

Weeks 1/2 – Introduction

Guillem Riambau. Doing Business in Europe.

Universitat de Barcelona

February 25, 2020

Welcome!



This course

- Dates, topics and procedures
- Evaluation
- Readings

This course: Dates, topics and procedures

- Tuesdays 8-11 AM until April 3
- Topics
 - European Union: overview
 - Regulatory framework
 - Practical issues: doing business
- Procedures
 - Keep a close eye on Virtual Campus
 - Office Hours: Wednesdays 1.30-3PM

This course: Evaluation

- Mini-quizzes (10 5% each)
 - Specific dates: TBD (not next week)
- Practical exercises (10%, 5% each)
 - Specific dates: TBD (not next week)
- Class presentation (30%)
 - Groups of 2-3
 - 25-30 minutes
 - You will be required to provide feedback on a (random) presentation
 - **Please tell me groups by Friday and broad topic of preference**
 - I'll assign dates, groups and specific topics before next class
- Class participation (15%)
- Final written assignment (35%)

This course: Readings

- Badinger, H. and Nitsch, V. (eds.) (2016). Routledge Handbook of the Economics of European Integration, Routledge.
- Baldwin, R. and Wyplosz, C. (2015). The Economics of European integration, 5th ed., London: McGraw-Hill.
- Dima, A. M. (ed.) (2018). Doing Business in Europe: Economic Integration Processes, Policies, and the Business Environment, Springer.
- Hofstede, G., Hofstede, G.J., and Minkov, M. (2010). Cultures and Organizations: Software of the Mind. Revised and Expanded 3rd Edition. New York: McGraw-Hill USA.
- Suder, G. and Lindeque, J. (2018). Doing business in Europe. 3rd ed. Los Angeles: Sage Publications.
- The Economist, Financial Times, The Wall Street Journal,...

Today

- Origins: overview of European history
- European integration: Landmarks
- Time allowing: Key institutional players

KAHOOT!

Click [here](https://play.kahoot.it/v2/?quizId=1888ed37-4963-4421-b6c8-7053a758f137) to play Kahoot!

<https://play.kahoot.it/v2/?quizId=1888ed37-4963-4421-b6c8-7053a758f137>

Today

- **Origins: overview of European history**
- European integration: Landmarks
- Time allowing: Key institutional players

Why does history matter here?

- Origins of current phenomena sometimes can be traced back long in time
- Historical events can have long lasting impact
- Three examples:

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- Three examples:
 - Martin Luther (1517) and economic development in the 1800s
[▶ details](#)
 - Past agricultural types (crops) determined current social norms on gender
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 - First World War casualties can explain female labor force participation today
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Origins: overview of European history

- Why do we need to go so far behind?
 - Past mistakes
 - Past history of conflict and economic development
- Critically shape EU today

Origins: overview of European history

- Europe up to the First World War
- First World War: consequences. Europe in between wars
- Second World War

Europe: 15th Century



<https://www.euratlas.net/history/europe/1400/index.html>



Europe: 16th Century



Europe: 15th–16th Century

- Small Republics
- Bigger monarchies

Europe: 15th–16th Century

- Small Republics
 - Commerce
 - Proto-Industrialization ▶ example: Venice
 - Lyon, Liverpool, Manchester, Ruhr, Barcelona, Turin
 - Inclusive institutions
- Bigger monarchies
 - More pronounced outward expansion
 - \approx Feudalism
 - Extractive, more hierarchical institutions

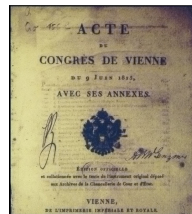
17th – 18th cent.: Divergent industrialization & colonization

- With the navy, portable watches and improved technology came the conquest of the world
- Where did they stay? “Settlers mortality”
- [▶ How did the USA come about? The role of local tribes](#)
- Wars still mostly took place locally:

17th – 18th cent.: Divergent industrialization & colonization

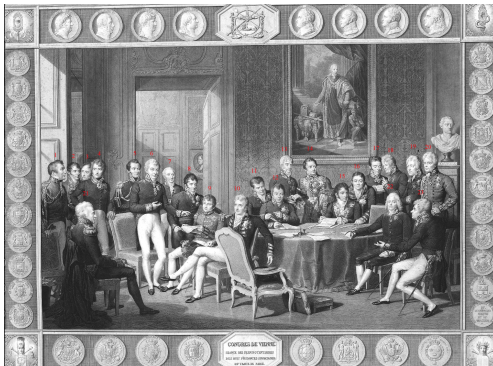
- With the navy, portable watches and improved technology came the conquest of the world
- Where did they stay? “Settlers mortality”
- [▶ How did the USA come about? The role of local tribes](#)
- Wars still mostly took place locally:
 - 1713 – 1814: War of the Spanish Succession, War of the Austrian Succession, Seven Years’ War, War of the Bavarian Succession, Napoleonic Wars...
 - Alliances keep switching, goal is to prevent anyone from growing too much
 - Constant war from French Revolution (1792) to 1815

Congress of Vienna (1815)



Congress of Vienna (1815): origins

- Major players: Austria, France, Britain, Prussia, Russia, with limited or no participation by other delegates.
- Vienna Congress → objective = provide a long-term peace plan for Europe



Congress of Vienna (1815): outcomes and overview

- Goal: peace
- Territorial redistribution → balancing powers
 - France lost all its recent conquests while Prussia, Austria and Russia made major territorial gains.
- No talks of economic cooperation
- Conservative: no social or national agenda
- However first attempt in Europe to gather all together to solve major issues (instead of bilateral talks)

