

A MANIFESTO FOR ECONOMIC RESEARCH IN EUROPE



**PROPOSED BY
THE MEMBERS OF THE COEURE EXECUTIVE COMMITTEE**

RICHARD BLUNDELL, UNIVERSITY COLLEGE LONDON
ESTELLE CANTILLON, UNIVERSITÉ LIBRE DE BRUXELLES
BARBARA CHIZZOLINI, UNIVERSITA BOCCONI
MARC IVALDI, TOULOUSE SCHOOL OF ECONOMICS
WOLFGANG LEININGER, UNIVERSITY OF DORTMUND
LASZLO MATYAS, CENTRAL EUROPEAN UNIVERSITY
RAMON MARIMON, EUROPEAN UNIVERSITY INSTITUTE
FRODE STEEN, NORWEGIAN SCHOOL OF ECONOMICS



ABSTRACT

The purpose of the COEURE project has been to evaluate the strengths and weaknesses of European research in economics. Based on the outcomes of this project, this Manifesto outlines the present state of European research in economics, identifies promising research avenues and proposes objectives and recommendations for fostering its efficiency and increasing its impact.

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MOTIVATION

While economics often features in headlines with positive connotations, economists receive less favourable coverage. Indeed, economists are often stereotyped as cold and inscrutable people, far from human realities, always conflicted, troublesome and slaves to greedy lobbies. Their field, which they consider a science, is supposed to never produce clear policy recommendations. People are quick to blame economic and financial crises on economists and their theories more than on human (and political) error and greed, while they recognise that the devastating effect of volcano eruptions and earthquakes should not be blamed on geologists and their theories, but often on human (and political) error and greed.

Yet economists have made tremendous progress. Beyond their petty squabbling, they have integrated in their models public goods, externalities, congestion, network effects, coordination costs, information asymmetries, self-fulfilling expectations, risk, imperfect competition, and many other dimensions of human behaviour. They have the courage to tackle and dismantle the pitfalls of the formerly presumed perfect markets. They have launched bridges to psychology, history, sociology and political sciences. Due to the renewal of analytical methods, the new tools that IT has made readily available and the unparalleled development of databases, economists now offer powerful interpretations

of the phenomena that human societies are facing, often defying conventional wisdom. Although most economists were unable to predict the 2008 crisis, nobody would have known what its outcome was to be without the lessons of economic science. The situation could have been worse without the prompt understanding of events that the recent progress of economic research has enabled.

If economists evoke these mixed feelings of misunderstanding, fear and even disrespect, this could be because they have failed to make sufficient effort to explain economic issues to their fellow citizens possibly because they are mostly driven by the delights of their debates in their own “secretive” jargon.

All stakeholders in Europe seem to share this picture of economists. Is this because economic research in the EU is lagging behind that in the U.S.? As this research shows, Europe has recently become more productive and economic research in the EU is catching up with the U.S. However, we still have a long way to go before boasting as many Nobel Prize winners as the U.S.

The purpose of the COEURE project (<http://www.coeure.eu/>) has been to evaluate the strengths and weaknesses of European research in economics. Based on the outcomes of this project, this Manifesto outlines the present state of European research in economics, identifies promising research avenues and proposes objectives and recommendations for fostering its efficiency and increasing its impact.

RESEARCH IN ECONOMICS IN EUROPE

During the 1970s and 80s there was considerable alarm in Europe at the extent of academic brain drain to North America. US universities had forged a new approach to graduate education after WW2. This, along with the establishment of funding agencies such as the National Science Foundation, reversed the academic flow from North America to Europe, which had been characteristic of the first part of the twentieth century. Fellowships and assistantships attracted Europeans to undertake graduate work in North America. A growing and flexible system of higher education in the U.S. offered many opportunities to students, and after graduation many of the best were retained.

Funding constraints and rigidities at European universities also contributed to many senior academics' departure from Europe to North America during the 1970s and 80s. These trends were particularly evident in economics and raised concerns about the extent to which European universities could retain and sustain a critical mass of leading researchers. Forty years on, the good news is that 40% of

the top quartile of economics departments in the world are located in Europe¹. Two factors have contributed to this positive outcome: innovative clustering creating a critical mass of scale, and the evolution of funding opportunities nationally and at EU level.

Clustering has happened in three ways: firstly, large research centres with full-time employees have been established; secondly, large university departments of economics have grown employing full-time academics whose main commitment is to their departments, and finally, extensive networks have been built that enable collaboration around research programmes but do not directly employ researchers. It is only in Germany and in multilateral bodies such as ECB and OECD that we see large dedicated research centres. Evolution and change in recent decades has occurred in the other two types of clusters.

Historically, large centres of economics activity existed in the UK. In recent decades, however, concerted initiatives have resulted in the growth of a number of university based clusters also in Continental Europe. These clusters combine graduate education and research publication. Furthermore, these graduate programmes in economics are also part of existing European PhD networks.

The third form of cluster involves networks centred around research programmes. Some clusters have made significant advances over the last few years. Researchers from a variety of universities have joined forces to work together on thematic areas, identifying their affiliation in publications by their participation in these networks. Generally, this means that the networks have accounted for a 10 to 15% of author share.

