



2013-14 Research Programme



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Introduction

This 2013-14 research programme has benefitted from feed-back from Bruegel's membership. We have tried to be both ambitious and realistic. The programme is in many respects a continuation of the previous research programme. It remains centred on four broad, overlapping research areas, which should not be considered in a compartmentalized way. Nevertheless, it contains a number of important strategic re-orientations:

- Research in the area D "competition, innovation and sustainable growth" is streamlined especially around the issue of growth and competitiveness. This aims at increasing the visibility of Bruegel's research stream in the area.
- Research in this area will be better connected with the macroeconomic research area. One example is a project on long-term economic growth, which will combine micro and macroeconomic research. More initiatives in this direction are planned.
- Research output on global economics and governance was relatively weak in the last year, while conferences and outreach activities have been strong. It is aimed to strengthen research in this area. A visiting fellow will work on global trade issues but also provide an emerging market perspective on the TTIP negotiations.
- A project is planned to draw lessons from the Japanese banking crisis for Europe. A further important research topic is the economic consequences of low long-term interest rates.

The programme contains a number of further exciting research avenues: an evaluation of the banking part of the euro-area financial assistance programmes, a study on lessons for euro accession, a new "competition policy lab" conference series, research on competition policy and its impact on growth and competitiveness, the economic impact of the global energy price rift, and the financing of innovation and the acceleration of entrepreneurship. We also plan to expand our research on the future shape of the financial system. Finally, to coincide with the European Parliament elections in May 2014, and the subsequent appointment of a new college of European Commissioners, a memo setting policy priorities for the new Commission will be produced.

The programme was produced against the background of a number of considerations:

- Bruegel plans to hire a researcher in the macroeconomic research area following the departure of Jean Pisani-Ferry. The profile and ideas of the new researcher will influence the choice of projects in this area, and also Bruegel's ability to fully deliver the programme.
- Bruegel will produce a new, three-year strategic research plan early next year. This plan will also rely on discussions with the scientific council and the broader discussions with the review task force, which will deliver its final report in time for the December general assembly.

Another exciting research year is ahead for Bruegel.

Guntram Wolff, September 2013

A. Research Area: European macroeconomics

Participants:

- *Resident scholars: Zsolt Darvas, André Sapir, Nicolas Véron, Guntram Wolff, **new hire***
- *Nonresident and visiting scholars: Alan Ahearne, Shahin Vallée, tbd*
- *External contributors: Mark Hallerberg (Hertie School Governance)*

Largely due to the European Central Bank's Outright Monetary Transactions (OMT) and the first steps toward the establishment of a European banking union, financial stability concerns have greatly eased in late 2012 and 2013. Yet the euro-area crisis is far from over, as reflected in the continued weak economic performance, the very high unemployment in some parts of the monetary union, the weak credit performance and the fragmentation of financial markets. Unfavourable euro-area developments have negative repercussions for other EU member states. Consequently, in 2013-14 once again the bulk of our macroeconomic research effort will be focused on the euro area and the consequences and implications for the EU as a whole.

As in previous years, while addressing medium- and longer-term issues, Bruegel would like to keep a fair degree of flexibility in order to be able to respond to crisis developments and policy responses.

1. Macroeconomic policy and adjustments in EMU

Macroeconomic policies are a central part of Bruegel's research and work on the analysis of monetary and fiscal policies will continue. We are regular contributors to the monetary dialogue, i.e. the preparatory meeting of the European Parliament's hearing of the ECB president. We are also deeply involved in the discussions on appropriate fiscal policies in the EU. It is intended to continue with this work stream, also taking into account the most burning events. This includes a discussion about ECB monetary policy decisions, monetary policy differences in the EU, but also the appropriate fiscal policy exit or non-exit strategies. It also covers the question of monetary vs fiscal dominance.

The adjustment in the euro area is progressing, as reflected in reduced current account deficits and some correction of earlier real exchange rate divergences. But major challenges lie ahead, which justify the extension of previous Bruegel research. In order to investigate various issues related to macroeconomic adjustment and associated policies, we are planning to launch an umbrella project. Major issues are current account adjustments, competitiveness adjustments, the adjustment of external liabilities and assets, balance sheet adjustments, the possible role of intra-EU mobility (or immigration from non-EU countries) in the adjustment process to high unemployment rates, and financial conditions in the euro area, including financial fragmentation.