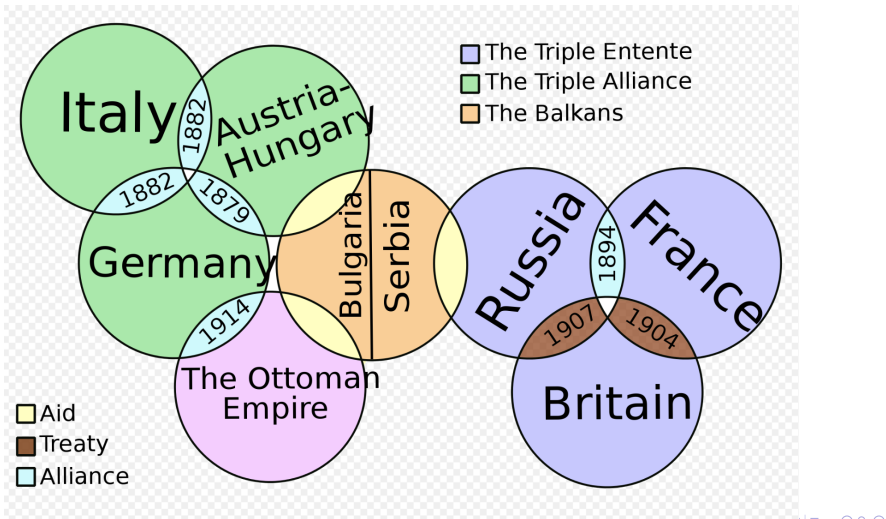
Europe through the 19th century

- Russia keeps gaining power
- Italy and Germany unite: Prussia-led empire becomes very strong
- Prussia becomes a key player
- Franco-Prussian war (1870-1871)
 - Prussia wins and gains Alsace and Lorraine
 - Prussia: increasing ambition to conquer the world
 - ⇒ Britain and France upset

Origins: overview of European history

- Europe up to the First World War
- First World War: Consequences. Europe in between wars
- Second World War

First World War



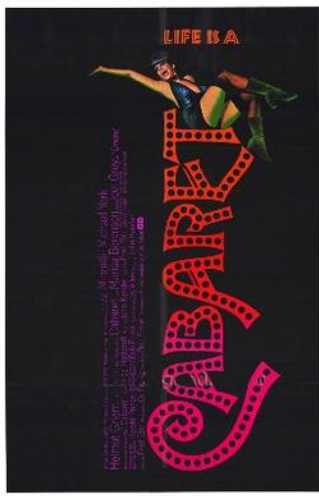
First World War

- Aggravation: young civilians have to be called in *en masse*

First World War

- Aggravation: young civilians have to be called in *en masse*
- Britain, France, Russia win
- Versailles Treaty:
 - Goal: teach a lesson
 - “Germany [to] accept the responsibility of Germany and her allies for causing all the loss and damage” (Article 231 — “War Guilt clause”)
 - The treaty required Germany to disarm, make ample territorial concessions, and pay reparations to certain countries that had formed the Entente powers
 - John Maynard Keynes: “this is too harsh”
 - Others: “this is too lenient”
- ⇒ Germany neither pacified nor conciliated, nor permanently weakened.

Weimar Republic (1918 - 1933)



[Cabaret \(1972\)](#), based on
“The Berlin Stories / Goodbye to Berlin”
set in 1931 and written
by Christopher Isherwood (1939)

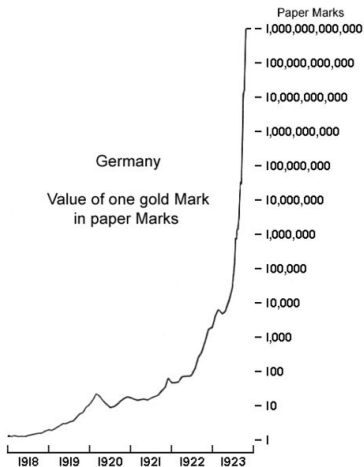
[Money Makes the World Go Around](#)

Other movies:
[Swing Kids \(1993\)](#)

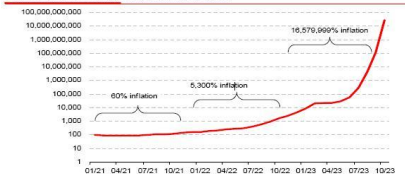
Weimar Republic (1918 - 1933)



Weimar Republic (1918 - 1933)



Weimar Germany CPI (log scale) (inflation per annum)



Source: Brezicel-Turner (1931), SO Cross Asset Research

Weimar Republic (1918 - 1933)



Footnote: these pictures alone explain most of the European Central Bank's goals and decision-making today.

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Interwar period

- Economic discontent
- Rise of Nazis (and fascism in other places: Spain, Italy...)
- League of Nations: fail (e.g. US never joined, Russia did but invaded Finland in any case...)