1. Top 25% Economics Departments, as of September 2015 <https://ideas.repec.org/top/top.econdept.htm>.

These innovations have frequently been driven by visionary leaders supported by private funding that complemented public investment in core facilities. The growth of public sources of research funding through national funding agencies – often in the form of support to ‘Centers of Excellence’ – and at the EU level has helped sustain these innovations. In particular, the latter sources have assisted in creating structured PhD programmes that have acted as “laboratories” for a critical mass of research in economics.

Changes in the nature of public funding, particularly an increased focus on prioritisation linked to impact, as well as a move towards allocating a greater share of funding in a thematic fashion, pose challenges for the continued evolution of economics research in Europe.



STRATEGIC OBJECTIVE

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Objective 1

Foster Long-term Research Capacity

WHY ?

Ensuring long-term research capacity for economic research in Europe requires that we continuously enhance, improve and expand the production line or chain of economic research to:

- Catch up with the US in terms of productivity and impact;
- Address the long list of policy challenges and open research questions;
- Develop technical tools and build databases to push the frontiers of economic research;
- Address the growing demand for economic analysis and knowledge in society;
- Strengthen the research career in economics: PhD and post-doctoral programmes and mobile and competitive tenure track careers.

ACTIONS

All actions that could impact the production process of economic research as provided below will contribute to shifting the production function of economic research upward, making it more productive (e.g., producing more articles in economic journals) and more efficient (e.g. increasing the conversion of resources into research outputs) but also, and importantly, increasing its quality (e.g., delivering articles in the best scientific journals).

THE ACTIONS DETAILED BELOW CONCERN :

- The design, development and availability of data
- The outreach of economic results and policy recommendations drawn from the most up-to-date economic research
- Features of available funding devices and their capacity to support innovative funding schemes
- Preservation and support of basic research in economics, not only research that deals with applied analysis or current issues
- Support for the development of high quality PhD programmes in economics in European universities. This includes increasing funding opportunities for qualified PhD students and expanding their training in terms of research dissemination. An evaluation of the Bologna process for the 3rd cycle should be carried out
- Support for the career development of junior researchers in economics, through e.g. the development of an efficient European-wide academic job market for economists, the provision of mentoring and networking opportunities, a better understanding of the career paths of junior economists in Europe (e.g., alongside the lines of the European Science Foundation's pilot study on the Career Tracking of Doctorate Holders)
- Fostering the development of a research dialogue with other social sciences, while at the same time respecting the constraints and incentives of individual disciplines
- Coordination of European research policy with Member States' research policies



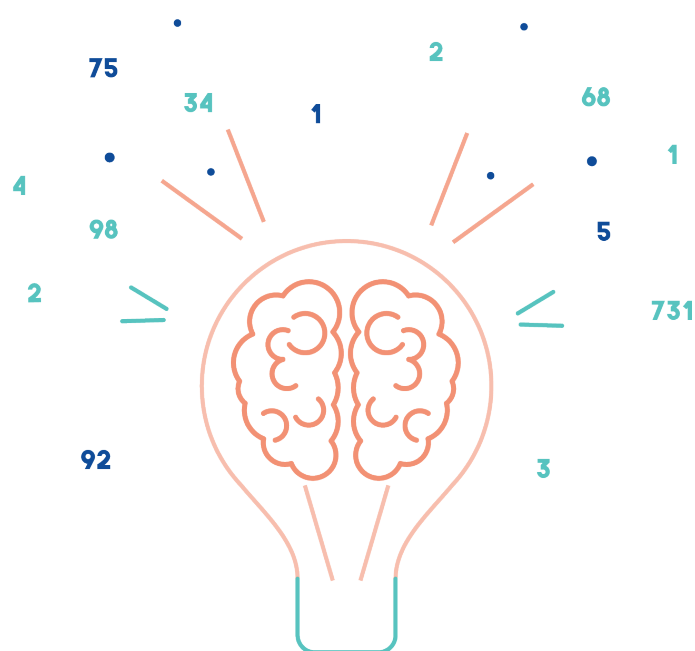
Objective **2**

Establish Europe as a Data Power-house for Research and Policy Analysis

The past 20-30 years have witnessed a steady rise in empirical research in economics. This evolution has been enabled by the increase in the quantity, quality and variety of data used in economics, and also thanks to the development of computing capacities, computer technologies and statistical/econometric methods. This revolution has led to significant intellectual breakthroughs and is key support for the development of evidence-based policy. Equally importantly, the availability of better, more comparable (e.g. across countries), or more accessible data is central to our ability to satisfactorily address the remaining open questions in key policy areas, and to European-based researchers' ability to carry out cutting edge research.

RECOMMENDATION 1

FACILITATE DATA ACCESS FOR RESEARCHERS



WHY ?

