If treated as a single economy, the European Union is the largest in the world, with an estimated GDP of over 14 trillion euros. Despite its size, European economic policy has often lagged behind the rest of the world in its ability to generate growth and innovation. Much of the European economic research itself often trails behind that of the United States, which sets much of the agenda in mainstream economics.

This book, also available as open access, bridges the gap between economic research and policy-making by presenting overviews of twelve key areas for future economic policy and research. Written for the economists and policymakers working within European institutions, it uses comprehensive surveys by Europe’s leading scholars in economics and European policy to demonstrate how economic research can contribute to good policy decisions, and vice versa, demonstrating how economics research can be motivated and made relevant by hot policy questions.
Economics without Borders

*Economic Research for European Policy Challenges*

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Foreword

As the Chair of the Scientific Advisory Committee of the Cooperation on European Research in Economics (COEURE) project, I am pleased to present to the public this comprehensive and enlightening volume. The aim of the COEURE initiative is to take stock of current economics research and formulate an agenda for research funding in the field in Europe. From this point of view, the surveys collected in this book are written by top European economists who are intellectual leaders in their respective fields. These surveys identify both research areas that are particularly promising and their potential impact on policy in the European context.

Europeaneconomics has made significant progress in recent decades. Before the late 1980s, European economics was very fragmented with very little interaction across national borders. Research was mostly published in national languages with very little communication and cross-country fertilization. However, a number of changes have taken place over the last 30 years. First of all, European-wide networks have started to develop. The European Economic Association was created in 1985 and has organized an annual Congress every year since then, partly in coordination with the Econometric Society. The Centre for Economic Policy Research (CEPR), founded by Richard Portes on the model of the US NBER, played a pioneering role in creating the first European-wide high-quality economic research network in Europe. It started selecting outstanding young researchers as Fellows and Affiliates, disseminating their work, organizing European-wide workshops and attracting some of the best US economists to them. Its emphasis on the policy relevance of research has been particularly important and has helped elevate the intellectual debate on all aspects of European integration. The most prominent economists of my generation acknowledge the key role played by the CEPR since the late 1980s and 1990s in internationalizing European economics. Several other cutting-edge European-wide networks have been created since. A good example is the Institute for the Study of Labor (IZA) in Bonn, led with great success by Klaus Zimmerman for the last 20 years. IZA has been very good at recruiting eminent young applied economists, partly because their horizon is not restricted to Europe.

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Another important factor that has played a key role in promoting high-quality research is funding not only by the European Commission under various Framework Programmes, but also through Marie Curie fellowships in various European universities. These initiatives from the Commission have helped fund high-quality research networks, as well as the mobility of academics across Europe. The Marie Curie program has been very useful, because it has improved the European job market for economists. Until very recently, and still to a very large extent, we have seen in Europe an inefficient model for recruiting young professors. Universities established barriers to entry, favoring the recruitment of inhouse PhDs. As we know, this usually fosters mediocrity. In most good US universities, departments choose not to recruit even their very best students, because they think that they must first earn recognition in the wider profession, not just in their home university. European economics departments have increasingly adopted this approach and are active on the international job market.

Finally, a major milestone in the progress of research funding in Europe has been the establishment of the European Research Council (ERC) grants. ERC grants are recognized as a signal of excellent research, helping to thereby disseminate clear and unbiased signals of quality. The key aspect to the success of the ERC is that projects are selected by panels of peer researchers, usually highly distinguished senior researchers. Academics are better able to judge the quality of research than nonacademics are. Another aspect of the ERC organization is also important. Panels are large enough in their composition to prevent collusive deals from being made (‘I agree to fund the candidate you support if you support mine’). ERC grants are therefore changing the landscape of European research, and universities and departments without ERC grants can no longer pretend that they represent the best of European research.

Despite the huge progress made in the last decades in European economics, there are still many problems. Too much academic work is done in national languages, funding of research is mostly at the national level and European universities often resist external competition in recruitment. In many universities, there is still virtually no research. Promotion is by seniority with no incentives to engage in productive research. The ERC only funds the very best projects and its vocation is purely scientific, not policy-oriented, as it should be. However, there needs to be a European conversation on research funding. Additionally, policy-makers do not necessarily like the findings, especially those of economic research. This is why research projects need to be independent and not subject to forms of political censorship.

While economic research in Europe has addressed many of the key policy issues specific to Europe, there is limited access to data and little availability of good databases on many important issues that need to be investigated. Data are therefore badly needed in many areas, especially for issues that are
The voice of the best European economists needs to be heard when it comes to how economics research should be funded. The volume presents not only the state of the art in particular domains of research, but also the various policy implications of this research, as well as the major research and policy questions that remain open. They give an idea of where European research stands with respect to the rest of the world and propose further avenues.

The Scientific Advisory Committee of COEURE that I have the honor to chair is composed of distinguished economists: Oriana Bandiera (London School of Economics), Richard Blundell (University College London), François Bourguignon (Paris School of Economics), Andreu Mas-Colell, Universitat Pompeu Fabra), Peter Neary (University of Oxford) and Marco Pagano (University of Naples Federico II). The Scientific Advisory Committee advises the executive Committee of COEURE as well as the authors of the reports for COEURE. Our focus is on the scientific quality of the work carried out.

European economics has made a lot of progress in the last decade, but it still faces many challenges. COEURE aims at helping to improve the effectiveness and quality of the funding of economic research at the European level. I am confident it will.

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