Origins: overview of European history

- Europe up to the First World War
- First World War: consequences. Europe in between wars
- Second World War and its consequences

Second World War (1939 – 1945)

- Allies vs. Germany – Japan – Italy (only till 1941)
- Usual disputes:
 - Local continental territories
 - Overseas: control of resources (e.g. Japan in Malaysia for rubber)
 - Aggravation: targeted extermination of civilians (e.g., Nanjing (China); Jews, Gypsies and LGTB in Europe, etc.)
- [Footnote: Why Switzerland was never conquered](#)
- Allies victory, appalling death toll

Second World War: death toll and economic setback

Table 1.1 Death and destruction in the Second World War

	Death toll	The economic setback: pre-war year when GDP equalled that of 1945
Austria	525,000	1886
Belgium	82,750	1924
Denmark	4,250	1936
Finland	79,000	1938
France	505,750	1891
Germany	6,363,000	1908
Italy	355,500	1909
Netherlands	250,000	1912
Norway	10,250	1937
Sweden	0	(a)
Switzerland	0	(a)
UK	325,000	(a)

(a) GDP grew during the Second World War.

Source: GDP data from Crafts and Toniolo (1996), p. 4; death toll from <http://encarta.msn.com>

Source: Baldwin and Wyplosz (2015). Not included: Russia (10 million); China (4 million); Japan (2.2 million).

Second World War settlements

- Lessons learned to this point:
 - Splitting the continent from a palace does not work
 - Heavy punishing does not work
 - Flimsy world organization does not work
 - Conquering the world does not make locals happy
- ⇒ Economic interdependence
- ⇒ Economic support to new and underdeveloped nations

Second World War settlements

- United Nations
- Bretton Woods, World Bank, International Monetary Fund
- ... and: Franco-German axis



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London in 1940 and Dresden in 1945

Franco-German axis: rationale

- Versailles was a failure: lesson learnt
- Goals
 - Prevent **Communist threat**
 - Maintain peace among nations: **avoid another war**
 - Create a common culture of Europe solidarity
 - Political stability through economic cooperation

First steps

- Churchill, Zurich 1946: “We need a United States of Europe”
- OEEC: Organization for European Economic Cooperation (1948, 17 countries),
 - Implement Marshall plan
 - Predecessor of OECD
- Specific mandate to advance on economic integration

Fundamental issue

- How deep should this integration be?
- Intergovernmentalism vs. Federalism (or Supranationalism)
 - Centralized
 - De-centralized
 - Federal
 - Confederal

Fundamental issue

- Intergovernmentalism
 - Nations retain all sovereignty and decision-making capabilities
 - Deepening on integration is conditional on unanimous agreement by all participants
 - Management of common policies is based on voluntary cooperation
- Federalism (or Supranationalism)
 - Supranational institutions with authority superior in selected areas that had traditionally been exercised exclusively by national states
 - Wider application of decision-making rules using voting by qualified majority

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Steps towards integration

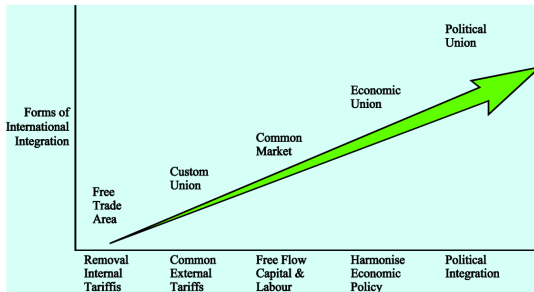
- What is economic integration?
 - Consists of removing all frontiers between two economies
 - Reduction or elimination of trade barriers
 - Coordination of monetary (and even fiscal) policies

Steps towards integration

- What is economic integration?
 - Consists of removing all frontiers between two economies
 - Reduction or elimination of trade barriers
 - Coordination of monetary (and even fiscal) policies
 - Ultimate goal
 - Reduce costs for producers and consumers
 - Increase trade between countries involved

Steps towards economic integration

STAGES OF ECONOMIC INTEGRATION



Copyright: www.economicsonline.co.uk

* The author of the origins of this theory (5 stages) is Hungarian economist Béla Balassa (1961)

Steps towards economic integration

- Preferential Trade Agreement
 -
- Free Trade Area
 -
- Customs Union
 -
- Common Market
 -
- Economic Union
 -
- Monetary Union
 -
- Complete Economic Integration
 -

- Preferential Trade Agreement
 - Countries within a geographical region (or common history) agree to reduce or eliminate tariff barriers on selected goods imported from to other members of the PTA
- Free Trade Area
 - Tariffs and quotas abolished for imports from members
 - Members retain national tariffs and quotas against third countries
- Customs Union
 - Free Trade Area + common (unified) external tariff against non-members
- Common Market
 - Customs Union + free movement of services, capital and labour
- Economic Union
 - Common Market + harmonization of selected economic policies
- Economic and Monetary Union
 - Economic Union + common currency
- Complete Economic Integration
 - Single economic market, a common trade policy, a single currency, a common monetary policy, together with a single fiscal policy (is the EU there yet?)

