



**bruegel**

ANNUAL REPORT

2007

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Members as at the beginning of June 2008. For further information about Bruegel's governance and its relationship with its members, see page 14.

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# Bruegel's mission

**BRUEGEL AIMS TO CONTRIBUTE TO THE QUALITY OF ECONOMIC POLICYMAKING IN EUROPE THROUGH OPEN, FACT-BASED AND POLICY-RELEVANT RESEARCH, ANALYSIS AND DISCUSSION.**

Bruegel is defined by five key features:

**Outward-oriented focus.** The European Union is an open market economy and a major world player. It must enrich its policy debates, which too often suffer from an inward-looking bias, and develop genuine policy discussions with other international economic players. Bruegel aims to contribute to a better understanding of the economic challenges and responsibilities facing Europe in the context of globalisation.

**Evidence-based policy recommendations.** Bruegel does not stand for any particular policy doctrine. Its research, which is conducted both in-house and through partnerships with other research organisations, draws on state-of-the-art analysis to assess economic transformations, discuss policy options and propose recommendations – while always keeping an eye on their practical feasibility.

**Demand-driven questions, independent answers.** Bruegel's yearly Research Programme is set by the Board, which represents the diversity of Bruegel's stakeholders. Decisions on new research projects follow extensive discussions with Bruegel's members. Once a research topic is chosen, however, research and publications are fully independent. All publications are released under the signature of their author(s), and Bruegel itself abstains from taking any policy positions.

**Linking government, research, business and civil society.** Bruegel provides a forum for informed discussions between individuals from diverse backgrounds. It builds on the diversity of experience of its stakeholders to develop interaction between communities. Bruegel also aims to cooperate with leading European and international research institutions on specific research projects.

**European reach.** From the outset, Bruegel has adopted a pan-European approach. It addresses topics for which policy responsibility rests with individual states, the European Union, or international organisations. It intends to develop its presence in national debates across Europe, as well as Brussels and international discussion forums.

**BRUEGEL'S NAME**, while referring to a 'Brussels European and Global Economic Laboratory', pays tribute to Pieter Bruegel ('the Elder'), considered one of Europe's most innovative painters in the 16th Century. Pieter Bruegel's son and nephew were also renowned painters who spelled their names 'Breughel'; Bruegel the Elder, however, signed most of his masterpieces with 'Bruegel'.

# Operational review

## EXECUTION OF THE RESEARCH PROGRAMME

Bruegel's research programme for 2007 was adopted by Bruegel's board on 22 January 2007, following intensive consultation with the members. It was organised around four main research areas:

- Growth Drivers for Europe
- European and Global Integration
- Macroeconomic Institutions and Policies.
- Interdependence and Regulation

### A. Growth Drivers for Europe

Projects grouped under this research area explore the deep determinants of economic performance in Europe. Following earlier work on the reform of the social models and on innovation, in 2007 the focus was put on higher education, financial markets, and the relationship between regulation and investment in regulated sectors.

#### Publications:

- Policy Brief 2007/04, *Why Reform Europe's Universities*, Philippe Aghion, Mathias Dewatripont, Caroline Hoxby, Andreu Mas-Colell and André Sapir, September.
- Policy Contribution *Current Issues in Evaluating Structural Reforms within the Lisbon process*, André Sapir, February.

#### Events:

- Joint Conference with IMF, *Putting Europe's Money to Work*, Brussels, 21-22 February
- Special lunchtime meeting with CESifo, *Report on the European Economy 2007*, Brussels, 27 February

- Joint Conference with the German Ministry of Finance and Ifo Institute, *Human Capital in Europe: A Challenge for Public Finances*, Berlin, 18 September
- Joint Seminar with ESMT Berlin, *Entry Regulation and Investment in the Telecommunication Sector*, Brussels, 13 December

**Higher education** has traditionally been a remit of the member states with both little European dimension (but for the mobility of students) and little visible economic relevance. However, in a world where growth is increasingly driven by human capital and the transformation of frontier research into innovation, the quality of higher education systems is emerging as a key determinant of economic performance. This is why Bruegel assembled a group of experts composed of Philippe Aghion (Harvard University and Bruegel), Mathias Dewatripont (ULB Brussels), Caroline Hoxby (Stanford University), Andreu Mas-Colell (University Pompeu Fabra) and André Sapir (Bruegel and ULB Brussels) to prepare an assessment of European higher education and make recommendations for policy initiatives at EU and national level.

To investigate the respective roles of governance and funding in the performance of higher education institutions, the group conducted a survey of European universities, the first results of which were published in the Policy Brief *Why Reform European Universities?* A more comprehensive report is scheduled for publication in late Spring 2008. The study points out that European countries

differ widely as regards the performance of their universities but that they generally rank worse among the top 50 of 100 world universities than if the top 200 or 500 are taken into account. It highlights the twin roles of poor governance and insufficient funding in explaining this result. The piece was widely presented and discussed, including in a Berlin conference co-organised with the German Ministry of Finance and the Ifo institute.