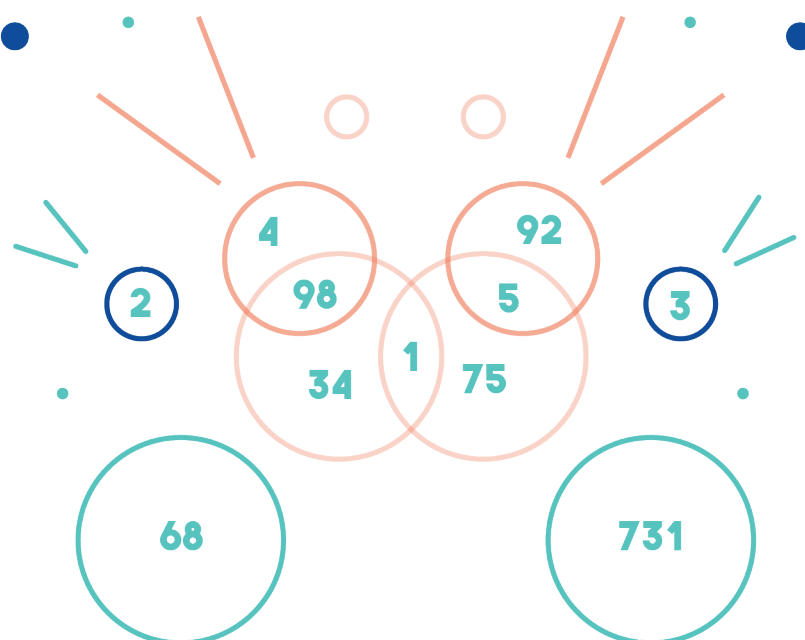
Data collected and administered by public institutions and governments, covering entire populations rather than samples could generate new robust scientific insights, with significant social value. Ensuring researchers have access to these data will provide European-based researchers with a significant competitive edge in the creation of new knowledge.

ACTIONS

- Introduce mandates for statistical agencies, including Eurostat and data intermediaries, to service researchers
- Build capacity of research institutions to support researchers' efforts to access data (research training, legal advice on NDAs, IT infrastructure that meets the required security standards, etc.)
- Work to secure legal access to personal data for scientific purposes at national levels
- Introduce provisions in all European and national legislations to secure researcher access to the data produced in the course of the implementation of those legislations, as done in Nordic countries
- Clarify the legal framework for access to confidential data across borders
- Promote Open Data for non-confidential administrative data and other public data
- Work on removing non-legal barriers that make access to data costly and time-consuming for researchers

RECOMMENDATION 2

IMPROVE DATA DESIGN AND DATA HARMONISATION



WHY ?

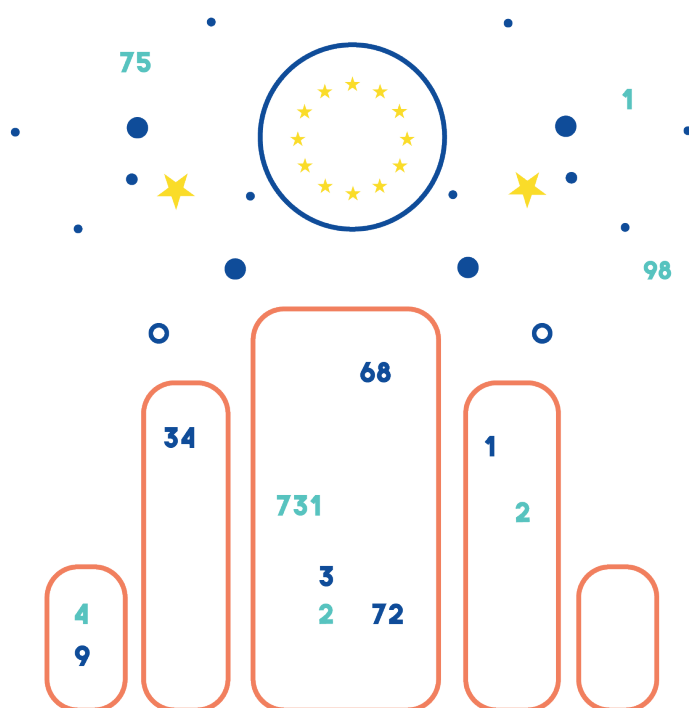
In spite of the progress made through European agencies (Eurostat) and other institutions (ECB), data collection is still predominantly organised at the national level, whereas, e.g., firms largely operate across boundaries. Likewise, some firms operate through a number of subsidiaries and other legal entities, but existing statistical systems do not account for these interdependencies. Last but not least, firms do not always have the same identifiers across datasets covering different dimensions of their activities. This issue also concerns household data when, for instance, dealing with the fairness of labour markets at the European level. Ensuring that data structures reflect the complexity of economic systems is critical to a sound understanding of the economy.

ACTIONS

- Promote cross-country data harmonisation
- Mandate common metadata and linking of existing business data across Member States
- Modernise national data collection and production systems
- Involve researchers in data design

RECOMMENDATION 3

SUPPORT ECONOMIC DATA INFRASTRUCTURE IN EUROPE



WHY ?

A number of researchers are involved in the collection of large-scale data, which they turn into publicly available databases. Because their design is not driven by compliance or administrative motives, they have often analysed new issues and data providing huge benefits for the research community and policy, as in the case of the Survey of Health, Ageing and Retirement in Europe (SHARE). Moreover, the scientific value of large-scale data often grows with their time coverage, a striking difference with datasets in the hard sciences where the underlying reality is not changing or is not the object of interest.