Adv. and disadvs. of economic integration: an overview

- Value/Advantages:
 - Transaction costs ↓; size of market ↑
 - Efficiency in production ↑: labour, resources
 - Powerful vs. third nations
- Fears/disadvantages:
 - Loss of sovereignty
 - Impossible trinity (or trilemma) ▶ details here
 - Fiscal policy: Tax competition → ▶ Race to the bottom

Today

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- **European integration: Landmarks**
- Time allowing: Key institutional players

Main periods of European Integration

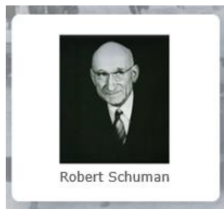
- Launch Period (1950 - 1957)
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- Re-launch (1986 - today)

Main periods of European Integration

- Launch Period (1950 - 1957)
 - 1950 - 1954: formation of the Community of Europe (European Coal and Steel Community)
 - 1955 - 1957: Treaties of Rome
- Gradualism (1958 - 1986)
 - 1958 - 1970s: Success and crises
 - 1973 - 1986: Euro-pessimism
- Re-launch (1986 - today)
 - Single European Act: the Single Market
 - Treaty of Maastricht
 - Treaty of Amsterdam
 - Treaty of Nice
 - Treaty of Lisbon

Launch period (1950 - 1957)

- The “Schuman Declaration” (1950): France and Germany should place their coal and steel sectors under the control of a supranational authority [▶ details](#)



Two of the founding fathers of the EU

Launch period (1950 - 1957): Treaty of Paris - ECSC

▶ Notes on Treaties



European Coal and Steel Community (1952)

West Germany + France launch it: invite others

West Germany, France, the Netherlands, Belgium, Luxembourg and Italy → Supranational authority to control coal and steel sectors

Treaty of Paris - ECSC set up

- High Authority
- Parliamentary Assembly
- Council of Ministers
- Court of Justice
- Consultative Committee

Launch period (1950 - 1957): Treaty of Paris - ECSC



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Treaty of Paris - ECSC set up

⇒ **Laid the foundations of the Community**

Treaties of Rome: EEC and Euratom

EEC - Great success !!

Treaties of Rome: EEC and Euratom

- EEC: showed 6 nations could operate in federal structure
- 1957 Treaties of Rome:
 - European Atomic Energy Community (EURATOM)
 - European Economic Community (EEC)
- Far-reaching document: in it we see the vision lasting over to Maastricht Treaty
- Established customs union
- Proposed to create single market with
 - Free labour mobility
 - Capital market integration
 - Free trade in services
 - Range of common policies

Treaty of Rome: Main elements (1/2)

- Free trade in goods: eliminate tariffs, quotas, and other barriers to trade
- Common trade policy with ROW: Customs Union to Trade deflection¹
- Ensure undistorted competition (no “deals” that offset barrier removal):

Treaty of Rome: Main elements (1/2)

- Free trade in goods: eliminate tariffs, quotas, and other barriers to trade
- Common trade policy with ROW: Customs Union to Trade deflection¹
- Ensure undistorted competition (no “deals” that offset barrier removal):
 - Exercise:
 - Suppose customs union perfectly functional. You are the head of government. Think of 2 actions / laws that you can pass so that you can protect/export your goods

(1) Arrangement such that seller from outsider country benefits from trading preferences

Treaty of Rome: Main elements (1/2)

- Free trade in goods: eliminate tariffs, quotas, and other barriers to trade
- Common trade policy with ROW: Customs Union to Trade deflection¹
- Ensure undistorted competition (no “deals” that offset barrier removal):
 - State-aids mostly prohibited
 - Commission regulates anti-competitive behavior
 - Approximation of laws (i.e., harmonization)
 - Taxes: Weak. No explicit harmonization.

(1) Arrangement such that seller from outsider country benefits from trading preferences

Treaty of Rome: Main elements (2/2)

- Unrestricted trade in services in principle. However, hard implementation.
- Labour and capital markets
 - Workers ✓
 - Capital → many loopholes till 1980s
- Exchange rate and macroeconomic *coordination*
- No tax policy or social policy
- Agriculture: common policy (1962 = set up)
 - 1/3 of French in agriculture in the 1950s. Today < 5%
 - Today, still, $\approx 40\%$ of budget is agriculture ▶ but why?

European Communities

- EURATOM, ECSC, EEC
- Rapid success
- EEC increasingly gained interest

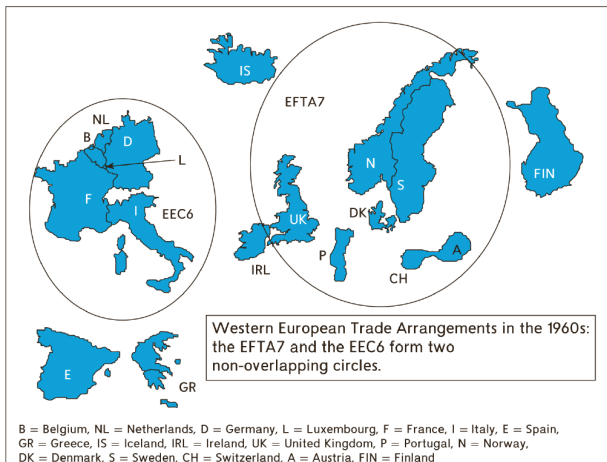
Gradualism (1958-1986). OEEC to EFTA

- 7 OEEC formed European Free Trade Agreement in 1960
- UK, Norway, Sweden, Switzerland, Austria, Portugal, Denmark
- Free Trade Area, not Customs Union (i.e., no common external tariff) [▶ FTA vs Customs Union](#)
- (still exists!)

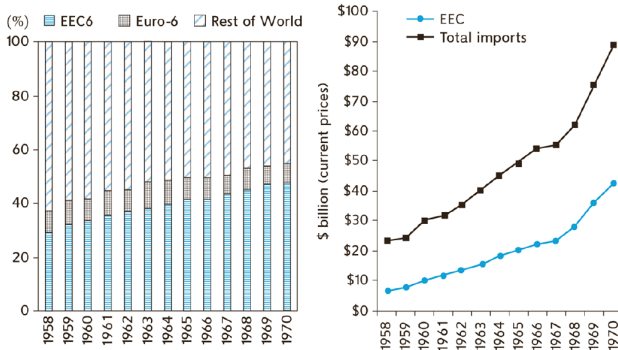


Europe in the 1960s

Two non-overlapping circles



Europe in the 1960s



Note: The left-hand panel shows shares of the EEC6's imports from the three regions. The 'Euro-6' are the six countries that had joined the EU by the mid-1980s: the UK, Ireland, Denmark, Spain, Portugal and Greece.

