally. And we will discuss the economics of these issues in our course.

The European project, as it was started after WWII, has always been very ambitious. In fact, challenges arising from crises have been a mode of operation. In line with the so-called *méthode Monnet*, crises were even understood as a *necessary* pre-condition for advancing the European project. Originally, integrating policies in one particular sector (coal and steel, reckoned to be critical for national economic developments, but also a major source of devastating conflicts) launched Europe on a *federalist* track. But then, rather rapidly, the *national* dimension re-emerged. And with it, the enduring tensions between *federalism* or the *community method* (the EU Commission, the EU Parliament, the European Court of Justice and meanwhile also the ECB) versus *inter-governmentalism* or the *confederate approach* (the EU Council, representing national governments) re-surfaced.

Those have been defining, deep-rooted conflicts. They have, for example, again shown in the response to the Great Financial Crisis. In its wake, Europe has become, to a significant extent, more inter-governmental. (For example, the European Stability Mechanism, a lender of last resort for governments, is based on a contract between member states, established under private – Luxembourg – law.) Meanwhile, some would prefer to give up on the objective of an ever-stronger integration of European nation states. Up to now, the British vote for leaving the European Union on June 23, 2016, is the sharpest rebuttal of the whole endeavor. However, implementation of Brexit has proven fiendishly complicated. Even after its conclusion, there are still many unresolved questions. The Next Generation Europe, the most recent large-scale effort, is seen by some as strongly solidifying the European Union's architecture. This seems also seems be a reason for some European nation states to enter the club.

Be that as it may, over time (initially Western) Europe's integration became a positive example, to some even a role model, for supra-national cooperation in dealing with common, shared problems (or cross-border externalities). Thus, European economic integration – real, monetary, and financial – is a pertinent and highly instructive case with possible lessons to be drawn for other such endeavors in international cooperation.