**Financial markets** were the focus of a high-profile conference organised jointly with the International Monetary Fund in Brussels in February 2007. While traditional analyses primarily blame poorly functioning product and labour markets for the inferior growth performance of the EU, the conference's title, *Putting Europe's Money to Work*, highlighted the potential role of finance in fostering productivity and growth in Europe. A report on the topic was subsequently prepared at the request of the Slovenian presidency of the EU and was published in January 2008 as a Policy Brief by Bruegel fellow Nicolas Véron and Thomas Philippon of New York University under the title *Financing Europe's Fast Movers*.

The relationship between **market regulation, innovation and investment** was the topic of a major conference organised by Bruegel and the Institute for Industrial Economics of the University of Toulouse. Discussion highlighted the importance of regulatory design for investment in regulated sectors such as energy, transport and telecoms.

Bruegel also organised a conference, in association with the European Commission's DG MARKT on the *Economic policy for the Single Market of the future* that served as a forum for discussing new approaches to the EU single market and paved the way for further research on services and growth.

## B. European and Global Integration

Bruegel has from the start put emphasis on the interplay between European integration

and globalisation. This research area resulted in 2007 in two landmark publications on **Europe and the Global Economy** and on **European firms and international markets**.

### Publications:

- Policy Brief 2007/01, *A Better Globalisation Fund*, Etienne Wasmer, Jakob von Weizsäcker, January
- Book, *Fragmented Power: Europe and the Global Economy*, edited by André Sapir, September
- Blueprint, *The Happy Few: the internationalisation of European firms*, Thierry Mayer, Gianmarco Ottaviano, November

### Events:

- *The Economic Policy for the Single Market of the Future*, 16 January
- *Europe and the World Economy*, Dinner debate with State Secretaries Bernd Pfaffenbach and Thomas Mirow, Berlin, 22 January
- Joint workshop with the German Marshall Fund, *Trade Adjustment and Beyond – A Transatlantic Perspective on Globalisation and Social Insurance*, 21 May
- Conference with the Italian Treasury, *Reshaping Development Aid: International Experience and Italy*, 22 May
- Joint conference with CEPR, *The Internationalisation of European Firms*, 19 June
- *Key Issues for the International Monetary Fund*, with the EU candidate for the IMF, Dominique Strauss-Kahn, 7 September
- Brussels Book Launch Panel for *Fragmented Power: Europe and the Global Economy*, 12 September
- Berlin Book Launch Breakfast for *Fragmented Power: Europe and the Global Economy*, Berlin, 18 September
- Report Launch Panel for *The Happy Few: The Internationalisation of European Firms*, 7 November

**Europe's global role** has recently become a central theme of the EU narrative. *Fragmented Power: Europe and the Global Economy*, edited

by André Sapir, is the first book that provides both a systematic analysis of the global economic role of the EU in a variety of sectoral fields and an overall assessment of its performance as a global player. The book, which is based on an in-depth research project involving Bruegel fellows and outside experts, underscores the uneven character of Europe's external role and influence. It has been presented to a variety of policy and expert audiences throughout Europe and in the US.

Building on this research, Bruegel co-organised in May a conference on *Reshaping Development Aid: International Experience and Italy*, jointly with the Italian Treasury.

**European firms and International Markets** is a joint project with the Centre for Economic Policy Research (London) whose aim is to shed light on issues such as competitiveness and integration through firm-level comparative analyses. Eight country teams from Belgium, France, Germany, Hungary, Italy, Sweden and the UK participated in the project and the publication of a first report entitled *The Happy Few: The Internationalisation of European Firms* by Gianmarco Ottaviano of Bruegel and the University of Bologna and Thierry Mayer of CEPR and the Paris School of Economics. The report brings to light new facts on the patterns of internationalisation of European companies and stresses the extent to which export and foreign direct investment tend to rely on a minority of star performers – hence its title.

Since its publication, the report has been widely presented and discussed and forms the basis of new research undertaken, that is scheduled for publication in 2008.

Another research topic in 2007 has been the **adjustment to trade shocks** and the potential role of the Globalisation Fund (*A Better Globalisation Fund*, by Etienne Wasmer and Jakob von Weizsäcker); In May, Bruegel organised with the German Marshall Fund, a workshop on *Trade Adjustment and Beyond – A Transatlantic Perspective on Globalisation and*

*Social Insurance*.

Corporate nationality, the changing patterns of international integration, and regional trade agreements have also been topics of research in 2007. Ensuing publications are planned for 2008.

Finally, Bruegel organised in September a one-day workshop on *Key Issues for the International Monetary Fund* with the then European candidate to the IMF. Experts from Europe, the US and Asia participated in it.

### C. Macroeconomic Institutions and Policies

Research in 2007 concentrated on global imbalances, the euro area, and the EU budget.

