

Final Report

*Evaluation of the
Economic Research
Activities of DG
Economic & Financial
Affairs*

September 2006



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**Strategy & Evaluation
Services**

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Executive Summary

The evaluation of the economic research activities of Directorate-General for Economic and Financial Affairs (DG ECFIN) was carried out by the Centre for Strategy & Evaluation Services (CSES) in 2006.

1. Study Aims and Methodology

The terms of reference for the evaluation were, in summary, to address the following questions:

- To what extent are the **objectives** of DG ECFIN's economic research activities relevant to the needs and issues that they are supposed to address?
- How much do research activities contribute to enhancing the **overall analytical quality** of the DG's work and hence support the achievement of the DG's policy objectives?
- To what extent do the **outputs** of the DG's research activities have an effect outside the Community institutions (i.e. on policy makers, finance and bank analysts, academics, journalists, etc)?
- **Gaps** - what areas are not adequately covered by the DG's research activities from the point of view of both internal and external users of the research outputs?

The terms of reference included a number of more specific issues. These issues are tackled in the main body of the report where we analyse key findings, conclusions and recommendation in relation to each question. The research involved a combination of end user surveys, an interview programme with staff from DG ECFIN, other Commission DGs and external organisations, a review of key economic research outputs by a panel of academics, and desk research.

2. Overall Conclusions

Overall, the results of this evaluation of DG ECFIN's economic research activities are positive. Within a relatively short period of time and with quite modest resources, DG ECFIN has developed a wide range of economic research tools and products. Feedback from the evaluation indicates that the various economic research outputs are widely used inside DG ECFIN, elsewhere in the Commission and by external users. They are generally seen as being of a high quality and make a valuable input to the Commission's operations and policy-making.

Economic research in the context of this evaluation can be broadly defined as research activities undertaken by DG ECFIN that provide an analytical basis for operations and policies. The importance of high quality economic research is largely self-evident and lies in improving the effectiveness of operations and ensuring that policy-making is based on sound analysis.

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From a management perspective, there is a challenge in striking a balance between economic research that is ‘supply-driven’, i.e. reflects the interests of the researchers and is important in maintaining intellectual capital, and activities that are ‘demand-driven’, i.e. are undertaken to support day-to-day operations and policy making. As experience in other comparable organisations demonstrates, achieving this balance is not easy. Our evaluation suggests that while steps could be taken to strengthen each aspect, DG ECFIN is largely achieving such a balance.

Below we summarize key conclusions with regard to the specific issues set out in the terms of reference for the evaluation and recommendations.

3. Internal Use of Economic Research

1. Overall, our evaluation suggests that DG ECFIN’s economic research outputs are highly valued and extensively used within the DG. The research is regarded by most Commission staff (71%) responding to the survey as being of a good quality. Among the research tools, databases are most frequently used with a combined 57% of DG ECFIN staff responding to the survey using them regularly. Similarly, the use of Business and Consumer Survey data is extensive and given its unique nature as an EU-wide survey is considered to be highly valuable.

2. The most frequently read publications are the Economic Forecasts, with 50% of the surveyed staff indicating that they read them regularly. Other frequently used publications are Economic Papers, Enlargement Papers, Occasional Papers, EU Economy Review and Special Reports. Less positively, the publication Topics in Economic Research, which is designed to keep DG ECFIN staff updated on the developments in external economic research, does not seem to be as extensively used (according to our survey, 57% of staff rarely read this publication). However, it needs to be borne in mind that this publication is relatively new.

3. DG ECFIN’s economic research outputs are generally regarded as being of a very high quality. In addition to feedback from the survey work, a panel of academic experts was asked to review a sample of DG ECFIN’s publications. Half the publications reviewed by the academic panel fell into the top category (‘high academic standard, up to date with the latest thinking, etc’) with almost all of the remainder being in the second category (‘judged to be good but some criticisms regarding the methodological approach and other aspects of the publication’). This assessment was broadly in line with the survey feedback from users where almost all respondents who were in a position to judge assessed the quality of DG ECFIN’s economic research outputs as being either ‘excellent’ or ‘good’.

4. The evaluation indicates that economic research outputs are seen as essential to DG ECFIN’s analytical capacity. Some 65% of DG ECFIN’s staff who responded to the survey stated that the economic research is either ‘very relevant’ or ‘quite relevant’ to their needs. There is a strong consensus that DG ECFIN’s economic research should

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maintain its focus on supporting policymaking and policy analysis (as opposed, for example, to having a more academic orientation).