Source: http://ec.europa.eu/eurostat/ec.europa.eu/portal/page/portal/international_trade/introduction © European Union, 1995–2014

Source: Baldwin and

Wyplosz (2015)

EEC > EFTA

- Non-EFTA countries lose competitiveness in EFTA
- Non-EEC countries lose competitiveness in EEC
- However, ...

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- However, ...
- EEC twice as big (in GDP terms)
- EEC countries grew then twice as fast
- \Rightarrow Clear winner \rightarrow EEC coveted \rightarrow EFTA countries \approx FOMO

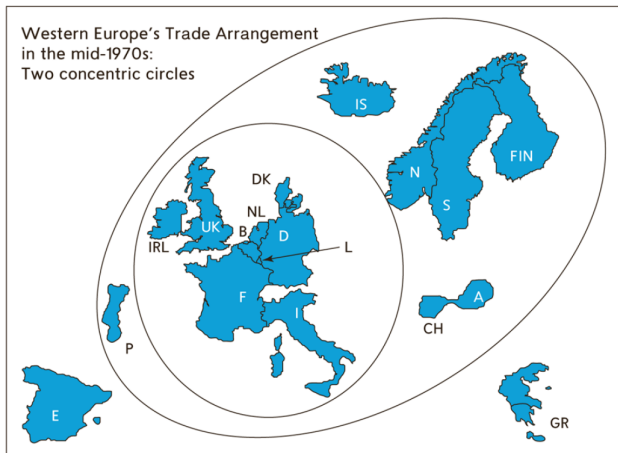
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- EEC twice as big (in GDP terms)
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- \Rightarrow Clear winner \rightarrow EEC coveted \rightarrow EFTA countries \approx FOMO
- \Rightarrow Internal pressure in EFTA countries to join EEC
- “Domino effect”: as a FTA grows larger, increasing costs of staying outside

EEC > EFTA: consequences

- 1961: UK, Denmark, Ireland, Norway applied to enter EEC
- Charles de Gaulle stopped twice UK from joining (“Trojan Horse” for the United States)
- 1973: first enlargement. Denmark, Ireland, UK join the EEC. EC6 → EC9
- What's the real goal of the UK belonging to the EEC? “Yes, Minister” tells us
- Norway said “NO” in a referendum

Europe in the 1960s



Source: Baldwin and

Wyplosz (2015)



1970s: pessimism and bright spots

- 1973 – 1986: Euro-pessimism
- 1970s: Also, some bright spots

1973 – 1986: Euro-pessimism

- Plans for further economic integration further delayed
- Economic shocks in the early 1970s
 - Collapse of Bretton Woods system
 - Failed EEC monetary union
 - 1973 & 1979: oil shocks and stagnation
 - “Technical Barriers to Trade” appear all over the place: clear *de facto* substitute of tariffs

1970s: Also, some bright spots

- South of Europe
 - Portugal, Greece, Spain democratize
 - They join EEC in 1981 (Greece) and 1986 (Portugal and Spain)
- Direct election of EU Parliament (1979)
- **EMS – European Monetary System** (1979). Major achievement.
 - Most nations of the European Economic Community (EEC) linked their currencies to prevent large fluctuations relative to one another
 - European “Currency snake” ($\pm 2.25\%$)
 - Goal: Financial stability
 - Key step towards common currency

Main periods of European Integration

- Launch Period (1950 - 1957)
- Gradualism (1958 - 1986)
- Re-launch (1986 - today)

1986 onwards: re-launch

- Context of 1980s: economy improves
- Jacques Delors (EC president): goal to complete market integration promised in Rome
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The Single Market Program

- Basic Elements
- Factor Trade Liberalization
- Removal of frontier controls

The Single Market Program

- Basic Elements
 - Goods trade liberalization
 - Streamlining or elimination of border formalities
 - Harmonization of VAT rates within wide bands
 - Harmonization and mutual recognition of technical standards of production, packaging and marketing (aim: fight technical barriers)

The Single Market Program

- Factor Trade Liberalization
 - Removal of all Capital controls
 - Cross-border market-entry policies are liberalized
 - e.g.: Mutual recognition of approval by national regulatory agencies

The Single Market Program

- Removal of Frontier Controls
 - Abolition of customs formalities and “safety checks” at frontiers
 - Keystone: Schengen Agreement (1985)

The Single Market Program

- Basic Elements
- Factor Trade Liberalization
- Removal of frontier controls
- **Some pieces needed still fixing**

▶ [Bosman Ruling \(1995\)](#)

1990s onwards

- Maastricht Treaty (signed in 1992; into force in 1993)
- Treaty of Amsterdam (signed in 1997)
- Nice Treaty (signed in 2001; into force in 2003)
- Lisbon Treaty (signed in 2007; into force in 2009)

Successive enlargements

- 1995: Austria, Finland, Sweden → EU-15
- 2004: Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia, Slovakia, Cyprus, Malta → EU-25

