



2012-13
Research Programme
Update

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Introduction

This is a transition programme. Bruegel's research calendar has shifted from the calendar to the academic year. A new full-year cycle will cover the September 2013-August 2014 period. This document updates the 2012 research programme for the period until August 2013. Many research priorities identified remain highly relevant for 2013 and therefore research on those issues will continue.

In spite of the improvement in market sentiment, the European crisis will remain one of the top priorities throughout 2012-13. The central priorities concern the best way to address remaining market tensions, the broader macroeconomic policy response in the EU, central banking in the EU, policies to foster macroeconomic adjustment and the more fundamental question of how to reform European governance to ensure effectiveness and legitimacy. Growth is a further central ingredient to a successful resolution of the crisis and new thinking is needed on policy avenues to foster it. Finally, the crisis poses strong challenges for the EU members outside of the euro area and their economic, political and institutional relation with the euro area.

Work on two completely new research areas in the field of European macroeconomics will commence in 2013. First, the issue of migration in its various dimensions is seen as of high policy relevance. This concerns intra-European migration but also immigration from abroad and is a topic of significant relevance also for innovation and growth. We want to tackle the issue from the point of view of the ongoing adjustment process. Second, inequality is becoming an issue of increasing concern from a social, political and economic point of view. We do not have the means to launch a data-intensive research project but Bruegel would like to contribute to the policy discussion in cooperation with a partner and our angle will be on the connection with economic adjustment in Europe.

The European debate is of course embedded in the broader debate about the global economy. Asia's economic performance is more and more relevant to the world economy and Europe. Bruegel has therefore done a significant effort in increasing contacts and raising funds for strengthening work on Asia. A number of fellows will visit Bruegel during 2013 to work on Japan and China and the economic linkages with Europe. Bruegel will co-organize conferences in China, Korea and Japan. Bruegel will also continue to accompany developments at G-20 level. A major research study on the global trading system was started during 2012 and will be carried over to 2013. There will also be a study on global central banking.

Bruegel will continue to contribute to the discussion on financial regulation at global and regional levels. A new research effort is undertaken to work on auditing and financial disclosure. The regulation, supervision and resolution of global financial firms will also be covered. Another key research topic remains the changing financial landscape in Europe in a

context of growing pressure to re-nationalize financial policy and on the link between the sovereign and the banking crisis in Europe.

Finally, a growing share of our efforts is devoted to the study of the determinants of economic performance. We will continue to address the role of information technology for growth and conduct a study on the future of manufacturing in Europe. New research in the area of competition policy and state aid will be on the agenda thanks to a new fellow hired in that area. Our work on entrepreneurship will be strengthened. We secured funding for a new project on indicators of competitiveness based on firm level data. Research undertaken on energy and climate policies and their implications for economic performance will be intensified. The firm-level underpinnings of growth, innovation, internationalisation and competitiveness remain at the core of Bruegel research.

The 2012-13 research programme is in line with the medium-term research strategy of Bruegel. Consistent with it, we will keep on focusing on four core research areas. While “European macroeconomics” will remain the most prominent among the four, we have devoted additional resources to the research area “competition, innovation and sustainable growth” with a new fellow focusing on competition and regulation and related single market issues. With this addition around a third of Bruegel research capacity will be devoted to the area “competition, innovation and sustainable growth”. Finally, we are expanding our research area “global economics” which has been somewhat neglected in recent years, and we are preparing to host a number of visiting fellows who will work specifically on Asia.