#### Publications:

- Policy Brief 2007/02, *Global Imbalances: Time for Action*, Alan Ahearne, Bill Cline, Kyung Tae Lee, Yung Chul Park, Jean Pisani-Ferry, John Williamson, March

#### Events:

- Joint Conference with Peterson Institute and KIEP, *Policy to Reduce Global Imbalances* (Washington DC), 8-9 February
- Lunchtime Meeting, *Budgetary Consolidation or Structural Reforms: Choices for Europe?* 8 May
- Workshop, *What Reform for the EU Budget?* 25 June (with Commissioner Grybauskaite)

Building on research done in 2005-2006, Bruegel and two other institutes from the US (Peterson Institute for International Economics) and Asia (Korean Institute for International Economic Policy) organised a joint conference on **policies to reduce global imbalances**. The aim was to come up with robust estimates of the changes in exchange rates that would have to accompany a reduction in current account imbalances in the world economy. The results from this conference were published in early Spring in a joint Policy Brief entitled *Global Imbalances: Time for Action*.

The **governance of the euro area** was the focus of a report prepared by a group of Bruegel fellows (Philippe Aghion, Alan Ahearne, Jürgen von Hagen, Jean Pisani-Ferry and André Sapir) and policy experts (Marek Belka, Lars Heikensten). The group examined the record of the euro area as it approached its ten anniversary and prepared proposals for improving its governance. Throughout its preparation, numerous discussions took place with senior policy practitioners from the EU institutions. The report was published in January 2008 under the title *Coming of Age*.

Jean Pisani-Ferry and André Sapir also contributed to the series of studies undertaken by the European Commission to examine the record of the first ten years of the euro. Together with Xavier Debrun, then visiting fellow at Bruegel, they prepared an assessment of the role of public finances in output stabilisation.

In anticipation of the EU Budget Review of 2008-2009, research was initiated on **avenues for reforming the EU budget**. After the broad issues were discussed in a workshop with Budget commissioner Dalia Grybauskaitė in June, the first topic selected was the evaluation of the Structural Funds, resulting in a Policy Brief published in February 2008. Jean Pisani-Ferry and André Sapir also participated in the preparation of the conference on the EU budget organised by the European Commission in April 2008.

#### D. Interdependence and Regulation

Research in this field was initiated in 2007 with projects on energy, climate change and financial regulation.

##### Publications:

- Blueprint: *Energy: Choices for Europe*, Lars-Hendrik Röller, Juan Delgado, Hans Friederiszick, March
- Blueprint: *The Global Accounting Experiment*, Nicolas Véron, April
- Policy contribution: *Transparency Would*

*Help to address the Audit Market Problem*, Nicolas Véron, July

- Policy Brief 2007/03, *Is Europe Ready for a Major Banking Crisis?* Nicolas Véron, August
- Policy contribution: *EU Climate Policy: Dividing up the Commons*, Juan Delgado, August
- Policy contribution: *EU Adaption of the IFRS 8 Standard on Operating Segments*, Nicolas Véron, September
- Policy Brief 2007/05, *Why Europe is not Carbon Competitive*, Juan Delgado, November

##### Events:

- Launch event, *Energy: Choices for Europe*, Berlin, 2 March
- Launch event, *International Accounting Standards: On a Collision Course?* 26 June
- Joint Conference with IDEI Toulouse, *Regulation, Competition and Investment in Network Industries*, 25-26 October

**Energy: Choices for Europe**, a joint project with the European School of Management and Technology, Berlin, aimed at defining the trade-offs involved in European energy policies and at assessing the role of EU policies as opposed to national policies. The report, by Lars-Hendrik Röller (ESMT and Bruegel), Juan Delgado (Bruegel) and Hans Friederiszick (ESMT), published in March, argued that while addressing problems at the European level would not eliminate the acute trade-off between energy security, preservation of the environment and competitiveness, it would make them less acute.

Building on this first publication, the **climate change and competitiveness** issue was further investigated in a Policy Brief entitled *Why Europe is not Carbon Competitive*, by Juan Delgado. This paper argues that while Europe is energy efficient, its industrial specialisation puts it at a comparative disadvantage as regards the competitiveness effects of pricing carbon emissions.



**Financial regulation** was addressed in the Bruegel-IMF conference and in a Policy Brief building on evidence presented on this occasion entitled *Is Europe Ready for a Major Banking Crisis?* by Nicolas Véron. The paper takes the view that country-level supervision, while justified for smaller, essentially national banking institutions, is inadequate for larger banks engaged in cross-border business. It advocates moving the supervision of those institutions to the EU level.

Further dimensions of financial regulations were explored through research on accounting standards. In *The Global Accounting Experiment*, Nicolas Véron analysed the rise of non-governmental standard-setting at global level and the issues of governance and legitimacy it raises.

## OTHER OPERATIONS

### 1. Events

In addition to workshops and conferences directly related to the research programme, Bruegel also holds regular discussions and seminars featured in our three events series: “lunchtalk@bruegel”, “Economic Policy Seminar” and “Finance Focus Breakfast”. In 2007 Bruegel also organised a number of ad hoc events not related to a particular series.

