

## 2009 Research Programme

The policy agenda in 2009 is dominated by the crisis and its wide-ranging implications at national, European and global levels. Even more than in normal times, timely and innovative input into the policy discussion is expected from Bruegel. Our research programme must reflect this.

This requires anticipating what topics may come to dominate the policy agenda. As the crisis spills over from the financial sector to the whole economy and from the advanced economies of the US and Europe to the whole world, the range of issues for consideration is definitely broader than in 2008. In deciding which it intends to investigate as a priority, Bruegel needs to be strategic and make choices that take into account the demands expressed by its members while building on comparative advantage. We need also to hold the course on medium-term research goals and invest accordingly in knowledge, expertise, data and methods, while responding to the change of context and the resulting demands on policy.

However, we must also be prepared for the unexpected. In order to contribute usefully to new policy discussions, Bruegel must be flexible and able to redirect resources to priority issues when they emerge, as we did in 2008. This may require postponing the completion of some projects but, in order to minimise potential disturbances in the work programme, a better solution is to keep a margin of resources in reserve, to be used in light of unforeseen economic and policy developments. This is in any case sound practice in normal years, and the crisis has only underscored the need for flexibility.

This strategy implies being hard-headed about the key investments to be made, whatever the circumstances. We need to keep a focus on the big questions that remain on the agenda, irrespective of the crisis, but which may be influenced by it. Climate change is an obvious example here.

Bearing in mind the above, the research programme for 2009 is organised under three main headings:

- A. ***Immediate options for crisis management.*** Projects addressing the immediate policy choices at European and global level, as well as participation in policy-oriented debate on crisis developments and policy options.
- B. ***The crisis and the reshaping of the world economy.*** Projects designed to identify the major channels through which the crisis will affect the future and how immediate policy choices made under pressure of time may subsequently affect economic and policy developments in the decades to come.

**C. The longer term challenges.** Projects grouped under this heading represent ongoing investment in areas where Bruegel has or intends to build comparative advantage and contribute whatever the immediate economic circumstances.

In addition we are planning a **special project**: a series of ‘memos’ to the next Commission (and the next Parliament) that will draw on Bruegel research and institutional expertise and set out key choices for those who will govern the EU in the next five years.

In comparison to the previous years, we have also reduced the number of projects to 10 (instead of 22 in 2008). Projects therefore consist of broad sets of issues we commit to cover rather than of roadmaps for individual researchers. This is, first, intended to make the research priorities clearer and the programme easier to read and summarise. Second, going for a more limited set of projects will ensure a better combination of commitment and flexibility, as most of the flexibility will be drawn from within projects.

Table 1 below gives the broad structure of the research programme.

**Table 1. Structure of the Research Programme**

<b>A</b>	<b>Immediate options for crisis management</b>
<i>A1</i>	<i>Policy options at European and global levels</i>
<b>B</b>	<b>The crisis and the reshaping of the global economy</b>
<i>B1</i>	<i>Short-term remedies and long term growth</i>
<i>B2</i>	<i>The rebuilding of the European financial system</i>
<i>B3</i>	<i>The crisis, integration and convergence within Europe</i>
<i>B4</i>	<i>Post-crisis globalisation</i>
<b>C</b>	<b>The longer-term challenges</b>
<i>C1</i>	<i>Climate change, growth and competitiveness</i>
<i>C2</i>	<i>Innovation</i>
<i>C3</i>	<i>Globalisation and the internationalisation of European companies</i>
<i>C4</i>	<i>The future of the EU policy system</i>
<b>Special project</b>	<b>Memos to the next Commission</b>

The ten proposed projects span all five areas according to which Bruegel research was organised in 2008 and it would be possible to follow the traditional presentation<sup>1</sup>.

Research programming within the Bruegel team involves a larger number of related sub-projects designed to address the questions raised in each of the ten projects.

