



2011 Research Programme



20 April 2011

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In concordance with Bruegel Research strategy 2011 – 2013 Bruegel's 2011 research programme will focus on the following areas:

1. **European macroeconomics**
2. **Global economics and governance**
3. **Finance and financial regulation**
4. **Competition, innovation and sustainable growth**

This note succinctly presents the main research avenues and it briefly outlines the individual research projects.

A. Research Area: European macroeconomics

Coordinator: Zsolt Darvas

Participants:

- *Resident scholars: Zsolt Darvas, Benedicta Marzinotto, Jean Pisani-Ferry, Andre Sapir, Nicolas Veron, Reinhilde Veugelers, Guntram Wolff (from 15/04 on)*
- *Nonresident and visiting scholars: Jacques Delpla, Shahin Vallée, Jakob von Weizsäcker*
- *External contributors: Dag Detter (Consultant for Lithuanian Government), Mark Hallerberg (Hertie School Berlin), András Simon (former Hungarian central bank), World Bank colleagues*

In 2010 the sovereign debt crisis caught Europe by surprise. Bruegel throughout the year contributed to the search for appropriate policy responses. The policy debate however was not concluded in 2010. Topics for discussion include the response to insolvency or near-insolvency situations; the terms and instruments of conditional assistance; the interdependence between sovereign and banking crises.

Bruegel at end-2010 undertook research on two topics that led to publications in early 2011:

- *The nature and scope of the so-called “comprehensive solution” to euro-area debt crises (Zsolt Darvas, Jean Pisani-Ferry and André Sapir);¹*
- *The role of structural funds in supporting adjustment in the crisis-affected countries (Benedicta Marzinotto).²*
- *The fiscal and monetary institutions of countries in Central, Eastern and Southeastern Europe and their impact on macroeconomic volatility and budgetary outcomes (Zsolt Darvas and Valentina Kostyleva)³*

In the remainder of 2011 we intend to continue contributing to the policy discussion on the management of debt crises in Europe.

1. Macroeconomic adjustments in Europe

Beyond immediate crisis management, a major issue for Europe is at what speed and to what degree national economies will purge domestic and external imbalances and regain competitiveness. The issue is especially acute in the Southern part of the euro area but it is common to some of the old and the new member states, although conditions differ depending on whether they are part of the euro area, pegged to the euro, or on a floating regime. But it is also important in other countries under adjustment, such as Ireland and the three Baltic countries, where ‘internal devaluation’ has already started. Beyond individual country cases, the collective dimension of the adjustment is obviously a major concern.

In 2010 research on these topics at Bruegel was mostly focused on adjustment in the new member states. In 2011 it is intended to address the following topics:

- *Real exchange rates and price-cost competitiveness (Benedicta Marzinotto, Guntram Wolff);*
- *The growth consequences of current-account adjustments (Zsolt Darvas)*

¹ ‘A comprehensive approach to the euro-area debt crisis’, Bruegel Policy Brief 2011/02, February 2011. This Policy Brief set a new record among Bruegel publications in terms of number of downloads within one week from publication (over 10,000). The accompanying piece ‘A comprehensive approach to the euro-area debt crisis: background calculations’, Bruegel Working Paper 2011/05, by the three authors and Christophe Gouardo was also published in February 2011. Bruegel also organized in January 2011 a one-day conference on ‘Europe’s Sovereign Debt Crisis’ at the Federal Ministry of Finance in Berlin, in cooperation with CESifo.

² See “A European fund for economic revival in crisis countries”, Policy Contribution by Benedicta Marzinotto, February 2011.

³ “The fiscal and monetary institutions of CESEE countries”, Working paper 2011/2 by Zsolt Darvas and Valentina Kostyleva (Ms Kostyleva is from the OECD), February 2011.