The **lunchtalk** series typically highlights current topics and features a presentation by a guest speaker followed by a response from an expert in the same field. It is coordinated by Research Fellow Juan Delgado. 2007 included three lunchtalks:

- 12 March, *The Economics of the European Patent System: Intellectual Property Policy for Innovation and Competition* with Bruno van Pottelsberghe (Chief Economist, European Patent Office).
- 23 October, *Rhineland Exit: The Difficulties of Moving to the Shareholder Model* with Lans Bovenberg (Tilburg University), Coen Teulings (CPB – the Netherlands Bureau for

Economic Policy Analysis) and Marco Becht (Université Libre de Bruxelles) as discussant.

- 5 December, *Economics, Politics and Budgets: The Political Economy of Fiscal Consolidations in Europe* with Carlos Mulas Granados (Universidad Complutense de Madrid).

The Bruegel **Economic Policy Seminar**, initially coordinated by Research Fellow Jakob von Weizsäcker and now by Research Fellow Indhira Santos, also had three sessions in 2007. The Seminar on Economic Policy provides an opportunity for speakers to present academic papers before their peers and public policy stakeholders, for informed debate.

- 9 March, *Who Blows the Whistle on Corporate Fraud?* with Luigi Zingales (University of Chicago Graduate School of Business) and Nicolas Véron (Bruegel) as discussant.
- 15 November, *Patriotism and Tax Competition: Analysing non-price competition for a mobile tax base* with Kai Konrad (WZB, Free University of Berlin) and Alain Trannoy (EHESS Marseille) as discussant.
- 11 December, *Where Did all the Borrowing go? Explaining the US External Balance and its implications* with Phillip Lane (Trinity College Dublin) and Jean Pisani-Ferry (Bruegel) as discussant.

### Finance Focus Breakfast

This series, coordinated by Research Fellow Nicolas Véron, is specifically targeted at market participants, policymakers and academics interested in financial market issues. Seven sessions were held in 2007:

- 20 April, *What Could Disrupt the Global Financial System? A Mapping of the New Risks* with Pierre Cailleteau (Moody's Investors Service).
- 10 May, *Comparing the Merits of National Models for Financial Regulation and Supervision* with Delphine d'Amarzit (French Treasury), Peter Nijse (Dutch Ministry of

Finance), Paul Wright (UK Financial Services Authority).

- 11 July, *The European Market for Mortgage-backed Securities* with Joachim Dübel (Finpolconsult, Berlin) and Dennis W. Sheehan (GMAC-RFC Europe).
- 18 October, *The Securitisation Crisis: A View from Germany* with Jan Pieter Krahnert (Center for Financial Studies, Frankfurt) and Daniel Gros (Centre for European Policy Studies) as discussant.
- 30 October, *Is the Lamfalussy Architecture Sustainable?* with Elliot Posner (Case Western Reserve University) and Gérard Hertig (ETH Zurich).
- 30 November, *Are Off-balance Sheet entities always bad?* with Michelle Brennan (Standard and Poor's), Simon Collingridge (Standard and Poor's) and Peter Praet (National Bank of Belgium) as discussant.
- 13 December, *Are European Savers getting a Raw Deal?* with Ed Moisson (Lipper).

### Special Meetings with the International Monetary Fund

Bruegel hosted two special meetings in 2007 with representatives from the IMF visiting Brussels. On May 15 **Florence Jaumotte** and **Simon Johnson** presented the IMF's "World Economic Outlook" published in April 2007. **Klaus Regling** of the European Commission acted as discussant. On September 7 Bruegel held a special meeting with the EU Candidate for the IMF, **Dominique Strauss-Kahn** on "Key Issues for the International Monetary Fund".

### Annual meeting

On 12-13 June, Bruegel held its second **Annual Meeting** as a high-level event bringing together its Members, Board and Staff at the well-known Brussels landmark, the Atomium. At the dinner debate on June 12th, chaired by Mario Monti, Bruegel members debated "**The Changing Shape of Europe's Public Arena**" with prominent journalists **Petra Pinzler** (European Correspondent, Die Zeit), **Gideon Rachman** (Financial Times), and **Philippe Riès** (Agence France Presse).

The debate on the 13th concentrated on the Environment: guest speakers **Lars-Hendrik Röller** (Senior Fellow at Bruegel and President of ESMT, Berlin), **Nick Stern** (London School of Economics), **Chris Buijink** (Secretary General at the Dutch Ministry of Economic Affairs) and **Tomasz Zyllicz** (Professor of Economics, Warsaw University) took part in a panel entitled "**The Challenges of Implementing the European Climate Strategy**". The debate in the afternoon was titled "**The Climate/Competitiveness Conundrum**" and featured **Juan Delgado** (Research Fellow at Bruegel), **John Llewellyn** (Senior Economic Policy Advisor for Europe, Lehman Brothers), **Fernando Becker** (Iberdrola) and **Jos Delbeke** (DG Environment, European Commission).