Jean Pisani-Ferry and Guntram Wolff, January 2012

A. Research Area: European macroeconomics

Coordinator: *Zsolt Darvas*

Participants:

- *Resident scholars: Zsolt Darvas, Benedicla Marzinotto, Jean Pisani-Ferry, André Sapir, Nicolas Véron, Reinhilde Veugelers, Guntram Wolff, Georg Zachmann*
- *Nonresident and visiting scholars: Phillipe Aghion, Alan Ahearne, Jakob von Weizsäcker, Jürgen von Hagen, Michael Grajek, Gianmarco Ottaviano*
- *External contributors: Mark Hallerberg (Hertie School Governance)*

In 2012-13 again, the bulk of our macroeconomic research effort will focus on the crisis. Despite ECB initiatives, the agreement on the new treaty on stability, coordination and governance, the ESM, the crisis cannot be considered to have been overcome and it remains a major cause for concern at European and global level. The emerging banking union is unfinished and more analysis and discussion is required. The governance discussion on how to shape the euro area and how the governance structure of the EU as a whole will be affected will remain highly topical. The difficulties of economic adjustment in Southern euro-area countries and, the tense situation in Greece will continue to be important topics. The economic performance of non-euro-area countries and their relation to the euro area set-up and economy will become even more important than currently and we will devote research time to this.

As in 2012, Bruegel would like to keep a fair degree of flexibility in order to be able to react to crisis developments and policy responses, but we also wish to address medium- and longer-term issues: macroeconomic policy and adjustment in the EMU; the European governance; economic growth and a new topic migration.

1. Macroeconomic policy and adjustments in EMU

The recent crisis has brought to the fore the need for major budgetary and macroeconomic adjustment in many euro zone countries, as well as for a significant rebalancing of real exchange rates. Whether and how this adjustment can be conducted, and how its potentially detrimental effects on growth can be minimised, is a priority issue for the euro area and countries with fixed exchange rates. One issue that will receive new attention is the issue of private sector debt and how to deal with it. Fiscal and monetary policies in face of the crisis will remain important parts of Bruegel's research. We wish to continue devoting significant research efforts to central banks across Europe.

2. Governance of the euro area and the EU

The governance reform of the euro area is unlikely to be over and it involves several dimensions. We intend to continue playing a leading role in policy debates on fiscal and banking institutions, including macroprudential issues, and the governance relation between the euro area and the non-euro area. Research on the evaluation of financial assistance programmes has started and is currently ongoing.

3. How to revive growth in Europe

The attention of policymakers is rightly also focused on the bleak economic outlook of Europe and the policy initiatives at national and European level that are required to revive growth. A number of papers during 2012 have looked at the drivers of growth, including ICT, structural determinants of growth, and macroeconomic adjustment and growth. In our forthcoming research, we wish to add factors of growth to the research and comment on possible policy solutions. Jointly with research in areas C and D, we wish to continue

combining macro, micro and financial perspectives and address the various dimensions of the policy challenges, i.e. economic reforms, innovation, budgetary and tax policies, the scope for fiscal devaluations, EU2020, access to finance of both SMEs and large corporations, the implications for investment of the transformations of the European financial system, and the role of product market competition and regulation. Regarding the tax reform, Bruegel may not be able to prepare a blueprint on the growth-enhancing tax system in full detail, but we wish to assess the composition of fiscal adjustments and formulate recommendations based on this analysis and the academic literature. We also intend to organize a debate on tax harmonization. A key topic of research remains how to strengthen competitiveness.

We plan a workshop on growth in Southern Europe with a special focus on competition and regulation, ICT and fiscal adjustment including on health spending in 2013. We also plan to work on a piece proposing a better mechanism for the evaluation of EU spending.

Inequality and its interaction with economic adjustment have not been discussed much in Europe. Bruegel will explore possible partnerships to work on the issue of inequality and adjustment in Europe.

4. Migration

High unemployment is one of the most striking social problems in several countries of Europe. Beyond labour market reforms and policies, the best way to improve the employment situation is to foster economic growth. Unfortunately, the growth outlook of Europe is bleak, but also rather heterogeneous. One important research question is if intra-EU mobility could help the adjustment of high unemployment rates and if so, what kind of institutional changes would foster this adjustment channel. However, while migration may help the short-run adjustment problem that several countries face, the longer run implications of migration should also be considered, such as the loss of human capital, the scope for return migration, or the role of remittances. In this regard, the experiences of the German unification and the 2004/07 eastern enlargement of the EU should be summarised.