## **A. Immediate options for crisis management**

### ***A.1 Policy options at European and global levels***

Research in 2008 already contributed to policy discussion on the priorities of, and options for, crisis management, especially on banking regulation and supervision, the design and evaluation of stimulus packages, and the relations between the euro area and the non-euro

<sup>1</sup> The five areas in 2008 were *Growth Drivers for Europe ; Europe and the Global Economy; Companies and Competitiveness; Institutions and Policies; Interdependence and Regulation.*

new member states<sup>2</sup>. It is intended to continue with this agenda by updating our quantitative assessment of the fiscal response in the first half of 2009.

This implies a fast response strategy in order to be able to build on our research to provide inputs into the policy discussion as it develops.

Specific dimensions of the actual and potential European and global policy responses to be explored:

- Global macroeconomic, regulatory and trade-related responses, and implications for the definition of exit strategies;
- Specific risks for EMU arising from the disparity of situations and responses and the governance of the euro area, and strategies for responding to potential crises within it;
- Crises in the new member states and responses to them at multilateral and European levels (including as regards EU assistance and strategies for euro area enlargement).

Considerable flexibility must be retained for this project in order to be able to contribute to the policy discussion as it develops and to respond to new developments and suggestions from policy makers.

*Coordination: Jakob von Weizsäcker*

## **B. The crisis and the reshaping of the global economy**

### ***B.1 Short-term remedies and long-term growth<sup>3</sup>***

Choices made under the pressure of time when managing crises often have lasting consequences. Especially, they can affect potential output growth in the medium term through a variety of channels:

- The content of stimulus packages, that can focus on either traditional or new sectors;
- The impact of the crisis on both public and private R&D and innovation;
- The functioning of capital markets and the risk of discriminating against younger companies;
- State aids to banks and companies, that can preserve valuable productive assets and skills but also curtail the reallocation of capital and labour to more productive uses;
- The risks of fragmentation of the single market;
- The functioning of labour markets;
- International trade and FDI that risk being disproportionately affected.

The project aims to assess the relative importance of these channels and at providing guidance to policy choices, highlighting the potential inter-temporal trade-offs at work.

Of related interest is the consequence of the crisis for the sustainability of public finances. Many countries will emerge from the crisis with significantly higher debt ratios – in some cases much higher ones – than in 2007, roughly at the time when demographic ageing will start weighing heavily on public finances. What the implications of this situation are, and how it can be remedied through appropriate exit strategies, will be a key issue for the years to come, to which Bruegel intends to contribute.

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<sup>2</sup> Not to mention earlier papers that discussed the ability of the EU to deal with what were then potential crises, such as the Policy Brief *Is Europe Ready for a Major Banking Crisis?* (August 2007) and the Blueprint *Coming of Age: A Report on the Euro Area* (January 2008).

<sup>3</sup> This project is being conducted in connection with the Czech presidency of the EU.

*Coordination: Bruno van Pottelsberghe*

### ***B.2 The rebuilding of the European financial system***

Governments and public agencies have embarked on unprecedented initiatives at national and multilateral levels to intervene in the banking system, limit the economic impact of banking dysfunction, and redefine rules for the world financial industry.

At global level, a major debate has started about the reasons for the regulatory failures that have contributed to the financial crisis and the nature of desirable responses. What were the respective roles of macroeconomic and regulatory factors? Was the absence of regulation and an excessive emphasis on self-regulation to blame? Did ill-designed regulation contribute to the mispricing of risk? Or was the failure mainly one of enforcement?

In Europe, large-scale intervention at national level raises questions about the future of financial integration within the framework of the single market. Risks of fragmentation are apparent and it is not clear how best to address the tension between national supervision and cross-border integration.

This project aims to contribute to the discussion on the future rebuilding of the global and European financial systems. It will assess the strategies for large-scale bank bail-outs or nationalisations, and eventual exit thereof. Besides their fiscal and monetary implications, questions raised by current government intervention are: what do past experiences tell us about the best way to handle nationalised banks and to move away from heavy government involvement in the banking industry? And what is the scope for EU- or EMU-wide coordination of exit strategies?