## 2. Publications

2007 saw the launch and development of a new publication format at Bruegel, the **Blueprint**. The series contains concise reports that combine economic analysis and policy recommendations. An integrated part of the Research Programme, the **three** Blueprints published in 2007 have been covered in the previous section on the execution of the research programme:

- *Energy: Choices for Europe*, March
- *The Global Accounting Experiment*, April
- *The Happy Few: the internationalisation of European Firms*, November

The **Policy Brief** continues to be the flagship output for Bruegel's research. 2007's publications have also been covered in the section on the execution of the research programme:

- 2007/01 *A Better Globalisation Fund*, February
- 2007/02 *Global Imbalances: Time for Action*, March
- 2007/03 *Is Europe Ready for a Major Banking Crisis*, August
- 2007/04 *Why Reform Europe's Universities?* September
- 2007/05 *Why Europe is not Carbon Competitive*, November

Bruegel **Working Papers** present research by the staff or associates of Bruegel. During 2007 Bruegel published two working papers:

- *Tying Hands is not Commitment: Can Fiscal Rules and Institutions really enhance Fiscal Discipline* by Xavier Debrun, January
- *Real Convergence, Price Level Convergence and Inflation in Europe* by Balázs Égert, April

**Policy Contributions** are short texts on specific policy questions, including testimonies at hearings and responses to discussion papers or other types of consultations. During 2007 Bruegel published four policy contributions.

- André Sapir prepared the note *Current Issues in Evaluating Structural Reforms within the Lisbon Process* for the Lisbon Methodology (LIME) Working Group. It was presented at their first meeting on February 1.
- In July Nicolas Véron responded to a consultation by the UK Financial Reporting Council in *Transparency would Help to Address the Audit Market Problem*. He made recommendations on how to address the problem of having only four large international audit networks.
- In August Juan Delgado produced a note *EU Climate Policy: Dividing up the Commons* for the EU's Economic Policy Committee. The note discussed the economic consequences of climate change policies.
- In September Nicolas Véron presented the paper *EU Adoption of the IFRS 8 Standard on Operating Segments* to the Economic and Monetary Affairs Committee of the European Parliament. In it he advised that the EU not adopt IFRS 8 in its current version.

The **Essay and Lectures Series** provides a compact record of the views of scholars and practitioners as they write for, or lecture at Bruegel events. During 2007 Jens Henriksson, former State Secretary at the Swedish Ministry of Finance, was a non-resident fellow at

Bruegel. As part of his work at Bruegel he outlined *Ten Lessons About Budget Consolidation* based on his experiences during the Swedish budgetary consolidations of the 1990's. In this edition of the Essay and Lecture series Henriksson pinpointed and conveyed to policy makers what equations and econometrics cannot capture in the process of budgetary consolidation.

### 3. Website

All Bruegel's publications, event reports, opinion pieces and other output are made available on [www.bruegel.org](http://www.bruegel.org). During 2007 Bruegel's website was extensively remodelled, with a new graphic identity as well as more functionality and greater ease of access to publications. This redevelopment was rewarded with a greater number of visits to the website and a larger number of pages viewed. Over the year the website welcomed more than 100,000 unique visitors (double the numbers of 2006) and more than 828,000 pages were viewed.

### Press and Media

We recorded **four hundred** articles published during 2007 that included a reference to Bruegel or a quote or interview of a Bruegel scholar including **88** opinion pieces or columns written by Bruegel research staff. Over the year mentions appeared in the media of 23 European Union countries, and of 29 countries outside the EU. Bruegel scholars also participated in the non-print media, including interviews for Al Jazeera, Arte, CNBC Europe, LCI, Bloomberg TV, Sveriges Television SVT, France 3, BBC Radio, DW-Radio, France Inter, France Culture, Radio BFM, Radio Classique, ORF Austria, Radio Suisse Romande and others. They were also published in on-line media such as Vox, Telos, La Voce, FTD-WirtschaftsWunder and others.

# Team Development

BY THE END OF 2007, THE BRUEGEL TEAM NUMBERED TWENTY-SIX, INCLUDING EIGHTEEN SPENDING ALL OR MOST OF THEIR WORKING TIME AT BRUEGEL (SEE LIST ON PAGE 19).

The following individuals joined Bruegel during 2007:

**Laurent Eymard, *Research Assistant*** joined Bruegel in September. He holds an MA degree in economics from the National School of Economics and Statistics (ENSAE) and also graduated from Sciences-Po Paris.

**Andrew Fielding, *Editor*** joined Bruegel in January from the European Commission, where he was most recently an adviser on EU labour law and speechwriter to Commission President Barroso. A graduate of Cambridge University, he is presently a Visiting Fellow at the London School of Economics.

**Stephen Gardner, *Assistant Editor*** joined Bruegel in February. In addition to working with Bruegel, he is a freelance journalist covering EU affairs. He works and has worked for a range of different media including the BBC, Private Eye, Ethical Corporation, International Environment Reporter, the European Voice and others.

**Dalia Marin, *Senior Fellow*** joined Bruegel in October. She holds the Chair in International Economics at the University of Munich. Her research interests are in the area of international economics, corporate finance and the organisation of the firm, and in emerging market economies.