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- 2013: Bulgaria and Romania → EU-28
- Morocco, Turkey, Serbia,... when?
- 2020 Brexit: EU-27

Maastricht Treaty (1992)

- Single Market ✓
- New goals
 - Monetary Union by 1999
 - Common currency by 2002

Maastricht Treaty (1992): monetary union

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 - Max. deficit: 3%
 - Max. debt to GDP ratio: 60% (if higher, reduction past years)
 - Exchange rate stability
 - Long run bonds (10yr.) not yield 2% more than 3 lowest average inflation
- Establishment of the European Central Bank
- Strengthened economic coordination

Maastricht Treaty (1992): political union

- New areas of EU competence
- Greater economic and social cohesion (structural funds)
- Talks about “EU citizen rights”
- European Parliament powers extended

Enlarging to the East

- Copenhagen criteria 1993. Requirements
 - Political stability, democracy, rule of law, human rights, respect and promotion of minorities

Enlarging to the East

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 - Political stability, democracy, rule of law, human rights, respect and promotion of minorities
 - Well-functioning market able to work in competitive EU framework
 - Acceptance of EU law and obligations upon entry
- Eastern European countries would eventually join in 2004

Treaty of Amsterdam (1997): fiasco?

- Ambitious goals, modest achievements
- Achievements:
 - More social policy
 - EP powers modestly boosted
 - Closer cooperation
- Failures
 - No reform of Commission, or other key institutional players

Treaty of Nice (2001-2003): setting the field for enlargement

- Size and composition of European Commission
- Voting Procedures in the Council of Ministers
- Not too popular among citizens (e.g. Ireland first rejected it in a Referendum)

Constitutional Treaty: 2004 —

- aim to simplify and unify: one text only
- Rejected in referendum in France and the Netherlands
- Dead end

Lisbon Treaty (2007 - 2009)

- Goals
 - Unify EU against external actors: one voice
 - Make EU more democratic
 - Prepare EU for future challenges (e.g., Climate change)
- Changes
 - Commission raises profile (president, too)
 - EP gains power
 - New High Representative for Foreign Affairs
 - Citizens' initiative
 - EU diplomacy

Summary

- Main European Treaties
- Implications for Business
- Source: Suder and Lindeque (2018)

Date Signed	Treaty	Place of Signature	Date Entering Force	Impact on Business
18 April 1951	European Coal and Steel Community	Paris	23 July 1952	A strong impact on business in the coal and steel industries
25 March 1957	European Economic Community (EEC)	Rome	1 July 1958	Creation of a free trade area evolving into a customs union that removed internal tariffs on goods and harmonized external tariffs
				Establishment of the prohibition of monopolies
				Launch of the Common Agricultural Policy (CAP)
25 March 1957	European Atomic Energy Community (EURATOM)	Rome	1 July 1958	Organization of the European Atomic activities in Member States
17/18 February 1986	Single European Act	Luxembourg and the Hague	1 July 1987	Elimination of physical and technical frontiers
				Liberalization of financial and services markets
				Harmonization of national laws on safety and pollution
				Increased industrial environmental cooperation
7 February 1992	Treaty on European Union	Maastricht	1 November 1993	The EU becomes one streamlined market thanks to the single currency, the euro
				Significant change for the competitiveness of European manufacturing, primary and tertiary sectors
				Disappearance of transaction costs between the members of the euro-zone.

Date Signed	Treaty	Place of Signature	Date Entering Force	Impact on Business
2 October 1997	Treaty of Amsterdam	Amsterdam	1 July 1999	Enhancement of the multilateral promotion of employment, placing national controls into a wider European employment strategy
				Consumer protection becomes a priority
				The protection of the environment introduced important challenges to the production sector
				Support of the farm sectors, rural and regional economies, helps to narrow economic and wealth gaps especially in candidate countries
26 February 2001	Treaty of Nice	Nice	1 February 2003	Preparation of the path for an enlarged and smooth-functioning European business environment
				Increase in the EU foreign policy's efficiency and credibility for foreign and local investors
29 October 2004	Constitution	Rome	----	Attempts to streamline legislation, to set strong priorities and to increase transparency, democracy and solidarity
13 December 2007	Treaty of Lisbon	Lisbon	1 December 2009	The Lisbon treaty clarifies which powers: 1) belong to the EU; 2) belong to EU member countries; 3) are shared.
				It aims to make the EU more democratic, more efficient and to better address global problems, such as climate change, with one voice.

Re-cap

- Free Trade Area (example: EFTA)
 - Trade within area is liberalized
- Customs Union (example: Treaty of Rome)
 - Common customs external tariff & common trade policy
- Common Market
 - Four fundamental freedoms
 - Consumption: Goods and services
 - Production: Labour and Capital
- Single Internal Market (see Single European Act and Treaty of Maastricht)
 - All non-customs barriers are eliminated
 - Border, formalities, border controls
 - Fiscal (budgetary or tax rules)
 - Technical

Re-cap

- Economic Union (see Maastricht Treaty)
 - Coordination and harmonization of economic policies
 - Monetary union
 - Single currency
- Political Union (all thereafter)
 - Transfer of governance and legislation to community level
 - Common Foreign Policy
 - Home affairs and justice as much as possible at community level

What comes next?