Bruegel in the past did not enter the research field of labour market reforms due to the lack of expertise and the significant investment this would have required, but already published research on migration and mobility, on which we can build. The research could also touch the issue of immigration from neighbouring countries to the EU and their potential for growth.

Research Area B: Global economics and global governance

Coordinator: *André Sapir*

Participants:

- *Resident scholars: Zsolt Darvas, Jean Pisani-Ferry, André Sapir, Nicolas Véron, Reinhilde Veugelers, Guntram Wolff, Georg Zachmann*
- *Non-resident and visiting scholars: Ignazio Angeloni, Henrik Horn, Gianmarco Ottaviano*

The interactions between Europe and the international economy are manifold. The crisis of the euro area has been an opportunity for the world to discover the importance of interdependence in the same way the financial crisis of 2007-2008 highlighted the magnitude of spillovers from the US onto the rest of the world. The fact of the matter is that such interdependence is a structural feature of the world economy that needs to be analyzed as such rather than simply in its short-term manifestations. At the same time, the main structural feature of the world economy in its current historical phase is the shifting of economic dynamics from the Atlantic to the Pacific Ocean and from the developed to the emerging economies and there is growing awareness of the fact that the crisis has been a major accelerator of this shift.

In 2012, Bruegel will continue to devote a fair share of its resources to analyzing developments in the world economy, with special attention to the interactions between, on the one side, European (or European-based) actors and, on the other side, global actors and actors located in the EU's neighbourhood. The three main lines of research will be Asia, global governance and the relations between the EU and major regional players.

1. Asia initiatives

At the global level, the shift of economic fortunes in favour of emerging countries means first and foremost the rise of Asia. From its very beginning, Bruegel has been keen on developing contacts in Asia and collaborating with economists from the various parts of Asia. Together with European and Asian partners, Bruegel established in 2006 the Asia Europe Economic Forum (AEEF) to serve as a high level forum, giving Asian and European policy experts an occasion for in-depth research-based exchanges on global issues of mutual interest. This important forum will continue its activity in 2013. In addition to the AEEF, significant initiatives in this field included two G-20 conferences in India in cooperation with a major Delhi institute; partnerships and joint research projects with Korean research institutes; and research work for the ASEAN.

To build on its successes, Bruegel is now consolidating its leadership and intends to become a globally recognized hub for Asia-Europe economic discussions and exchanges. Located in Brussels, this hub will provide expertise on Asia and the Asia-Europe relationship in the global context to policy makers, corporations and the media. A specific fund-raising effort has been initiated in 2012. Significant funds have been raised to allow for a visit of Chinese and Japanese scholars at Bruegel. Bruegel also secured funding for conferences during 2013 in Tokyo and in Seoul. Funding for an Indian scholar is also secured. Depending on further funding raised, a more permanent scholar working on Asia could be hired.

2. Global governance

Another consequence of the rise of emerging countries is that the old Quad (the EU, the US, Japan and Canada) that could once hammer multilateral trade deals at the GATT/WTO has less relevance. Partly as a result of this development, the Doha Round has become the longest-ever GATT/WTO multilateral trade negotiation and its conclusion is far from certain. Yet, in spite of this apparent weakness of the global trading system, WTO rules resisted the

recent economic and financial crisis, with relatively little increase in protectionism despite the current difficulties that compound the massive structural changes associated with the unprecedented (both in size and in speed) rise of emerging countries, in particular China. What explains this apparent paradox and whether it will continue in the future is the subject of the research project on the world trading system. Bruegel will also continue to follow G20 issues and contribute to it with comments.

One of the developments that the world trading system will need to deal with in the coming years is the fact that developed countries like those in the EU are introducing carbon emission controls without equivalent measures being taken by some major emerging countries such as China and India. This is bound to give rise to growing trade tensions and to border carbon adjustment measures on the part of countries that choose to introduce carbon emission controls. This topic is expected to yield results in 2013.