**Helena Markstedt, *Media Officer and Web Administrator*** joined Bruegel in September. She has a masters degree in Politics and Communication

from London School of Economics and Political Science. She has previously worked with political campaigns and in the Swedish Prime Minister's Office.

**Malwina Mejer, *Research Assistant*** joined Bruegel in August. She holds a MA in Economics from the University of Gdansk and was a student of the Advanced Studies Programme in International Economic Policy Research at the Kiel Institute for the World Economy.

**Concetta Mendolicchio, *Research Assistant*** joined Bruegel in September. She holds a PhD in Economics and a Master of Arts in Economics from Université Catholique de Louvain.

**Indhira Santos, *Research Fellow*** joined Bruegel as a Research Fellow in June. She holds a PhD in Public Policy from the Kennedy School of Government at Harvard University with a specialisation in economic development and public economics. She was Chief Researcher at the Economic research center of PUCMM University and worked for the Ministry of Finance. She has also worked for the Central Bank of Turkey. She coordinates Bruegel's project on the EU budget.

**Bruno van Pottelsberghe, *Senior Fellow*** joined Bruegel as Senior Research Fellow in November. Previously he was Chief Economist of the European Patent Office (EPO) and since 1999 he is professor at the Université Libre de Bruxelles. He currently holds the Solvay S.A. Chair of Innovation there. His research for Bruegel focuses on innovation in Europe.

**Robert Fenge, Xavier Debrun and Dan Breznitz** also participated in Bruegel's development as Visiting Fellows during 2007.

*During the course of 2007 Bruegel also benefited from the work of Marie-Rose Beulens (Secretariat), Aida Caldera (Research Assistant), Emanuele Ciriolo (Research Assistant), Charles Colot (Outreach Officer), Salvatore Dell'Erba (trainee), Alexandre Janiak (Research Assistant), Irene Perez Suarez (Library Cataloguer), Alexis Walckiers (Research Assistant) and Cajsa Wikström (Website Administrator).*

# Governance

**BRUEGEL'S GOVERNANCE FRAMEWORK IS DESIGNED TO ENSURE BOTH THE INDEPENDENCE OF ITS RESEARCH AND ITS RELEVANCE TO DIVERSE STAKEHOLDERS.**

Bruegel is registered as a Belgian international non-profit association (Association Internationale Sans But Lucratif) under the number 0867636096, with registered office on Rue de la Charité 33, B-1210 Brussels. The basis for its governance is formed by its statute and bylaws, both of which can be downloaded from Bruegel's website.

In 2007 the association had two categories of **Members**. State Members are governments of member states of the European Union which have chosen to join Bruegel; Corporate Members are international firms whose request for membership has been approved by Bruegel's Board. Each member appoints a Senior Contact Person and an Alternate, which represent it in Bruegel's governance bodies. The details of Members' financial contributions are in the 'Financials' section of this report.

The highest body is Bruegel's **General Assembly**, which brings together all members. The General Assembly is complemented by so-called Groups which are formed, respectively, by Bruegel's state and corporate members. In 2007, the General Assembly met once, on 13 June 2007. The Group of States and Group of Corporate Members also met on the same day.

In early 2008, Bruegel completed the membership structure implied by its Statute by appointing seven Partner Research Institutions, which now form a third Group of members.

The **Board** has broad decision-making powers, including on Bruegel's senior recruitments and research programme, and guarantees the

independence of Bruegel's work. It was first elected in December 2004 for a three-year mandate. The Board met three times in 2007, on 22 January, 27 April, and 25 October, with an average attendance rate of 60%. Following the end of its term, the Board was renewed in early 2008, with retroactive effect as of 20 December 2007.

The Board had two **Committees** in 2007. The Audit Committee met on 27 April 2007 to review Bruegel's financial statements for the year 2006. The Compensation Committee met on 26 October.

The **Scientific Council** is comprised of eight internationally recognized economists, appointed by the Board in 2005 for a three-year mandate. Its role is to advise Bruegel's Board and Director and to assess the scientific quality of Bruegel's output. The Scientific Council met once in 2007, on 9 March.

It contributed a report on the scientific quality of Bruegel's work until end-2006 to the **Review Task Force** which had been elected by the General Assembly in late 2006 to provide an independent assessment of Bruegel's early performance. The Review Task Force's members, selected by the General Assembly on 14 December 2006, were Nick Butler, Adriana Cerretelli, Paul Champsaur, Kenneth Rogoff, Pawel Samecki (Chair), and Norbert Walter. The Review Task Force's final report was presented and discussed at the meeting of the General Assembly on 13 June 2007. It gave a positive overall assessment, while noting the need for Bruegel to "further reach out beyond its core Brussels audience", and "expand to

critical mass while retaining the overall quality that it has achieved to date”.