- *Current-account imbalances in the EU* (Jürgen von Hagen)
- *Macroeconomic adjustment in highly indebted peripheral euro area states* (Alan Ahearne)

2. How to reform economic policy systems?

The global financial crisis and its repercussions have prompted a series of initiatives to rethink and reform policy systems at national, European and global levels. Noteworthy initiatives include the creation of bodies in charge of macroprudential supervision; the opening of a discussion on the shortcomings of the traditional inflation targeting approach; reforms of national budgetary institutions including the introduction of fiscal rules at the national level; the reform of the EU framework for budgetary surveillance; the creation of a new European procedure for the surveillance of external imbalances; the creation of a European Stability Mechanism (ESM); and the strengthening of IMF surveillance in connection with processes under discussion at G20 level. The creation of the ESM (and its predecessors, the EFSF and the EFSM) also raises the issue of how to align fiscal solidarity and member state's own responsibility.

Building on its 2010 contributions, Bruegel in 2011 intends to contribute to this important discussion with two projects:

- *An ex-post evaluation of the surveillance of the euro area by IMF in the run-up to the financial and sovereign crises* (Jean Pisani-Ferry, André Sapir and Guntram Wolff);⁴
- *Frameworks and institutions for European monetary, macroprudential and budgetary policies* (Zsolt Darvas, Benedicte Marzinotto, Mark Hallerberg, Jean Pisani-Ferry, Shahin Vallée and Guntram Wolff).⁵

3. Fiscal consolidation and growth

The crisis has caused serious fiscal tensions and a need for promoting steady GDP growth in several countries. It appears to be especially difficult to find policy measures that are able to tackle both issues at the same time. For example, an overly austere or not adequately designed fiscal policy negatively impacts growth through both demand-side and supply-side channels. In addition to the short/medium term impacts of fiscal consolidations, a crucial issue is the impact on long term economic growth and employment. Bruegel in 2011 intends to contribute to this debate through a literature survey to be presented at a conference organized by the Hungarian EU Presidency ahead of the 8/9 April Informal ECOFIN and with a specific research project on state-owned enterprises. The latter is a joint research project with the Corporate Governance Group of the World Bank and Dag Detter, an advisor to the Lithuanian government.

- *Growth-promoting fiscal consolidations: A survey* (Zsolt Darvas);

⁴ This research is commissioned by the Strategy, Policy and Review Department of the IMF as part of its review of Fund surveillance.

⁵ This research is commissioned by the Carrying out of this research is in part contingent on obtaining a grant from the European Parliament on the role of the European Semester.

B. Research Area: Global economics and governance

Coordinator: *André Sapir*

Participants:

- *Resident scholars: Zsolt Darvas, Jean Pisani-Ferry, André Sapir, Nicolas Véron, Reinhilde Veugelers, Guntram Wolff (from 15/04 on)*
- *Non-resident and visiting scholars: Ignazio Angeloni, Henrik Horn, Shahin Vallée, Jürgen von Hagen*
- *External contributors : Thilo Hanemann (Rhodium Group), Team from CEPII (Paris) led by Agnès Bénassy-Quéré*

Global and international issues remain high on the policy agenda, in part because of the G20, but in part also because tectonic shifts within the global economy have been accelerated by the crisis. Divergence between advanced and emerging economies and its consequences for their coexistence within the global system of trade and finance raise new issues for research and policy.

In 2011 research at Bruegel will concentrate on three domains: global economic, monetary and financial governance; the reform of the international monetary system; and interdependence in the new global context.

1. Global economic, monetary and financial governance

Bruegel in 2011 intends to continue efforts and initiatives initiated in earlier years to contribute to the understanding of global policy issues, especially through three channels opened in recent years:

- *The Asia-Europe Economic Forum* which for five years now has brought together European and Asian scholars and policymakers to discuss economic policy issues of global relevance (Jean Pisani-Ferry);⁶
- *The Bruegel—PIIE Project on the Transatlantic Relationship in an Era of Growing Economic Multipolarity* (Nicolas Véron)⁷;
- *G20 Initiatives* (Ignazio Angeloni, Zsolt Darvas and Jean Pisani-Ferry). Bruegel in 2009 launched a G20 conference series in partnership with ICRIER, Delhi (two conferences were held in 2009 and 2010) and in 2010 it launched the web-based G20 monitor that triggers informed discussions on the G20 agenda and the grouping's achievements and shortcomings;

