

## BRUEGEL RESEARCH PROGRAMME 2007

Bruegel's research programme for 2007 was adopted by Bruegel's board on 22 January 2007, following intensive consultation with Bruegel's members. It is organised in four main research areas and involves 14 individual research projects.

### A. Growth Drivers for Europe

In spite of an exceptionally favourable global environment, growth in the EU - and especially in the largest economies of the euro area - has been disappointingly low since the beginning of the decade. Its recent acceleration is a welcome correction but does not substantially alter the trend. Uncovering the deep reasons for this inferior performance remains a policy priority. The research area **Growth Drivers for Europe** is designed to contribute to policy discussion on the determinants of Europe's overall economic performance. Building on Bruegel's 2006 contributions on Europe's growth and reform strategy, research in this area addresses the policy choices at the European and national levels. Specific projects are devoted to:

- **Higher education.** This was traditionally a remit of the member states with little visible economic relevance. However, in a world where growth is increasingly driven by the accumulation of human capital and the transformation of frontier research into innovation, the quality of higher education systems is emerging as a key issue for economic development. The project's aim is to analyse the current state of European higher education systems and reform options. It will discuss the potential role – if any – of EU policies.

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- **Access to capital and company growth.** Traditional analyses primarily blame poorly functioning product and labour markets for the inferior growth performance of the EU, yet financial markets have their part in the slow reallocation of capital to potential growth sectors and the slow development of new firms. Financial integration, a traditional objective of the EU, does not necessarily substitute the setting of priorities for financial development. The project aims to evaluate institutional conditions for the development of a growth-enhancing market for capital.

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- **Market regulation and innovation.** The debate about the regulation of markets for goods and services is frequently framed as if the only priority were to decrease the burden on companies. Yet no less important is the relationship between patterns of regulation and innovation. The project will analyse the effects of regulation, competition and trade openness on the extent and nature of private innovation.

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- **Services and growth.** The services sector is crucial for Europe's economic performance, yet it continues to lag behind those of other developed economies in terms of employment, productivity and growth. This project will review the main stylised facts on services performance in Europe and address the constraints on their development.

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### B. European and Global Integration

Bruegel has from the start put emphasis on the interplay between European integration and globalisation, with research conducted in 2005-2006 under the headings 'Integration and competitiveness' and 'Europe and the World Economy'. It remains the focus of the new research area **European and Global Integration**. Rather than a 'horse race' between regional and global

integration, the spotlight here is on the interaction between the two processes: the transformation brought to the EU by globalisation and the role of Europe in a fast-changing world economy. Specific projects in this area are:

- ***Corporate champions and nationality.*** While many companies claim to have become globally integrated, corporate nationality has recently emerged as a significant policy issue in Europe, the US and elsewhere. Building on 2006 research on large companies (corporate champions) in the EU and US, the project aims to extend the analysis to non-western companies and to address shareholding patterns. It will also explore the issue of headquarter mobility.

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- ***The internationalisation of European firms (joint project with the Centre for Economic Policy Research, London).*** A comparative firm-level analysis of the patterns of internationalisation is key to a deeper understanding of the effects of globalisation and European integration on productivity and employment. It can also shed light on the structural factors behind cross-country differences in trade and foreign direct investment performance. Six country teams from France, Germany, Hungary, Italy, Sweden and the UK are participating in this two-year project.

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- ***Changing patterns of international integration.*** Economic integration between the old and the new members of the EU (as well as neighbouring countries) can be either accelerated or jeopardised by rapidly developing links with emerging Asia. The same is happening in North America. Yet traditional analyses of aggregate trade flows fail to provide adequate insights into the changes at work. The project will first examine how the European and North-American ‘hubs’ have restructured following, on the one hand, the development of regional agreements and, on the other hand, increased integration with China and emerging Asia. It will also propose a reassessment of the effects of enlargement on the basis of indicators derived from the detailed composition of trade between the old and new member states of the EU.

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- ***The scope of regional trade agreements.*** Regional trade agreements often go beyond the mere replication of existing trade commitments to include non-trade dimensions (in fields like investment, competition and environmental protection) and even non-economic dimensions (such as terrorism, drugs and human rights). The question however remains whether they provide an alternative or a complementary form of integration, compared to traditional trade multilateralism. The project will shed light on the issue through a systematic analysis of the regional agreements notified to the WTO.

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- ***Migration and mobility.*** In the context of heightened competition for talent, impediments to the mobility of skilled labour arising from the limited portability of social insurance entitlements are becoming a cause for concern. Building on Bruegel’s 2006 research project on migration, the project will seek to quantify better the cost of mobility and will make recommendations about how to tackle obstacles to mobility while preserving the diversity of social insurance systems.

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### **C. Macroeconomic Institutions and Policies**

Macroeconomic research concentrated in 2006 on divergence within the euro area and the consequences for Europe of a global current account adjustment. While those issues remain of major interest, research in 2007 in the area of **Macroeconomic Institutions and Policies** will have a broader scope. Of particular interest will be the interplay between structural reforms and macroeconomic policies and the reform of the EU budget. Projects here are:

- ***The governance of the euro area.*** More than seven years into the euro, questions remain as regards its internal functioning, its governance structure and its external representation. These issues affect the perspectives for its extension to other countries. A Bruegel Euro Area Task Force was formed in July 2006 with both Bruegel fellows and non-Bruegel experts and former policymakers. Its aim is to provide analysis and recommendations for the euro area.

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- ***Structural reforms and macroeconomic policies.*** The interaction between structural reforms and macroeconomic policies is of prime importance both for euro-area countries and the new member states. Research should help shed light on important issues such as the implementation of the new Stability Pact and the choice of macroeconomic and exchange rate strategies in the new member states.

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- ***Avenues for reforming the EU budget.*** At end-2005, the European Council agreed on the principle of a review of the EU budget, to be conducted in 2008. The discussion on reforming the EU budget will be an opportunity to address the wider issue of the role of the EU and its common policies in the post-enlargement context. The project will discuss the proper role of Union expenditures and their financing.

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#### **D. Interdependence and Regulation**

Against the background of integrating markets, the choice between national and European-wide regulation has long been – and still is – an issue for discussion in the EU. It is acquiring a new dimension as regulatory issues are increasingly addressed at the global, rather than regional or national level. The choice of the proper level of regulation will be a major theme for research conducted in the area of **Interdependence and Regulation**. This involves in a first stage two projects (a third one on climate change is likely to be added in the course of 2007):

- ***Energy: choices for Europe (joint project with the European School of Management and Technology, Berlin).*** Energy has recently emerged as a defining issue for the EU. While the traditional approach focussed on the creation of an integrated internal market, concerns about the security of supply and the environment have introduced new dimensions to the discussion, while natural disparity and policy divergence amongst member states is calling into question the feasibility of a common policy. The project aims to evaluate the costs and benefits of adopting a common approach covering both the internal and the external dimensions as well as the implied trade-offs between objectives.

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- ***European Financial Regulation in a Globalised Market.*** How to organise financial regulation in the EU used to be a primarily internal affair. It has become a key example of the interplay between European integration and globalisation and provides a testing ground for analysis of the twin roles of transatlantic competition and cooperation in the setting of rules for the global economy. The aim of the project is to test whether current arrangements comply with the notion of subsidiarity, clarify the policy options for European financial regulation in a globalised context, and explore their consequences for the location and competitiveness of the financial industry.

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