ACTIONS

- Design funding instruments that meet the needs of the diversity and specificity of data in economics, in particular that ensure stable funding for key longitudinal datasets
- Ensure that publicly funded large-scale data collection projects include plans for data maintenance
- Secure stable European-level funding for cross-national data collection efforts
- Establish best practice guidelines for data collection and recording that all economic agents can use. This would facilitate the dissemination and the use of multiple databases collected by institutions, firms, etc



Objective **3**

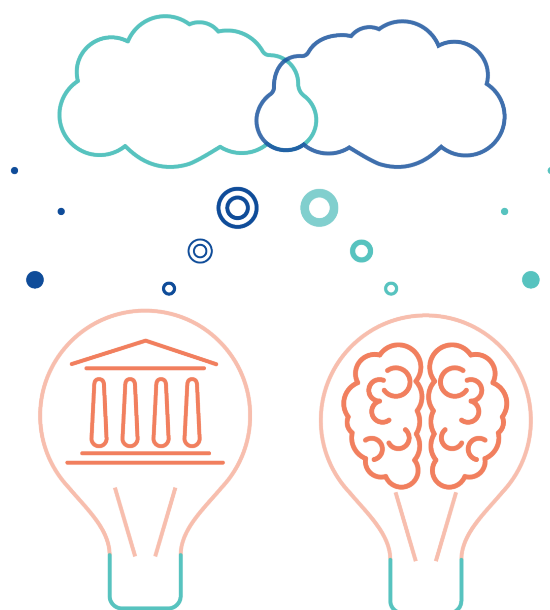
Reinforce outreach of economic knowledge

There is a distance between European economic research and both policy makers and the general public in terms of sharing economic knowledge and information. Action must be taken to reduce this gap, which is probably wider than in the U.S. This would enhance the efficacy of economics in its advisory role and in inducing sounder economic decisions at any level of political and economic activities.



RECOMMENDATION 1

ESTABLISH A CONTINUING DIALOGUE BETWEEN THE RESEARCH COMMUNITY AND THE POLICY COMMUNITY



WHY?

Policy makers' and researchers' time horizons and objectives are different. Economists may have strong beliefs about the desirable policy and advocate for a particular policy agenda. As the academic process ensures the discussion and evaluation of diverse views, ideology usually does not endanger scientific discovery. In policy analysis, however, it is important to provide an impartial and credible summary for policymakers, who have limited time to review all the competing views. Policy makers, in turn, need immediate answers to contingent problems that economists may not immediately have. This does not mean that the dialogue between these two actors is undesirable. On the contrary, a stronger dialogue between the two communities is the best guarantee to ensure rapid dissemination of research results into policy-making and to foster the creation of new knowledge in policy-relevant issues. For example, this dialogue already exists and has proved very useful in some areas, notably in macroeconomics and finance, where the ECB and other Central Banks' research centres have been a bridge between academic research and economic policy.

ACTIONS

- Organise regular high-level policy-research workshop series, as outlined in COEURE and similar experiences, with leading academics and policy people on specific topics
- Finance the production of policy reports or insights to facilitate communication between academics and policy makers
- Institutional funders of research could also be involved and act as mediators between the two parties

RECOMMENDATION 2

ESTABLISH A FORMAT FOR COMMUNICATION FOR THE GENERAL PUBLIC



WHY?

Citizens will support research if they understand its value for society. Moreover, economic expertise also has a role to play in informing the public on key policy issues, as we have witnessed in the context of the Brexit campaign, where experts had little voice.

ACTIONS



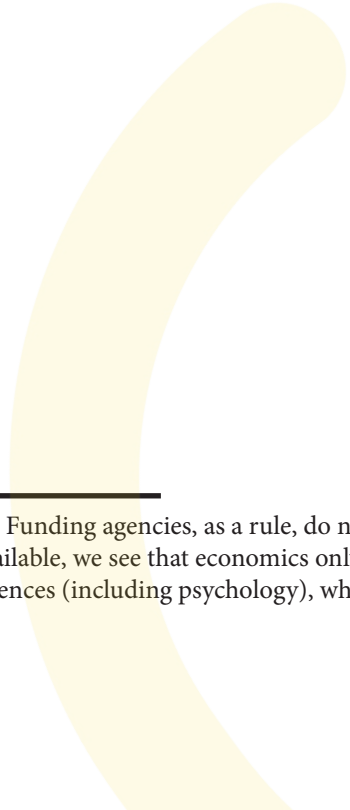
- Initiate a public lecture series alongside policy-research workshops
- Promote activities for wider dissemination through the media (e.g. VoxEu), social media, economics fairs (e.g., the Trento festival of economics)
- Promote the teaching of economics and statistics in higher education