2. Reform avenues for the international monetary system

Research into the reform of the international monetary system is a significant investment for Bruegel. This investment takes place within the framework of a project undertaken jointly with CEPII, Paris. This IMS project, which benefits from support from DG ECFIN of the European Commission, has four main aims: first, to explore the relationship between economic multipolarity and the international monetary regime; second, to analyse the impact of China on the advanced economies, depending on the nature of their monetary relationship. Third, to examine the provision of global liquidity. Fourth, to outline reform options for the IMS. The project is managed in such a way that it results in contributions to the French G20 presidency.⁸

- *Reform avenues for the international monetary system* (Ignazio Angeloni, Zsolt Darvas, Jean Pisani-Ferry, André Sapir, Shahin Vallée, jointly with CEPII, Paris).

⁶ The sixth conference of the Asia-Europe Economic Forum was held in January at the Ministry of Finance in Paris. The AEEF, which was created by Bruegel, involves five European research institutions and partners in China, Japan and Korea. Another conference is scheduled to take place in Asia at end 2011.

⁷ This is a two-years project that benefits from the support of the European Commission. A first conference was held in Washington, DC in October 2010, the second one will be held in Berlin in September/October 2011.

⁸ Jean Pisani-Ferry also participates in the Council for International Monetary Reform set up under the auspices of the Sloan Foundation. This council is expected to issue in September 2011 a first report on "After Inflation Targeting".

3. Interdependence in the new global context

Two projects are expected to explore aspects of interdependence in the new global context. The first one is intended to discuss why external balances tend to be correlated with the strength of the domestic manufacturing base. The second one aims at putting Chinese FDI in Europe in a broader perspective. The third follows on a project launched in 2010 on the compatibility between border carbon adjustments and the global trading regime. The fourth one, to be completed in the first quarter, aims at assessing to what degree scientific research has become globalised.

- *Chinese FDI in Europe in a global perspective* (Nicolas Véron, Thilo Hanemann)
- *Border carbon adjustments* (Henrik Horn, André Sapir)

C. Research Area: Finance and financial regulation

Coordinator: *Nicolas Veron*

Participants:

- *Resident scholars: Nicolas Véron, Guntram Wolff*
- *Nonresident and visiting scholars: Jörg Rocholl, Shahin Vallée*

Projects for 2011 in this area build on the research developed in previous years, challenges with a major new project on global financial integration, expanded research on the economic impact of EU regulatory changes, and active participation in the ongoing debates on international accounting standard-setting and on Europe's cross-border banks.

1. Financial Regulation in a Global Context

A new major research investment will be started in 2011 on Global Financial Integration, building on 2010 work on global financial regulation and its limitations⁹. Partly as a consequence of the crisis, financial protectionism will be a central policy concern of the years to come. The project will explore its multiple dimensions and correspondingly analyze policy responses to the crisis from the perspectives of both economics and political economy. Policy recommendations will aim at keeping the benefits of global financial integration while taking into account the political realities and imperatives of re-regulation for systemic stability. The role of multinational financial firms in determining the degree of financial integration, their future prospects and structure will be a key concern of the study.

The governance of global accounting standards will also be further analyzed, in the context of an active policy agenda in 2011 which, given Bruegel's recognized expertise in this area, justifies an active dialogue and engagement with relevant policymakers.

- *Financial Regulation, Financial Multinationals, and Global Financial Integration* (Nicolas Véron)
- *The governance of international accounting standard* (Nicolas Véron)

2. The Evolving EU Financial Landscape

This project will be devoted to analysis of the landscape of EU financial and capital markets following the crisis and the wide spectrum of subsequent related regulatory initiatives, such as Basel III rules on capital and liquidity requirements, bank levies and taxes on financial activity. It will build on research started in 2010¹⁰. The cumulative nature and potential interactions between these initiatives will be given specific attention, as well as impact on a wide range of economic actors, including the financial industry itself but also household and corporate users of financial services, investors, and sovereigns.