Bruegel's **Research Programme** is currently prepared at a yearly pace. Based on extensive consultation with Bruegel members, including at least one plenary meeting of members' Senior Economists, a draft programme is prepared by Bruegel's staff, sent to members for consultation, and proposed to the Board together with the members' feedbacks. The Board is the decision-making body on the research programme and may make changes to the staff's draft as it deems appropriate.

In 2007, Bruegel developed projects on the basis of its second Research Programme, which was adopted by the Board on 22 January 2007. The meeting of Senior Economists to prepare the 2008 programme was held on 6 November 2007, and the resulting draft research programme was sent to members for consultation on 20 December 2007. The research programmes since 2006 included can be downloaded from Bruegel's website.

None of Bruegel's financial resources in 2007 were tied to specific research projects.

Bruegel's public **Statement on Research Integrity**, adopted by the Board in May 2006, is available on Bruegel's website. The Statement sets rules for the avoidance of political, national or commercial conflicts of interest which could harm the integrity of Bruegel's research.

#### Web references:

Bruegel's statute:

<http://www.bruegel.org/1570>

Bruegel's bylaws:

<http://www.bruegel.org/1572>

2005-06 research programme:

<http://www.bruegel.org/1688>

2007 research programme:

<http://www.bruegel.org/2198>

2008 research programme:

<http://www.bruegel.org/Public/Publication.php?ID=2197>

Statement on research integrity:

<http://www.bruegel.org/1574>

# Financials

BALANCE SHEET 2007 - 2006		
	2007	2006
<b>FIXED ASSETS</b>	<b>86,887.88</b>	<b>114,856.45</b>
Furniture and office equipment	84,795.08	113,445.83
Financial fixed assets		
Bank guarantee	2092.80	1410.62
<b>CURRENT ASSETS</b>	<b>60,431.69</b>	<b>39,614.71</b>
Trades receivables	43,369.50	0.00
Financial income to receive	799.09	20,122.62
Other debtors	14,263.10	19,492.09
<b>CASH &amp; CASH EQUIVALENTS</b>	<b>2,956,643.75</b>	<b>2,819,953.14</b>
<b>DEFERRALS AND ACCRUALS</b>	<b>7612.21</b>	<b>25,415.14</b>
Deferred rent		24,425.14
Deferred insurance	5251.70	990.00
Other deferrals	2360.51	
<b>TOTAL ASSETS</b>	<b>3,111,575.53</b>	<b>2,999,839.44</b>
<b>CURRENT LIABILITIES</b>	<b>278,141.82</b>	<b>218,577.98</b>
Trade payables	97,293.38	52,634.35
VAT payable	40,381.08	
Prepaid income		50,000.00
Remuneration and social security payables	140,467.36	115,943.63
<b>NET ASSETS</b>	<b>2,833,433.71</b>	<b>2,781,261.46</b>
Reserves		
Surplus of the year	52,172.25	730,517.80
Accumulated reserves (previous years)	2,781,261.46	2,050,743.66
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>3,111,575.53</b>	<b>2,999,839.44</b>



## INCOME STATEMENT 2007 - 2006

	2007	2006
<b>REVENUE</b>		
<b>Subscriptions - State Members</b>	<b>1,325,690.00</b>	<b>1,196,092.00</b>
Category 1 - Cyprus, Luxembourg, Slovenia	68,277.00	42,988.00
Category 2 - Ireland	45,516.00	45,517.00
Category 3 - Austria, Denmark, Hungary, Finland [1]	256,035.00	182,069.00
Category 4 - Belgium, The Netherlands, Poland	273,102.00	242,758.00
Category 5 - France, Germany, Italy, Spain, UK	682,760.00	682,759.00
<b>Subscriptions - Corporate Members [2]</b>	<b>1,350,000.00</b>	<b>1,345,833.00</b>
<b>Other revenue</b>	<b>96,318.60</b>	<b>20,000.00</b>
Grants received from Foundations	47,493.50	
Conference Related Fees	45,000.00	
Sales of publications	3,825.10	
<b>TOTAL REVENUE</b>	<b>2,772,008.60</b>	<b>2,561,925.00</b>
<b>Wages and Compensation</b>	<b>-1,787,886.20</b>	<b>-1,251,290.63</b>
<b>Other operating expenses</b>	<b>-930,919.65</b>	<b>-500,601.25</b>
Staff Travel costs	141,645.06	75,173.44
External research costs	68,523.81	26,157.06
Documentation costs	28,221.99	22,955.32
Outreach-related costs	324,834.62	155,629.38
Office rents and charges	166,513.21	106,676.16
Other office costs	88,646.03	60,043.06
General and administrative costs	112,534.93	53,966.83
<b>Depreciation charges</b>	<b>-60,362.98</b>	<b>-55,198.44</b>
<b>Extraordinary items / unrecoverable VAT</b>	<b>-44,376.36</b>	<b>-88,201.11</b>
<b>Net financial income</b>	<b>103,708.84</b>	<b>63,884.24</b>
Financial income	127,235.36	78,263.85
Financial charges	-5,007.13	-2,640.03
Withholding Tax	-18,519.39	-11,739.58
<b>TOTAL EXPENSES</b>	<b>-2,719,836.35</b>	<b>-1,831,407.19</b>
<b>NET SURPLUS</b>	<b>52,172.25</b>	<b>730,517.80</b>

### Notes

[1] In accordance with Bruegel's Bylaws, in 2007 Finland paid a subscription reduced by one quarter compared with other states in Category 3.