- Deeper union?
- Deeper enlargement (possibly beyond physical boundaries)?
- What's best for Business?
- Are there incentives?
 - National governments respond to national voters
 - Little incentives for politicians to transfer power
 - Brussels feels “far away”

Next Day

- Key players
- Cultural differences: implications for business

Martin Luther (1483 – 1546) and economic progress



Reformation → Protestantism (1517)
Protestant areas developed faster in the 19th century

Why?

Protestantism: individual reading of the Bible
⇒ Higher literacy
⇒ Higher human capital
⇒ Higher economic development

Becker, Sascha O., and Ludger Woessmann. "Was Weber wrong? A human capital theory of Protestant economic history." *The Quarterly Journal of Economics* 124, no. 2 (2009): 531-596.

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Agriculture and gender norms



Pre-Industrial societies

Plow vs. hoe or digging stick

Those that used plow, greater gender *inequality* today

Why?

Plow requires more strength

⇒ Greater specialization: man growing crops,
woman at home

⇒ values transmitted to today

Alesina, Alberto, Paola Giuliano, and Nathan Nunn. "On the origins of gender roles: Women and the plough." *The Quarterly Journal of Economics* 128, no. 2 (2013): 469-530.

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War casualties and female labor participation

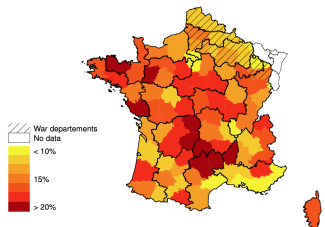


Figure 2. Military Death Rates Across 87 Départements

Different casualty rates. Where more men died...

Short run:
increased female labor force participation
due to *thin* marriage markets

Long run:
increased female labor force participation
due to transmission of values

Boehne, Jörn, and Victor Gay. "The Missing Men: World War I and Female Labor Force Participation." Available at SSRN 2931970 (2019).

Gay, Victor. "The legacy of the missing men: The long-run impact of World War I on female labor force participation." Available at SSRN 3069582 (2019).

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FTA vs Customs Union

- FTA is CU without common external tariff
- **⇒ Tariff cheats:** A & B charge no tariffs to each other. They charge different tariffs to C. Then any firm operating on C has incentives to cheat on tariffs (similar to **transfer pricing**)
- Solution? “Rules of Origin”: They establish where a good was made
 - Difficult and expensive to implement/check/follow/administer
- FTAs still preferred, because they involve no political integration
- Countries do not like giving up sovereignty

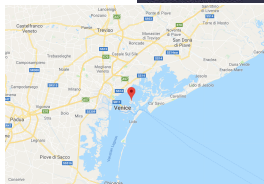
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Why does agriculture play such an important role in EU today?

- Lobbying and connections
- Landscape (beauty but also fires)
- Territorial balance
- No outside dependence in case of conflict

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Proto-Industrialization by sheer luck



Venice and lenses

- Clusters, externalities of production
- Monopoly of production during a few centuries (Murano island)

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USA and individual property

- Local tribes not hierarchical \Rightarrow difficult to bribe their leaders
- Need to import labour from the UK
- Labourers demanded property rights

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Some pieces still moving around



Bosman Ruling (1995)

European Court of Justice determined UEFA and FIFA rules placed a restriction on the free movement of workers and was prohibited by Article 39(1) of the EC Treaty

Before 1995: quotas on non-nationals

After 1995: quotas on non-EU only

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Impossible trinity

- It is impossible to have the following three at the same time
 - Fixed exchange rate
 - Free capital flows
 - Independent monetary policy
- Why would governments want them three in any case?

Impossible trinity

- Fixed exchange rate
 - Stability
 - Credibility
 - Reputation
 - All these are appreciated for foreign investors

Impossible trinity

- Free capital flows
 - Encourages growth
 - Allows for seeking opportunities abroad

Impossible trinity

- Independent monetary policy
 - Allows government to address economic issues
 - e.g.: increased unemployment \Rightarrow Interest rates \downarrow

Impossible trinity: the rationale behind it

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- It is impossible to have the following three at the same time
 - Fixed exchange rate
 - Free capital flows
 - Independent monetary policy
- To see why not: suppose all of them hold, and the local central bank lowers interest rates (compared to international standard).

Impossible trinity: the rationale behind it

- International i.r.: 5% vs. local i.r.: 3%

Impossible trinity: the rationale behind it

- International i.r.: 5% vs. local i.r.: 3% \Rightarrow
- Capital flies away

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- What does it need to buy local currency? Foreign reserves

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- What happens when these limited reserves run out?....

Impossible trinity: the rationale behind it

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- To keep fixed exchange rate, government buys local currency
- What does it need to buy local currency? Foreign reserves
- What happens when these limited reserves run out?....
- Exchange rate can no longer be maintained

Impossible trinity: the rationale behind it (2)

- To see why not: suppose all of them hold, and the local central bank lowers interest rates (compared to international standard).
- For simplicity, suppose 1 local \$ = 1 USD
- Local i.r. \downarrow to 3%, whereas ROW i.r. = 5%

Impossible trinity: the rationale behind it (2)

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- Investors: borrow local \$ to lend it internationally
 - Borrow local \$100 (At 3%)
 - Buy USD 100 (1-to-1)
 - (In the future) get USD 105 (gain = USD 3)

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 - Borrow local \$100 (At 3%)
 - Buy USD 100 (1-to-1)
 - (In the future) get USD 105 (gain = USD 3)
- With free flow, many investors will be selling local \$ and buying USD
- local \$ supply ↑
- To keep fixed exchange rate, local Central Bank will exhaust foreign reserves