A further important topic concerns differences in monetary policy responses across the World. Here it is planned to work on one or more research pieces comparing central banking in Europe, the US and Asia

3. Major regional players

In the past Bruegel has devoted relatively little resources to the EU neighbourhood more generally including Turkey, Ukraine and others. An exception was the project on the Southern Mediterranean Countries that came in the wake of the Arab Spring. At the moment, Bruegel lacks resources to be able to contribute significantly to research on the EU neighbourhood. Yet there is little doubt that this is an important, perhaps even vital, issue for the EU both economically (linked to energy and migration issues) and politically (linked to the potential volatility of the region). As a result, Bruegel has decided to invest some effort in keeping abreast of developments in the non-EU Mediterranean region, covering not only the Southern Mediterranean Countries but also other Mediterranean countries, in particular Turkey. We will organize a workshop on Turkey and non-EU Mediterranean countries with a Turkish think-tank. Some fellows are scheduled to participate in regional events.

C. Research Area: Finance and financial regulation

Coordinator: Nicolas Véron

Participants:

- *Resident scholars: André Sapir, Nicolas Véron, Guntram Wolff*
- *Nonresident and visiting scholars: Michiel Bijlsma, Elliot Posner*

The proposals made here are in the continuity of Bruegel's research in this area in 2011-12. In parallel to the research endeavours described below, the successful Finance Focus Breakfast series of about-monthly events at Bruegel will be continued and help shed light on specific challenges for EU financial policy.

1. Financial Regulation in a Global Context

Bruegel aims at being seen as the leading European think tank for expertise on the global dimensions of financial regulation (possibly on a par with the London-based International Centre for Financial Regulation) and a leading think tank in this area globally (alongside Brookings and the Peterson Institute among others).

This involves a multifaceted analysis of technical, political, and institutional aspects of regulatory debates both at the global level (including the Financial Stability Board, the International Monetary Fund, and specialized standard-setters such as the IASB and Basel Committee) and at the level of key jurisdictions.

Building on previous research at Bruegel, a key focus will be on the scope and reliability of financial disclosures, and their role in the broader financial system. The challenges represented by conflicts of jurisdictions, regulatory arbitrage, competition among financial centres, and more generally the tensions between the internationalization of financial operations and the domestic scope of regulation and supervisions will be another, related, focus of attention. In terms of geography, attention will be devoted to developments in the United States and particularly in Asia, especially to the extent to which they provide relevant benchmarks for European regulatory discussions.

This research effort dovetails with Bruegel's broader work on the global dimensions of economic policy and related governance challenges, addressed under Research Area B of this Research Programme.

2. The transformation of the European financial system

The financial crisis since 2007 has redefined the terms of the policy debate on European financial integration, with contradictory trends of accelerated EU integration of financial policy, on the one hand, and partial renationalization of credit conditions, on the other hand. The main focus here is obviously the development of an integrated policy framework for banking in the euro area and beyond, now commonly referred to as "banking union". At an analytical level, Bruegel will aim at better mapping the European financial landscape and identifying evidence of recent trends affecting it; and at providing insight on the underlying factors, including political and institutional drivers. Reference to regulatory capture, financial repression, and the role of individual public authorities has become widespread in the analysis of the financial system in the United States, but comparatively little similar policy-oriented research is available on Europe.

The banking-sovereign nexus, at the core of the euro area's crisis, is a natural focus of attention. To address sovereign bond market stress, policy makers have embarked on a large

number of policy initiatives. Stress has, however, not come down enough to guarantee stability. A re-assessment of the factors driving sovereign bond markets is therefore needed. This project will monitor developments in the market and analyse the determinants of sovereign bond spreads.

As in previous years, this effort partly overlaps with other segments of Bruegel's research agenda. Specific attention will be devoted to the role of the financial system in the ongoing Eurozone crisis (under Research Area A) and the impact of financial system developments on Europe's long-term growth potential (under Research Area D).