5. Members of the EPC and EFC working groups consider that both the Notes that DG ECFIN prepares for them and DG ECFIN’s staff who participate in the working groups’ meetings make a significant contribution to policy discussions. A total of 84% of the surveyed working group respondents indicated that the research contributes ‘quite/very strongly’ to the policy discussions in the working groups. DG ECFIN’s representatives also participate directly in the working group meetings, providing advice and analytical support in response to ad-hoc requests by members. Overall, feedback from working group members is very positive about DG ECFIN’s input to these meetings.

6. Although it is difficult to generalize, the relevance of DG ECFIN’s research outputs to other DGs seems reasonably high. Bearing in mind that DG ECFIN conducts a different kind of research to other DGs by focusing on issues that are pertinent to EMU and macro-economic aspects of structural policies, rather than structural policies themselves, there are limits to which DG ECFIN’s research is likely to be directly relevant to other DGs. Similarly, DG ECFIN does not have the resources that would be required to cover economic research aspects of all other EU policy areas in depth. Its contribution to the research needs of other DGs is therefore necessarily limited.

Recommendations – Internal Use of Economic Research

- *After a further 6-9 months, the content and presentation of TIERs should be reviewed if the current relatively low readership does not improve.*
- *When assessing different policy options (in both the research Notes produced for the working groups and wider outputs) it would help policymakers to have a more explicit indication of the implications of different policy options. Every effort should also be made to ensure that the working groups receive the Notes in a timely manner, i.e. at least a week before the meetings take place.*
- *Given the specific orientation of DG ECFIN’s research, i.e. its approach to analysing structural policies within the macro-economic context, it would not be feasible for DG ECFIN to undertake significant additional work specific to the needs of other DGs without additional resources. However, there should be more consultation between DGs over economic research priorities.*

4. External Use of DG ECFIN’s Economic Research Outputs

7. DG ECFIN’s research is very relevant to the needs of external organisations and widely used. External users include academic and research institutions, international institutions, financial institutions. Because of its focus on the policy issues relevant to EMU, and a good range of its research outputs, the economic research produced by DG ECFIN is widely used among the external audiences.

8. According to the survey work, 74% of external users consider that DG ECFIN’s research activities make a positive contribution to their research work and other

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activities. The overall quality of DG ECFIN’s research activities is also highly rated amongst external users with around 80% of respondents stating that is of either ‘good’ or ‘excellent’ quality. The Annual Economic Research Conference and Brussels Economic Forum seem to be good vehicles for raising the profile of DG ECFIN both amongst academics and policymakers. The Visiting Fellows programme and Seminar Programme, too, are successful in promoting debate amongst academics. By engaging the wider economic research community, these and other activities add value by encouraging networking and ensuring that DG ECFIN remains at the forefront of debate. Similarly, the survey feedback indicates that the wider academic community values a close relationship with DG ECFIN because of the insights to policy this provides..

9. In comparison to the research available from other institutions, DG ECFIN’s work is also seen as demonstrating a high degree of added value. This stems from its focus on the issues relevant to the EMU and EU economic policy generally which external users cannot easily obtain from other sources.

Recommendations – External Use of Economic Research

- *Active engagement with external economic researchers should be further developed as this helps increase both DG ECFIN’s intellectual capital and raises awareness of EU economic policy and issues among external researchers. Participation by DG ECFIN staff in external events is also important in raising visibility.*
- *If anything, external researchers should be more closely involved in DG ECFIN’s economic research. Whilst DG ECFIN cannot ask individuals to apply, the Visiting Fellows Programme needs to be marketed more pro-actively to universities and research institutes in order to increase its visibility and to help attract high calibre researchers.*

5. Gaps in Economic Research Coverage

10. There are no significant gaps in the coverage of the main DG ECFIN policy remit. However, there is a need for deeper coverage of some existing topics. This includes more analyses related to the Lisbon Agenda, international economic issues relevant to the Commission and more analyses of specific topics that are of interest to the operational Directorates and (subject to available resources) other DGs.

11. Elsewhere in the Commission, some DGs consider that there are gaps in DG ECFIN’s research in relation to their needs. There is a perception that DG ECFIN sometimes produces analyses that could be carried out by other DGs. Conversely, many DGs do not have an economic research capability. Some members of the EPC and EFC working groups also argue that DG ECFIN’s research should better support policymaking at a national level but this is beyond DG ECFIN’s remit. All these views partly stem from a lack of familiarity with DG ECFIN’s research mandate, the resources available to it and the role of its research within the Commission.