Objective 4

Enhance research funding

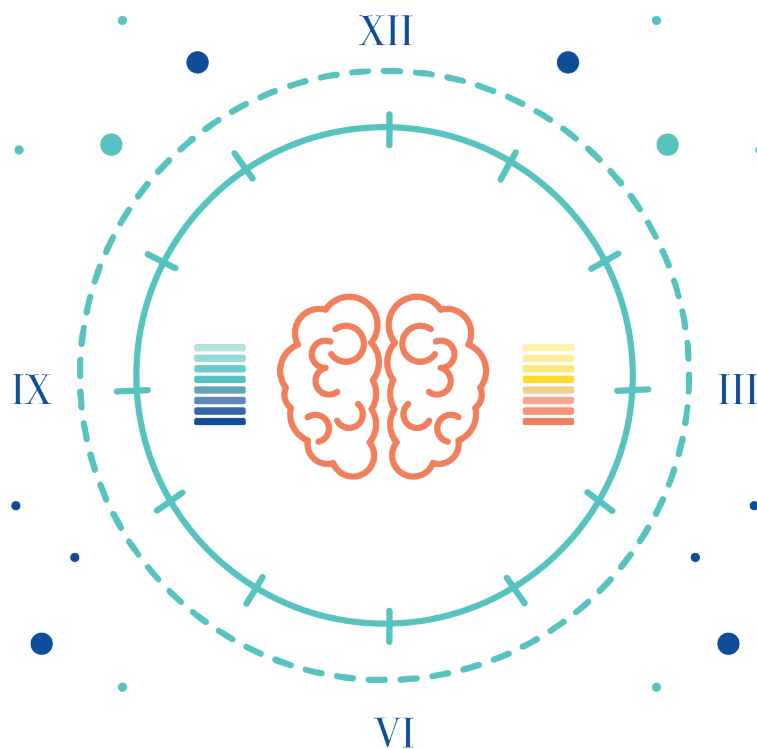
In Europe, the volume of funding for economic research is small relative to the funding of other sciences, even other social sciences². To increase the productivity and foster a larger economic and social impact of economic research, we need to attract more and more successful applications by economists to funding agencies. Moreover, time is one of the most important factors in producing relevant research. Given that time is costly, multi-year funding becomes a vital element in ensuring that European economists bridge the gap with U.S. economists. It is crucial to have efficient mechanisms for research funding. To support research, funding in economics should be comprehensive and inclusive, which does not exclude funding research on specific challenges.



2. Funding agencies, as a rule, do not publish data on disciplinary performance. In the case of Austria, where data is available, we see that economics only attracted 2.2% of research funding in the period 2009-2014 compared to social sciences (including psychology), which attracted 3.8% (FWF : Austrian Science Fund).

RECOMMENDATION 1

EVALUATE QUALITY/PRODUCTIVITY OF RESEARCH ON A REGULAR BASIS



WHY?

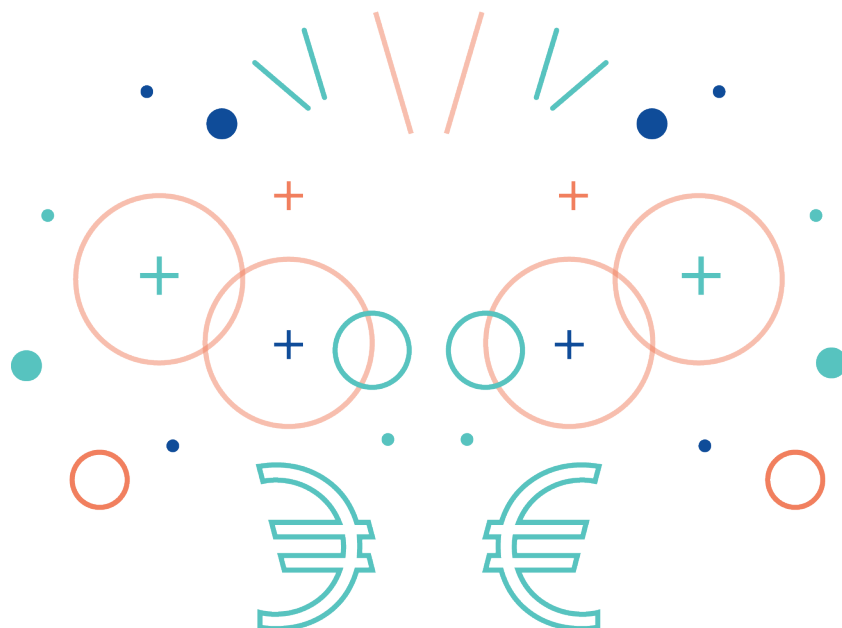
Evaluation is a key tool for identifying the inefficiencies of the production process of research and for stimulating innovative actions.

ACTIONS

- Keep track and evaluate funded research by doing a (low cost) yearly survey/study on economists' productivity. Monitor the impact of open access
- Monitor the citation count of European research, possibly with tools like Research Papers in Economics (REPEC) or Google Scholar
- Follow PhD Graduates' careers

RECOMMENDATION 2

INCREASE EFFICIENCY OF FUNDING PROCESSES



WHY?