The project will also address the relationship between financial regulation and supervision and the likely evolution of the structure of the European banking industry.

*Coordination: Nicolas Véron*

### ***B.3 The crisis, integration and convergence within Europe***

The successful integration and catching-up of the economies of Central and Eastern Europe was accompanied by large-scale capital flows from west to east and in several cases by significant labour flows from east to west. With the drying up of capital flows and the reversal of migration flows, the crisis now highlights vulnerabilities in this pattern of integration and raises issues about the future growth model of the post-transition economies.

Research in this field will first shed light on the role of labour mobility in the process of adjustment to the crisis and will discuss the implications of cyclical migration for home and host countries. The factors behind capital inflows and their reversal will be analysed in the light of international comparisons. Budgetary policy reactions of various governments will be studied and evaluated and suggestions for fiscal policy will be formulated from a more normative perspective. It will also assess the longer-term implications of the crisis for the post-transition economies. It will evaluate the sources of economic prosperity for these countries in recent years, assess the future prospects of these sources, and gauge the possible effects of these factors on future economic outcomes<sup>4</sup>.

*Coordination: Zsolt Darvas*

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<sup>4</sup> Research in this field is conducted in connection with the Czech presidency and the European Bank for Reconstruction and Development.

## ***B.4 Post-crisis globalisation***

How the crisis will transform globalisation in the coming years is a major question for analysis and policy. Trade and capital-market integration have been key channels of transmission and acceleration of the turmoil, calling into question excessive dependence on external savings or export-led growth. Discussion has started on the redefinition of the rules of the game at global level, especially within the framework of the G20, but responses are also being developed at national or regional level, not least in a context transformed by the arrival of a new US administration whose views often differ significantly from those of the previous one.

This project will aim to contribute to the reflection on the future of globalisation and address several dimensions of the issue:

- Risks to trade and financial globalisation;
- The design and governance of global regulation;
- Transatlantic relations and the risk of EU-US divergence;
- The discussion on national varieties of capitalism;
- The implications of the crisis for the major emerging.

The project will draw conclusions from this analysis for the transatlantic agenda. It will seek to define criteria for assessing which countries or regions could emerge from the crisis as winners or losers. Building on the dialogue initiated in 2006 within the framework of the Asia-Europe Economic Forum, Bruegel will also seek to foster research-based policy discussion with emerging countries.

*Coordination: Zsolt Darvas and Nicolas Véron*

## **C. The longer-term challenges**

### ***C.1 Climate change, growth and competitiveness***

Climate change is a field of major importance where Bruegel will invest and adopt a strategy in order to be able to make a distinctive impact. Whereas there are many aspects of the issue that deserve investigation, a particularly promising one is the relationship between climate change, growth and competitiveness. It is of major importance in view of the discussion on the costs and benefits of policies designed to abate greenhouse gases emissions. It is of particular relevance to Europe, which has taken the lead on the climate front. And it is of particular relevance in the context of the crisis, as a debate has started between those who claim that the greening of growth is part of the solution to current economic difficulties and those who argue that crisis-ridden economies cannot afford the luxury of creating a further drag on growth.

Research will aim to clarify whether and under what conditions climate policies can be expected to make a positive contribution to growth and how the design of emission control strategies (e.g. cap and trade versus taxes) can affect incentives to innovate and the adoption of new technologies.

The competitiveness component will be approached through the traditional cost angle but also in a more forward-looking manner through assessing what scientific, innovation and enterprise-creation potential tells us about the ability of various regions and countries to transform climate-related constraints into a competitive edge.

The global dimension of climate policies will also be investigated in the context of the pre-Copenhagen discussions.

*Coordination: Reinhilde Veugelers*

## **C.2 Innovation**

Bruegel research on innovation, a key issue for Europe, took off in 2008 with the publication of the Policy Brief on R&D, the Blueprint on universities and the (soon to be released) Blueprint on patents. It is an area where it is intended to invest further in order to deepen and broaden the scope of Bruegel's expertise.