D. Research Area: Competition, Innovation and Sustainable Growth

Coordinator: *Reinhilde Veugelers*

Participants:

- *Resident scholars: Benedicta Marzinotto, André Sapir, Nicolas Véron, Reinhilde Veugelers, Georg Zachmann, Mario Mariniello (new)*
- *Non-resident and visiting scholars: Philippe Aghion, Carlo Altomonte, Gianmarco Ottaviano, Dalia Marin, Bruno van Pottelsberghe, Karen Wilson (new), Michael Grajek (new)*
- *External contributors: Mark Huberty (Berkeley), EFIGE project team, SIMPATIC project team*

Bruegel has increased its resources to its “competition, innovation and sustainable growth” research area in 2012. It recruited a new Resident Scholar (Mario Mariniello), and two visiting scholars (Karen Wilson and Michael Grajek). A number of new projects will be started, particularly those involving the new recruits and their expertise. The set of new and continued projects will be somewhat differently structured than in the 2012 work programme, which was organised around five research avenues focusing on (i) innovation, (ii) Information & Communication Technologies (ICT), (iii) energy & climate, (iv) future of manufacturing and (v) firm internationalization. For the upcoming period, we propose to streamline the projects around the following research avenues: (i) Policies for innovation based growth; (ii) Sustainability; (iii) Globalisation and future of manufacturing; (iv) Firm internationalisation and competitiveness. ICT will continue to be on Bruegel’s radar screen as our research has clearly shown the pivotal role of ICT for growth, not only directly through from ICT sectors, but also indirectly through ICT enabled growth strategies in other sectors. It will be mainstreamed in our upcoming research, particularly in the research avenue “Policies for innovation based growth”.

1. Policies for innovation based growth

In comparison to the 2012 research avenue of “Policies for innovation in Europe”, the focus will shift more towards innovation based growth. This allows broadening the scope of subthemes to include the framework conditions needed to translate innovation into to growth. We will particularly investigate access to finance, regulations, competition policy, patents and IPR. In addition to the continuation of previous work, new research will be initiated on the following topics: entrepreneurship policies; competition policy instruments versus IPR regulation changes, the work on how innovation is treated in EU control as well as standard setting will continue and will be expanded to anti-trust, including the issues of market definition and IP policies. Mario Mariniello will further work on fines and deterrence in antitrust proceeding and explore room to improve the European Commission’s 2006 guidelines for setting fines. European venture capital and a socio-economic impact assessment of research policies are further important topics.

2. Sustainability

In this research avenue, the work on energy and environment will be continued and intensified. This includes a regular conference series on energy market developments as well as research on green growth and infrastructure in Europe.

3. Globalisation and the future of manufacturing in Europe

This important research avenue has been initiated in 2012, but will still continue to be on Bruegel’s work programme for the coming period. Particularly the work on the globalisation

and delocalisation of R&D activities towards Asia has made progress and is scheduled to result in a Policy Contribution by the end of this year. An additional dimension that will be initiated in the upcoming period is migration, particularly the migration of highly skilled, particularly students, researchers, inventors, entrepreneurs and the impact on host and home economies. Intra-EU and extra-EU migration will be looked at. Market and technology leadership in the EU remain of great importance to Bruegel research.

4. Firm internationalization and competitiveness

Competing in a globalizing environment, the manufacturing sector has been looking at improving the efficiency of its value chains, organizing them increasingly through outsourcing and offshoring. Production activities are offshored, in search for lower operating costs, but also increasingly activities higher up in the value chain, including R&D are offshored to emerging markets. The EFIGE project has reached its conclusion. A new project (MAPcompete), funded by an FP7 grant, has started and aims to derive suitable indicators of competitiveness based on micro economic data. Another specific study will analyse the determinants of the strength of the German industry with a view to draw lessons for other countries in the EU.