- *The evolving landscape of EU financial and capital markets* (TBCJörg Rocholl, Nicolas Véron)

3. EU Bank Crisis Management and Resolution

The definition of an adequate crisis management and resolution framework for multinational banks is one of the biggest challenges facing EU financial policy, and addressing it in a satisfactory manner is likely to take at least

⁹ Stéphane Rottier & Nicolas Véron, *Not All Financial Regulation Is Global*, Policy Brief, September 2010

¹⁰ Benedicte Marzinotto & Jörg Rocholl, *The Unequal Effect of New Banking Rules in Europe*, Policy Contribution, October 2010

several years. Building on earlier work that partly predates the crisis¹¹, Bruegel will contribute to the debate on how the EU can define a credible model that would be compatible both with the vision of a single market for financial services and with the post-crisis emphasis on orderly resolution mechanisms that should aim at sparing taxpayers the burden of private-sector bank resolution.

- *European bank crisis resolution policy* (Nicolas Véron).

¹¹ Particularly Nicolas Véron, *Is Europe Ready for a Major Banking Crisis?*, Policy Brief, August 2007; Adam Posen & Nicolas Véron, *A Solution for Europe's Banking Problem*, Policy Brief, June 2009; and Morris Goldstein & Nicolas Véron, *Too Big To Fail: The Transatlantic Debate*, Working Paper, February 2011

D. Research Area: Competition, Innovation and Sustainable Growth

Coordinator: *Reinhilde Veugelers*

Participants:

- *Resident scholars: Zsolt Darvas, Benedicta Marzotto, André Sapir, Reinhilde Veugelers, Georg Zachmann, Nicolas Veron*
- *Non-resident and visiting scholars: Philippe Aghion, Carlo Altomonte, Gianmarco Ottaviano, Lars-Hendrik Röller, Bruno van Pottelsberghe*
- *External contributors: René Belderbos (KULeuven), Dag Detter (Consultant for Lithuanian Government), Christian von Hirschhausen (DIW Berlin, TU Berlin), Florence Honoré (U. of Minnesota), Mark Huberty (Berkeley), Bart Leten (KU Leuven), Federico Munari (U. of Bologna), Knud Munk (Université catholique de Louvain), EFIGE project team*

As the recovery takes shape – and even if many governments are still struggling with the aftershock of the crisis, attention is more and more shifting towards the structural underpinnings of economic performance. This was the topic for important policy discussions before the crisis and it has only gained significance as a consequence of it, because both Europe's economic fate in a world where emerging countries are thriving and its ability to cope with the public finances and social consequences of the shock hinge on a significant upgrading of its structural record.

Accordingly, Bruegel i looks at the 'competition, innovation and sustainable growth' research area. The objective of this area is to develop stronger policy analysis based on a better understanding of firms' behaviour. It is to understand what stimulates/hampers firms to build/sustain their long-term growth and how external factors arising from input (labour, finance, energy..) and output (market conditions, macro-economic conditions, regulation) impact the firms' performance.

In 2011 Bruegel intends to pursue five research avenues focusing on innovation, energy and climate, firm internationalization, the role of state intervention, and the prospects for growth.

A specific and very important area of barriers is regulatory interventions (in the broad definition of government intervention). Micro-insights will feed into a better understanding of macro-trends. The advantage of the micro-level of analysis is that this allows looking at the heterogeneity in the firm population in effects from and reactions to regulatory interventions, such as by sectors and age of the firms. The micro analysis will be based on detailed firm level databases.

1. Policies for innovation in Europe

The EU innovation environment remains weak, especially R&D investment by the business sector. Furthermore, despite all the policy efforts at EC and Member State level, there are relatively little signs of progress. Rather than focusing on the symptom - the R&D deficit - policymakers should address the cause - the deficit in enterprise and industry dynamics. Bruegel intends to contribute to this more structural innovation policy agenda. It aims to address the following questions:

- Why is the EU on average (and in contrast to the US) not able to redirect its specialization pattern to new high-tech, high growth sectors?
- What accounts for Europe's weakness, compared to the US, in new technology-based sectors, particularly in health and ICT?
- What explains the problem which European firm face to grow into world-wide leading innovator firms?