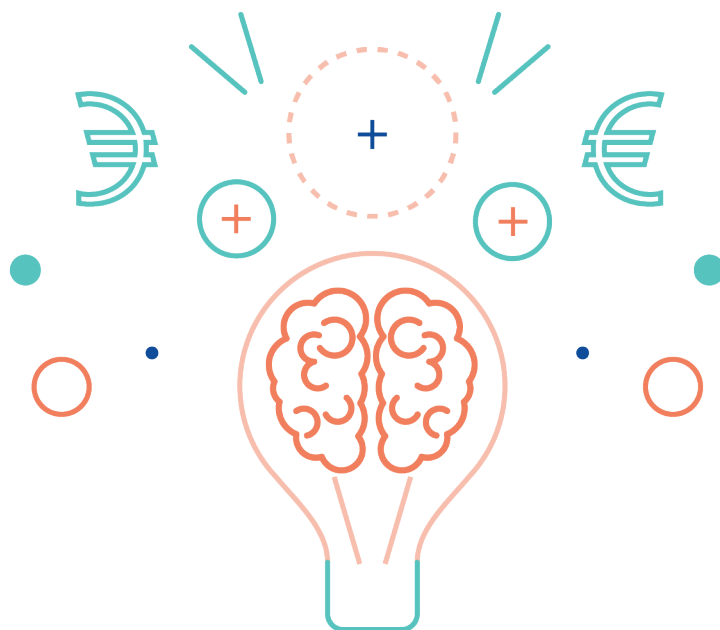
It is necessary to lower the barriers to entry and the “discouragement effect” that the “top-down”, thematic funding approach currently used by both EU and Member States funding agencies may have created, especially among economists and other social science researchers. In addition, an effort must be made to increase the percentage of articles published in top journals by researchers supported by public funding agencies, in particular by the European Research Council (ERC).

ACTIONS

- Create a funders forum with the European Economic Association (EEA) as an outside advisor
- Allocate a greater share of EU research funding via the mechanism of the ERC
- Create suitable funding streams to support structured PhD programmes without imposing specific themes of research
- Sustain the funding database developed in the COEURE project as an information source for cooperation in the analysis of funding research
- Reduce the ex-ante administrative burden for grant management but increase ex-post accountability for the scientific quality of the output

RECOMMENDATION 3

IMPROVE THE INCENTIVES TO ACCESS FUNDING



WHY?

Economists' demand for funds must increase so that all the potential resources available should be efficiently exploited.

ACTIONS

- Promote activities that inform about and encourage applications to the ERC and other research funding bodies
- Promote activities that support researchers receiving funding from the ERC (and other bodies), specifically regarding ethics approval
- Provide an industry standard for ethics approval that the ERC agree to
- Increase the flexibility of funding instruments to allow for research innovations and re-optimisation, depending on interim results and scientific risk-taking
- Use common funding principles across agencies to facilitate institutions and reduce the administrative burden associated with administering research funding
- Include teaching “buy out” among alternative funding options. An excessive amount of teaching may hinder research
- Create a focused lobby for a place for economics in future framework programmes
- Collaborate across social science disciplines as a means of establishing the value of research for the future of European economies and society

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RESEARCH FRONTIERS

These frontiers concern eleven topics, which have been defined under the COEURE project. Even if these topics – described in more detail in the book, “Economics without borders, Economic Research for European Policy Challenges” edited by the COEURE Executive Committee, - provide a wide perspective of current ‘frontier’ research in economics in Europe, relevant for economic policy and design, they are far from being exhaustive both in scope, since we do not cover all the topics in economics, and in detail, since we do not cover all the ongoing research within any specific topic. Nevertheless, they are representative of the value of current research in economics in Europe.

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R&D, INNOVATION AND GROWTH

WHY?

Innovation is a key driver of long-term growth. Recent research has highlighted the central role that firms and entrepreneurs play in this process, and new data have revealed how their incentives and capabilities affect macro outcome variables, such as the rate of innovation, industry and job turnover, welfare and inequality. These findings are, in turn, shedding new light on the role of competition and industrial policy, the welfare state and macroeconomic policy. However, we are only at the beginning of this intellectual revolution.

ACTIONS

- Improve our theoretical and empirical understanding of the dynamics of innovation and growth
- Further develop the current dialogue between theory and data, e.g. by fostering methodological innovation combining macro models with micro data, improving researcher access to microdata (on individual income, on firms, and on patenting), and increasing data harmonisation and linking
- Support the convergence between the literatures on development, trade and the internal organisation of firms, on the one hand, and the literature on growth, on the other

LABOUR MARKETS

WHY?

The “European Unemployment Problem” was perceived as a problem of the past before the euro crisis and, consequently, many funding agencies in Europe did not perceive funding for research on the topic as a priority, including support for new sources of employment/unemployment data. The euro crisis showed this perception to be a mirage, with a divide among European countries, in terms of their employment performance during and in the aftermath of the crisis. This divide shows the pervasive effect of ‘dual-labour markets,’ where jobs created in the recovery – and destroyed in the crisis – are mostly temporary jobs with low productivity, human capital accumulation, and a distortionary effect on investment into technologies in sectors such as construction that are based on these types of jobs.