2. The evolving governance of the EU

This project aims to drive the further discussions on the evolving EU economic governance. The several pacts and treaties created a highly complicated economic governance system, whose effectiveness should be assessed, as well as the possible tensions between national parliamentary autonomy and EU coordination attempts. Key issues are the possible further developments of the EU's 'fourfold union', its relation to the EU budget, a possible reverse to a system with a larger national autonomy, and the relation between the euro area and the non-euro area countries.

One specific project will stand in the continuity of Bruegel's evaluation of the Troika programmes. The aim is to analyse the role and functioning of EU institutions such as DG Comp, ECB and ESM in the banking part of the financial assistance programmes of the euro area with the aim to derive lessons for the further development of the banking landscape.

3. The further enlargement of the euro area

The euro area continues to expand, yet the larger countries among the member states that joined the EU in 2004/07 are still outside and most of them seem undetermined about their entry date target. This project aims to draw lessons from the experiences of the first twelve euro-area member states, and the newcomers since then, for further enlargement. Issues to be studied are euro-area divergences relative to regional diversity within countries, the functioning of adjustment mechanisms within and across regions, the institutional implications of the surveillance, and the reassessment of euro area entry criteria.

4. Priorities for the new European Commission

In 2009, Bruegel published the volume "Memos to the new Commission- Europe's economic priorities 2010-2015", which included short memos addressed to the then forthcoming President and about ten Commissioners of the new European Commission. Following this 'tradition', we plan a similar project making suggestions on the policy priorities as well as organisation of the new Commission to take office after the elections to the European Parliament of May 2014. In connection to the memo, we will also review Commission policy in the last five years. The Memo would cover all research areas of Bruegel.

B. Research Area: Global economics and global governance

Participants:

- *Resident scholars: Zsolt Darvas, André Sapir, Nicolas Véron, Reinhilde Veugelers, Guntram Wolff,*
- *Non-resident and visiting scholars: Alan Ahearn, Suparna Karmakar*

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 spill overs from the US onto the rest of the world. This interdependence is a structural feature of the world economy that needs to be analyzed as such rather than simply in its short-term manifestations. 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. However, more recent market movements have triggered doubts about emerging market's economies ability to sustain long term growth trends.

In 2013/14, 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

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 2013/14.

Bruegel has managed to advance its leadership in this area and intends to become a globally recognized hub for Asia-Europe economic discussions and exchanges. Significant funds have been raised to allow for a visit of Chinese, Indian and Japanese scholars at Bruegel. Bruegel will co-organises a conference in Beijing and in Seoul in the fall of 2013 and a co-organization of another conference in Beijing is envisaged for the late spring of 2014. Depending on further funding raised, a more permanent scholar working on Asia could be hired. A research project on China is contemplated but a final decision on it will also depend on the emerging policy agenda as well as the hiring process.

Besides the China and Korea initiative, Bruegel has secured funding for a Japan-Europe work stream. This will include a research paper on lessons that can be learnt from the Japanese banking crisis for Europe's banking problem – a piece of work that will feed into the European financial debate. Moreover, a conference comparing Japan and EU on macro and structural features will be held on October 7 at Bruegel.

2. Global governance

In spite of the apparent weakness of the global trading system, WTO rules resisted the recent economic and financial crisis with still relatively little increase in protectionism. Yet, trade protectionist calls have become more vocal recently, in particular in the relation with China. Moreover, more bilateral trade agreements have been struck and numerous new negotiations have started. Bruegel intends to step up its research on trade issues. One of Bruegel's visiting scholars will work on the global trading system and the future of multilateralism. She will also engage in a project providing an emerging market perspective on the current TTIP negotiations.

Bruegel will re-vitalize its earlier work on G20 issues and contribute to it with comments in the form of the G20 monitor blog.

A further important topic concerns monetary policy across the World. One panel at Bruegel's annual meeting will be devoted to the topic of monetary policy in particular and depending on the new hire more resources will be devoted to research on monetary policy. In any case, a policy contribution on the consequences of low long term interest rate is planned.