Of the many possible approaches to the topic, two are proposed as priorities for 2009. One is the assessment of Europe's innovation and its 'ecosystem'. A case in point is ICT. Europe has always had a difficult position in ICT, both in terms of performance of ICT sectors and as regards productivity growth from ICT absorption and use. The goal here is to focus on the ICT ecosystem (with its various layers: (i) platform, content and application; (ii) network operators and (iii) network elements) and to use this approach to assess the innovative performance of the EU relative to US and Asia. Further applications of the same approach could later be used for other industries, e.g. life sciences.

The other approach is to assess the role of Young Innovative Companies (YICs). In search of explanations for persistent gaps in innovative performance relative to US, European policymakers often refer to the lack of young, dynamic enterprises. But unfortunately, there is little empirical evidence on them. Are they more radical in their innovative activities? Are they stirring and complementing the innovative behaviour of other larger companies? These questions entail analysing their innovative activities, cooperation arrangements and financing strategies in more detail. Research will draw on the best existing national data and seek complementarity with research on the internationalisation of European companies (C3).

Both research avenues are expected to shed light on the relationship between regulation, investment and innovation (possibly also employment) and thereby to contribute to what is a central European policy discussion.

*Coordination: Bruno van Pottelsberghe and Reinhilde Veugelers*

## **C.3 Globalisation and the internationalisation of European companies**

Bruegel has now acquired expertise and recognition in the use of firm-level data to analyse the internationalisation and competitiveness of European companies. This first and foremost applies to the large-scale EFIGE (European Firms in a Global Economy) project led by Bruegel and financed by the European Commission, which will acquire a new dimension in 2009 with the conduct of a multi-country survey. But other research by Bruegel fellows has adopted comparable approaches.

After the publication of a Blueprint on the effects of the euro on international trade in February 2009, the partners in the EFIGE consortium will concentrate on the preparation of the survey. After the data become available at end-2009, research will develop in several directions such as the relationship between internationalisation, innovation and productivity, skills and internationalisation, and the role of financial constraints.

Other components within this project include the continuing investigation into executive pay and the international footprint of European corporate champions, as well as research on the transplantation of business models by European multinationals.

*Coordination: Dalia Marin and Gianmarco Ottaviano*

#### ***C.4 The future of the EU policy system***

Following-up on earlier research, Bruegel contributed in this field in 2008 with publications on the euro area and the structural funds, as well as through participation in numerous discussions on the EU budget. However, the publication of research undertaken on the future of the EU budget and on policy evaluation in the EU was delayed, in part because resources were diverted to research into crisis related issues and in part because at EU level, the whole process of discussion of the EU budget has itself been delayed.

Priorities for 2009 are, first, to complete research undertaken on the EU budget and policy evaluation, in time to contribute to discussions on the future of the EU budget that are expected to develop under the Swedish EU presidency later this year. Bruegel's aim is to make proposals that will contribute to broadening the scope of policy options. A further topic to be addressed is the future of the Lisbon strategy post-2010, an issue that is also expected to be of interest for the Swedish presidency.

The project will also include a comparative analysis of the policy responses to, and implications of the crisis in the EU and the US.

*Coordination: Indhira Santos*

#### **D. Special project: Memos to the next Commission**

Several factors are likely to lead to calls for redefining European priorities during 2009: the current crisis context; hopefully a new treaty that will bring stability to institutional arrangements; a new Parliament and a new Commission. Bruegel should seize this opportunity to contribute to the setting of the European agenda for the coming few years.

A concise, policy-oriented report for publication will be prepared by Bruegel scholars in mid-July, shortly after the European Parliament election. This report will take the form of a series of memos to the new Commission President and the new Members of the Commission in charge of the portfolios. Each memo will briefly summarise the current state of affairs, examine the new challenges and propose an ambitious but do-able policy agenda.

*Coordination: André Sapir*