ACTIONS

- Foster research – theoretical, quantitative and empirical – on the persistence and possible socio-economic effects of different forms of labour regulations and contracts
- Further develop EU panel-data on employment (short and long-term), unemployment and inactivity transitions, as well as data suitable to link labour contracts, regulations, taxes and other labour institutions to productivity and human capital (formation and allocation), as well as to technological choice and innovation. Make these databases easily accessible to researchers
- Support research on other policies and institutions affecting labour – such as unemployment insurance – leading to an assessment of best practices and their possible adoption across Europe

POPULATION, MIGRATION, AGEING AND HEALTH

WHY?

Migration as an important and critical issue for Europe in the current period needs to be studied in a dynamic setting, by following migrants' decisions over time. In particular, it is important for Europe to understand the determinants by skill type of migrants' permanent, rather than temporary, migration.

ACTIONS

- Foster research on the links between migrants' decisions and alternative types of labour market regulation
- Create long-term panel data on migration, possibly using new technology like, for example, GPS tracking mobile applications
- Link national registries to create a homogeneous European database on migration flows and migrant characteristics

HUMAN CAPITAL AND EDUCATION

WHY?

The formation or 'production' of human capital through educational systems is of prime importance for any society. Not only does human capital codetermine prosperity and growth, but it also exerts a decisive influence on the degree of social inequality present in a society. Globalisation and technological progress have given further weight to these roles of education, which is already acknowledged and reflected in the so-called Lisbon Agenda of the European Union.

ACTIONS

- Foster research into the process of human capital formation, in particular seek better explanations for the observed heterogeneity of returns to education with a view to alleviating them through the provision of targeted additional resources
- Support additional research into the determinants of teacher effectiveness through better teacher training, stricter teacher selection, appropriate hiring, retention and contract policies
- Support research on governance issues in a school system that allows the determination of the impact of school autonomy, school accountability and centralised tests of student achievement
- Support the creation, maintenance and accessibility of datasets throughout the EU that go beyond standard survey data; e.g., birth cohort sets, administrative or register data and standardise them in an internationally comparative way

COMPETITION AND REGULATION IN DIGITAL MARKETS

WHY?

When it comes to speed and dynamics, digital markets are different from more traditional 'brick and mortar' markets. In terms of theory, in digital markets one is more likely to see competition for the market rather than competition in the market. We therefore need to explore more the dynamics of our traditional competition models, and their relations to the dynamics of innovation. Data on digital markets are now available in an order of magnitude that requires rethinking our empirical methods. Finally, digital markets challenge the single market objective and several traditional views on competition policy instruments.

ACTIONS

To launch research programmes :

- On our empirical strategies to maximise the value of the new data that digital markets offer
- On the limits to what the single market should mean, and its potential regulatory needs
- On incorporating dynamic effects, which are clearly important in digital markets, without losing analytical tractability
- On the link between competition economics and innovation policy

TRADE AND DEVELOPMENT

WHY?

It is particularly clear in this domain of trade and development in a globalised world that politics drive policies, which in turn drive research. Therefore, there is a tension between policy makers and researchers, with the mercantilist view being the main conflict. Value addition helps to bridge the discrepancy between macro and micro economics. Value addition turns attention to the distributional effect of trade, which is the new achievement of the Geneva Consensus.

ACTIONS

- Launch research programmes on the role of precaution versus protection
- Promote research on the losers and winners of trade and globalisation. More generally, there is an urgent need to assess and quantify the redistributive effects of globalisation
- Encourage the building of general models where the tax-equivalent of regulatory and information frictions can be calculated. Economic analysis studies prices and quantities, and measures welfare losses by deadweight loss triangles. This is of limited use in a world where frictions and barriers to transactions are neither taxes, nor quantity regulations
- Stimulate a better understanding of how multinational firms operate, as this is a necessary first step to estimating their contribution to the costs and benefits of globalisation. While there are many quantifiable models to evaluate the gains from trade, the welfare gains from global production sharing either via arm's length global value chains or via multinational production, are less clearly quantifiable

ENERGY, ENVIRONMENT AND SUSTAINABILITY

WHY?

Energy and environmental policy issues are at the core of the EU policy debate. It is important to realise that in the area of energy there is a shift from a supply driven to a demand driven approach. In addition, although energy transition to a low carbon economy is widely accepted, the questions about its speed and exact methods are less obvious. Moreover, at this stage it is unclear how the rapid progress of IT may impact energy and environmental policies.

ACTIONS

- Promote research on the compatibility of environmental sustainability with maintained economic growth

Answer three basic questions :

What will happen to the environment if economic growth continues ?

What will happen to the economy if environmental degradation (including climate change) continues ?

What will happen to economic growth if societies take strong action to protect the environment, including the mitigation of climate change ?

- Promote the inclusion of environmental systems in the macroeconomics models used for policy analysis, especially the costs of environmental mitigation
- Foster research at the micro level to generate more detailed insights into individual and institutional attitudes and responses to the environment and environmental change, and the costs and benefits that people experience in their interactions with the environment
- Perform more research on what will happen to European societies if they try to function outside the safe operating environmental space, and what kind of economic trajectory they may expect if they try to go back inside this space

REGIONAL DISPARITIES AND EFFICIENT TRANSPORT SYSTEMS

WHY?