FIGURE 2

Onshore-Offshore Interest Differential

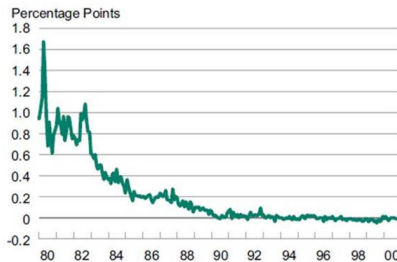
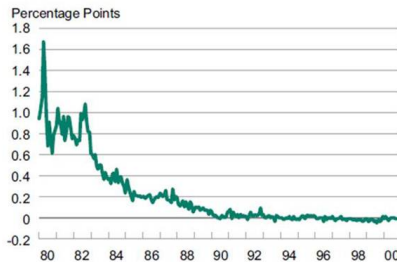


FIGURE 2

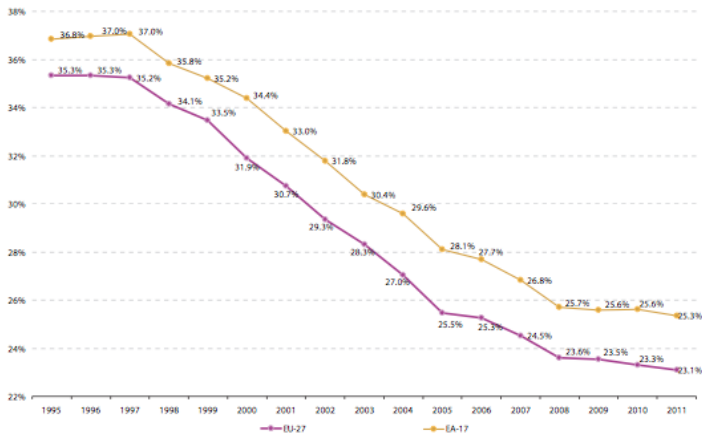
Onshore-Offshore Interest Differential



Tax competition

- Previous graph tells us that capital markets are perfectly mobile since the 90s
- Despite government efforts, a similar trend happens with official location of firms \Rightarrow firms can move freely
 - e.g. Apple
 - Official offshore headquarters in Ireland
 - Nothing is physically build there
 - Ireland tax rate: 12.5%

Graph I-2.2: **Development of adjusted statutory tax rate on corporate income**
1995-2011, EU-27 and euro area averages; in %

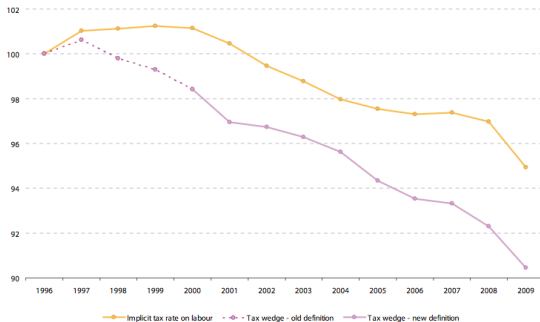


Note: Methodological notes: see note to Table II-4.1.



Taxes (income)

Graph II-3.5: **Time trend micro and macro indicators in the Union**
EU-25, index 1996 = 100



Source: Commission services

Tax wedge measures the burden of tax and social security contributions relative to labour cost.



Taxes (VAT)

Graph 16: **Development of average standard VAT rate, EU-27**



Source: Commission services

Tax competition

- Firms can move → Theory predicts a race to the bottom for corporate taxes
- Workers and consumers have restricted mobility → Theory predicts no movement or a race to the top for VAT and income taxes
- Data shows this

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Notes on Treaties

- Evolution of Treaties = history of the EU
- Treaty: binding agreement between two members
- EU particularities:
 - Every action of the EU is based on Treaties that have been approved democratically and voluntarily by all EU members
 - They provide basis for operations of the EU
 - They establish the institutions of European Integration
 - They are amended to make the EU more efficient, and to prepare for new member countries

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Next example: Why didn't the Nazis conquer Switzerland?



Twitter thread [here](#)

Next example: Why didn't the Nazis conquer Switzerland?



Twitter thread [here](#)

Next example: Why didn't the Nazis conquer Switzerland?

- Swiss armed forces?
- Swiss neutrality?
- Swiss cultural resemblance to Germany?
- Swiss currency?

Next example: Why didn't the Nazis conquer Switzerland?

- Swiss armed forces? ✗
- Swiss neutrality? ✗
- Swiss cultural resemblance to Germany? ✗
- Swiss currency? ✓

Deutsche Mark \Leftrightarrow Swiss \Leftrightarrow Franc Portuguese Escudo \implies Wolfram (Azores)

Wolfram/tungsten: highest melting point; highest boiling point; 1.7 times denser than lead. [▶ back](#)

“Schuman Declaration” (1950)

- Robert Schuman: Foreign minister (9 May 1950)
- “Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a **de facto solidarity**. The coming together of the nations of Europe requires the **elimination of the age-old opposition of France and [West] Germany** (...) “ make war not only unthinkable but also **materially impossible.**”
- “Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organisation open to the participation of the other countries of Europe” ⇒ Help economic growth & cement peace between France and Germany. Coal and steel were **vital resources needed for a country to wage war**, so pooling those resources between two such enemies was seen as more than symbolic.
- Konrad Adenauer responded swiftly
- 9 May is ..

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- Konrad Adenauer responded swiftly
- 9 May is nowadays Europe day (!)

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