[2] Areva, BP, DaimlerChrysler, Deutsche Bank, Deutsche Börse, Deutsche Post World Net, Deutsche Telecom, EADS, Euronext, Fortis, GE, Goldman Sachs International, Hellenic Petroleum, Iberdrola, IBM, Intesa Sanpaolo, Nokia, Novartis, PricewaterhouseCoopers, Renault, RWE, Siemens, Suez, Telecom Italia, Telefonica, Thomson, Unicredit (€50,000 per member).

Marie-Chantal DEBROUX-LEDDET  
Réviseur d'entreprises  
Avenue Jean-François Debecker, 114  
1200 Brussels, Belgium  
Tel. 00 32 2 775 88 20  
Email: leddet.mc@debroux.be

AISBL International Association  
BRUEGEL, Rue de la charité, 33 - 1210 Brussels - Belgium

**STATUTORY AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2007  
to the General Assembly of the International Association to be held in June 2008**

In accordance with the legal and statutory requirements, we report to you on the performance of the mandate of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the financial statements as well as the required additional statements and information.

**Unqualified audit opinion on the financial statements**

We have audited the financial statements for the year ended 31 December, 2007, prepared in accordance with the financial reporting framework applicable in Belgium, which show a balance sheet total of € 3.111.575,53 and a surplus for the year of € 52.172,25.

Management is responsible for the preparation and the fair presentation of these financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we considered the association's accounting system, as well as its internal control procedures. We have obtained from management and from the association's officials the explanations and information necessary for executing our audit procedures. We have examined, on a test basis, the evidence supporting the amounts included in the financial statements. We have assessed the appropriateness of accounting policies and the reasonableness of the significant accounting estimates made by the association as well as the overall financial statement presentation. We believe that these procedures provide a reasonable basis for our opinion.

In our opinion, the financial statements for the year ended December 31, 2007 give a true and fair view of the association's assets and liabilities, its financial position and the results of its operations in accordance with the financial reporting framework applicable in Belgium.

**Additional statements and information**

The compliance by the international association with the Law of 27 June 1921 related to non profit associations, international non profit associations and foundations is the responsibility of management.

Our responsibility is to supplement our report with the following additional statements (and information), which do not modify our audit opinion on the financial statements:

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- There are no transactions undertaken or decisions taken in violation of the association's statutes or the Law of 27 June 1921 related to non profit associations, international non profit associations and foundations that we have to report to you.

Brussels, May 26<sup>th</sup>, 2008



Marie-Chantal DEBROUX-LEDDET  
Certified Auditor

# Bruegel's people

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## STAFF (ON 31 DECEMBER 2007)

### Director

Jean Pisani-Ferry

### Research Staff

**Philippe Aghion**, Non-resident Senior Fellow  
**Alan Ahearne**, Non-resident Research Fellow  
**Narcissa Balta**, Research Assistant  
**Jérémie Cohen-Setton**, Research Assistant  
**Juan Delgado**, Research Fellow  
**Laurent Eymard**, Research Assistant  
**Jürgen von Hagen**, Non-resident Senior Fellow  
**Henrik Horn**, Non-resident Senior Fellow  
**Dalia Marin**, Non-resident Senior Fellow  
**Malwina Mejer**, Research Assistant  
**Concetta Barbara Mendolicchio**, Research Assistant  
**Gianmarco Ottaviano**, Non-resident Senior Fellow  
**Lars-Hendrik Röller**, Non-resident Senior Fellow  
**Martín Saldías Zambrana**, Research Assistant

**Indhira Santos**, Research Fellow  
**André Sapir**, Senior Fellow  
**Bruno van Pottelsberghe**, Senior Fellow  
**Nicolas Véron**, Research Fellow  
**Jakob von Weizsäcker**, Research Fellow

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**Andrew Fielding**, Editor  
**Stephen Gardner**, Assistant Editor  
**Yvonne Hilario**, Executive Assistant & Office Coordinator  
**Helena Markstedt**, Media Officer and Web Administrator  
**Sona Patel Amin**, Administrative Assistant



BRUEGEL  
33, rue de la Charité, Box 4  
1210 Brussels, Belgium  
<http://www.bruegel.org>

Switchboard  
+32 2 227 4210  
Fax: +32 2 227 4219  
[info@bruegel.org](mailto:info@bruegel.org)

Press  
Helena Markstedt, Media Officer  
+32 2 227 4290  
[helena.markstedt@bruegel.org](mailto:helena.markstedt@bruegel.org)

Events  
Matt Dann, Outreach Manager  
+32 2 227 4270  
[matt.dann@bruegel.org](mailto:matt.dann@bruegel.org)