Six specific projects are on the agenda for 2011:

- *New ICT markets* (Reinhilde Veugelers, Bruno Van Pottelsberghe, Nicolas Veron)
- *Is Competition Policy properly tackling innovation issues?* (Reinhilde Veugelers, Lars-Hendrik Röller)
- *Funding models for innovative new companies* (Reinhilde Veugelers, Bruno Van Pottelsberghe)
- *Market leadership and technology leadership* (Reinhilde Veugelers)

- *Patents versus protection of vegetal species* (Bruno Van Pottelsberghe)
- *Governance and innovation: evidence at a micro level* (Bruno Van Pottelsberghe)

2. Energy policy, climate policy and economic performance

Despite the crisis and the failure to establish a global agreement on greenhouse gases in 2009/2010, the EU remains committed to its climate policy goals. Consequently, further progress in terms of carbon reduction and renewables deployment was made. In 2011 Bruegel intend to research how the 'green targets' relate to economic performance, how the market rules should be redesigned to accommodate the internal energy market with the decarbonisation targets and finally, how the large necessary investments in infrastructure could be incentivised and financed.

- *Export competitiveness in renewables* (Georg Zachmann, Mark Huberty)
- *Financing the investment in energy network Infrastructure* (Georg Zachmann)
- *The future of electricity markets* (Georg Zachmann)

3. Firm internationalization and economic performance

After two years of investment in original data collection, the EFIGE project has now entered the delivery phase based on extensive firm-level data on seven European countries (France, Italy, Germany, Austria, UK, Hungary and Spain). National teams coordinated by Bruegel will be producing comprehensive evidence on the determinants and the effects of firm internationalization and analyse the implications of their findings for policy at national and EU levels.

Partly in connection with this major research effort, but on the basis of other data also, Bruegel intends to develop monitor competitiveness and assemble coherent data to this end.

- *European Firms in a Global Economy* (Carlo Altomonte, Gianmarco Ottaviano)
- *Monitoring competitiveness* (Benedicta Marzinotto)

4. The contours of state intervention

In 2011 the debate on the EU budget is bound to finally take place. It will arise in a context of resource scarcity and economic hardship which is very different from those of previous negotiations and this requires having a fresh look at the very rationale for EU spending. After having kept silent for a long time because of the lack of policy discussion, Bruegel this year intends to contribute to the impending debate. We also intend to perform a specific research project on state-owned enterprises by empirically assessing the efficiency of different management practices, which will most likely be the first research study of this kind. The latter is a joint research project with the Corporate Governance Group of the World Bank and Dag Detter, an advisor to the Lithuanian government

In addition research on the CAP that is being finalised will be published in Spring 2011.

- *What role for the EU budget?* (Benedicta Marzinotto, André Sapir)
- *The future of the CAP* (Knud Munk)
- *Managing state-owned enterprises* (Zsolt Darvas and Dag Detter, jointly with World Bank colleagues).

5. Restoring the lustre of the European growth model

An overriding issue for the medium term is whether the crisis will lead to a further deterioration of the European growth performance or, on the contrary, to a possible rebound. Experience tends to suggest that negative shocks generally result in a weakening of growth but reforms introduced in response to the crisis can have the opposite effect. Bruegel in 2011 intends to address the issue through assessing the potential for a technology-induced

productivity rebound and through participating in a project led by the Europe and Central Asia Department of the World Bank in connection with the Polish presidency. The latter report, in addition to assessing the uniqueness of the European growth model, will study its potential along six main dimensions: trade, production, research, work, finance and governments.

- *ICT and economic productivity* (Reinhilde Veugelers, Bruno Van Pottelsberghe)
- *Restoring the luster of the European growth model* (Zolt Darvas, André Sapir and Reinhilde Veugelers, jointly with a World Bank team)