It is deeply ingrained in the EU's DNA that "the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas" (Article 158 of the Treaty on European Union). European integration is supposed to lead, through more intense trade links and better transport infrastructure, to the convergence of income levels across countries. Belief in EU regional policy efforts to this end have been reinforced by recent decreases in transport and communication costs. However, this convergence process is slow and may result in widening interregional income gaps.

ACTIONS

- Foster research on the impact of falling transportation costs and new infrastructure projects on the locational choices of workers and firms and their impact on agglomeration forces
- Foster research aimed at a reassessment of the use of the existing transport infrastructure for people and goods, in particular road and rail traffic networks
- Promote research into the efficient use of more sophisticated road pricing systems for trucks as well as cars

SKILLED CITIES AND EFFICIENT URBAN TRANSPORT

WHY?

Spatial economics, both in theory and empiricism, is not central to present mainstream economics. This must change since the phenomenon of agglomeration has been shown to be an important driver of a society's economic growth and social cohesion. Increasingly, wealth is created in cities and metropolitan areas. European cities are rather too small than too large to reap the full benefits of agglomeration; hence the need for efficient urban transport means.

ACTIONS

- Foster theoretical as well as empirical research on the cost and benefits of agglomeration; in particular the development of models that incorporate transportation into the urban land market

- Support research into the reduction of agglomeration costs in large cities through congestion pricing. In particular, foster research on the impact of congestion pricing on the planning and cost-benefit analysis of large infrastructure projects
- Develop a European database for a US-like categorisation of European agglomerations into more unified “statistical metropolitan areas”. This requires comparable local data about employment, transport, GDP, human capital, physical attributes (buildings and roads), environmental quality (air quality and soil), and cultural amenities in European cities

FISCAL AND MONETARY POLICY

WHY?

The financial and euro crises have opened old and new questions on the role and design of fiscal and monetary policies, their interplay, and their effectiveness in stabilising the economy and stimulating growth and wellbeing. At the same time, these crises have stimulated new research and policies (e.g., unconventional monetary policies), but many problems are still open (e.g., how to deal with the Eurozone debt overhang, what fiscal policy should be adopted in times of crisis and social unrest) and the new policies need to be reassessed theoretically and empirically. Furthermore, the euro crisis has been a major test for the euro project and, as Brexit has shown, for the European Union itself. How the EU and the Euro Area will develop and the role it/they will play in the global economy in the years to come is possibly the main challenge that Europe is facing. Politics and political leadership are vital, but so are sound economic thinking, credible and effective policy and institutional design.

ACTIONS

- Foster rigorous macroeconomic research, which can help Europe in facing its main challenge. In particular, but not only, research linking monetary, fiscal and financial policies and institutions – possibly in the framework of a monetary union, reassessing the current and proposed EU and Euro Area frameworks
- Further develop databases for studying how households and firms react to fiscal and monetary policies in good and bad times and how economic agents’ expectations respond to policy announcements and different economic institutional designs
- Support research that addresses the long-term impact of fiscal and monetary policies (pensions, debt policy, etc.), as well as their possible impact on inequality and social unrest. Additionally support research that improves the toolbox of macroeconomists and policy makers (e.g. helping them to design and implement robust and credible policies and institutions)

FINANCIAL MARKETS

WHY?

The recent economic crisis and the role financial markets played in it has once again brought to the forefront the debate on the need for coordinated intervention policies among European countries, and on the optimal degree of regulation in this vital and already highly regulated sector of the economy. Much has been done to ensure the stability of the banking sector and to fully enforce the European Banking Union and, in the near (not too distant) future, the Capital Markets Union. However, there is still much work left to do on policy coordination and regulation design, and the literature on capital markets needs to catch up with the literature on financial stability in banking, which is “light years ahead”.

ACTIONS

- Foster theoretical work by economists on how to map basic failures into regulatory reforms, which is at the moment severely lagging behind applied ex post analyses of the effects of the enacted regulatory reforms
- Develop metrics and indicators that evaluate risks and conduct, in order to help regulators design ex-ante prudential policy and early crisis prevention mechanisms
- Promote “Financial Literacy” among consumers, the ultimate users of capital markets
- Open access to data that Central Banks and regulators collect but are not published in a timely fashion

INEQUALITY AND WELFARE

WHY?

While Europe has relatively low inequality as compared to e.g. the US, there is much heterogeneity in terms of mobility and migration. This partly increases heterogeneity in fundamental political views, in perceptions like beliefs about why people are in need, and in terms of self-reported happiness. Deeper European integration will be a failure if we do not cope with this heterogeneity. Understanding the social processes that lead to more equality is probably more important than resource transfers from North to South.

ACTIONS

- Create a network of researchers in economics and social sciences to understand the fabric of equality of opportunity
- Build up dedicated panel data to study the dynamics of poverty, how people get into and out of poverty
- Launch research programmes to analyse :
 - The sustainability of nation welfare states in an environment where capital and labour are mobile
 - The issue of the convergence of southern societies to the social model of northern societies
- Prepare the ground for a standing-up policy to fight poverty and promote equal opportunities





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