3. Major regional players

Bruegel has devoted relatively little resources to the EU neighbourhood more generally including Turkey, Ukraine and others. 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. We also plan occasional blog pieces and commentary. Fund raising activities in this area will be stepped up.

C. Research Area: Finance and financial regulation

Participants:

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

The proposals made here are in the continuity of Bruegel's research. 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. The European Banking Union

The European banking union agenda is expected to be a continuously prominent item on the European crisis management and reform agenda. Building on substantive contributions to this debate since 2007, upcoming policy challenges will be analysed and recommendations formulated. The timeliness of contributions will continue to be central.

2. Global Accounting and Auditing Reform

Bruegel aims at being seen as the leading European think tank for expertise on the global dimensions of financial accounting and auditing. This involves a multifaceted analysis of technical, political, and institutional aspects of regulatory debates both at the global level 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. In terms of geography, attention will be devoted to developments in the United States and in Asia, especially to the extent to which they provide relevant benchmarks for European regulatory discussions.

3. 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.

At an analytical level, Bruegel will continue the work on 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. The project will monitor developments in the market and analyse sovereign bond spreads and the relationship to the banking system. A specific project exploring new developments in cross-border capital flows is also envisaged.

D. Research Area: Competition, Innovation and Sustainable Growth

Participants:

- *Resident scholars: Reinhilde Veugelers, Georg Zachmann, Mario Mariniello, André Sapir,*
- *Non-resident and visiting scholars: Philippe Aghion, Carlo Altomonte, Gianmarco Ottaviano, Karen Wilson*
- *External contributors: SIMPATIC project team*

Bruegel's work in this research area is guided by one leitmotif: economic growth and competitiveness. The weak growth performance in Europe – both before and during the crisis – calls for a radical re-think of Europe's growth strategy. This requires analyzing on the one hand the macro-economic burden on growth and on the other hand the microeconomic and structural impediments to competitiveness in all of their various dimensions. It is intended to increase the joint projects between micro economic researchers and the macroeconomic researchers in the Bruegel team. The resources in the "competition, innovation and sustainable growth" research area have been significantly increased in 2012 with the recruitment of a new Resident Scholar (Mario Mariniello) and a visiting scholar (Karen Wilson). The team's multiple skills allow addressing various dimensions of the structural impediments to economic performance: innovation policy, competition policy, entrepreneurialism, energy policy.

1. Long term economic growth and Europe's competitiveness map

With the crisis, the level of potential output has shifted downward in many advanced countries and in most of them the potential growth rate is also reduced. Beyond the short/medium term growth challenges, a crucial question is the assessment of the long-term growth potential. Bruegel will contribute to this important topic by assessing the very long term drivers of growth. A further research project, MAPCOMPETE, funded by FP7 resources, will produce a European competitiveness map.

2. Innovation and entrepreneurship – keys to economic growth

A further important research strand is on entrepreneurship and innovation. The different projects look into the reasons for Europe's weak innovation performance, into the missing funding for innovation and young corporations and into the regulatory and administrative barriers holding back entrepreneurship in Europe. One larger project, called SIMPATIC, is funded by the European Commission and develops a comprehensive and operational tool box allowing for a better assessment of the impact of research and innovation policies in Europe. Finally, a project is planned to assess the right approach to policies for green innovation.

3. Entry & competition as drivers of growth & competitiveness

A third research focus is on the link between competition policy and growth and competitiveness. A number of projects are planned. One project assesses domestic competition, industrial policy and global competitiveness both in the EU and in comparison to major countries elsewhere, a second one looks into IP rights and the extent to which antitrust enforcement can help small innovators. Finally, collusion as a burden on growth in Europe is investigated and an industry level assessment of EC anti-cartel enforcement is envisaged.

4. Policies and governance mechanisms as growth barriers

A fourth research avenue explores policies and governance mechanisms that can be seen as growth barriers. One innovative new project studies options to render models used by policy makers more accessible to a broader technical audience in order to increase objectivity of decision making. A further project explores ways of how to foster competition in public procurement within the Single Market. Finally, the economic impact of the global energy price rift, which is partly induced by policy choices, is investigated.