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Recommendations – Gaps in Economic Research Coverage

- *More consultations should be undertaken within DG ECFIN with the representatives from operational Directorates to identify any further economic research needs. This could be done through periodic workshops involving key officials from different Directorates. Any additional commitments emanating from such a consultation process would need to be backed up by the allocation of additional resources to the economic research function.*
- *The mandate of DG ECFIN's economic research needs to be more clearly communicated to audiences in the Commission's policymaking circles, especially its role vis-à-vis other DGs. Linked to this, consideration should be given to including representatives from other DGs on a consultative group to help define economic research priorities and to help improve the sharing of information..*

6. Role of the Group of Advisers

12. Overall, the activities and policy focus of the Group of Advisers have significantly improved since 2001 and there is a good level of satisfaction with their work among DG ECFIN's staff. But there is some scope for strengthening both the relevance of their outputs to DG ECFIN's staff and the policy focus of their work which is still sometimes perceived as being too academic.

13. The Group of Advisers value lies in providing high level and semi-independent expertise on specific policy issues. The Advisers also play an important role in promoting links with the academic community and external networking generally. Last but not least, the Group of Advisers has a critical function to play in helping to maintain intellectual capital. Overall, DG ECFIN's staff who have worked with the Advisers either on joint projects or whom Advisers have assisted on specific projects, are satisfied with their inputs.

14. The training activities in which Group of Advisers provide significant input (such as the Seminar Programme) are well regarded by DG ECFIN's staff. The Visiting Fellows Programme, which is managed by the Advisers, is considered by staff as particularly useful in helping them maintain exposure to wider economic research.

15. However, the Group of Advisers seems to be currently involved in too many activities, some of which detract from research activities and their capacity to represent DG ECFIN among external research networks. A key role of the Group of Advisers is to respond to the demand for advice from within DG ECFIN. At the same time, the Advisers are expected to exercise leadership in developing DG ECFIN's research agenda. To enable them to focus on these roles, there is a need to provide more administrative support for tasks associated with the Visiting Fellows Programme and other activities such as the Seminar Programme, which they have overall responsibility for managing. The lack of research support, i.e. junior researchers, is also a significant obstacle to the Group of Advisers generating more research. There is also a case for integrating tasks associated with the Visiting Fellows Programme, Seminar Programme and Economic Studies Programme, more closely into the Group of Advisers' work programme.

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16. There have also been difficulties in attracting external researchers to the Group of Advisers. The current duration of the Advisers posts, even the temporary ones, is considered as too short by some external researchers, while the recruitment requirement to employ only Advisers with more than 15 years of professional experience significantly narrows down the pool of potential candidates. There are some indications that the remuneration package could also be more attractive so that top quality advisers can be recruited.

Recommendations – Group of Advisers

- *The role of the Group of Advisers needs to be more closely defined with respect to the balance between research and other activities. Some administrative tasks, for example in relation to the Visiting Fellows Programme, should be delegated to more junior staff.*
- *Whilst individual Advisers already have work plans, a more structured work plan for the Group of Advisers as a whole should be developed as this would also help focus their work and research more on relevant policy issues. One way of arriving at such a work plan would be for the group of advisers to hold planning ‘away days’ once or twice a year to agree the issues to be tackled, the priorities and the overall work programme.*
- *Additional research capacity should be available to the Advisers. Introducing short-term contracts for young researchers could be a quick and cost-effective way of securing this support. Another possibility would be to extend the Visiting Fellows Programme to provide additional research support.*
- *Longer appointments for Visiting Fellows posts of 4-6 months in duration (rather than up to two weeks as at present) would be more attractive to many external researchers.*

7. Organization of the Economic Research Function

17. The decentralized research model currently in operation, whereby DG ECFIN’s economic research function is concentrated in the Directorate A, but some research is also carried out also in other Directorates, is an appropriate model. This approach helps ensure that all DG ECFIN’s staff are able to develop research skills and it is also an important motivational factor for many staff with a research interest in other Directorates. The decentralized model also helps ensure a close relationship between economic research, operations and policy-making

18. There is very little duplication in economic research carried out in DG ECFIN and in other DGs because their research focus is different. However, there is a lack of awareness among some DGs of the economic research work being undertaken by DG ECFIN. For example, macro-economic models are being developed in different DGs and it could be useful to have closer contact to discuss the developments and share knowledge.

19. There is a good balance between the internally produced and outsourced research carried out by DG ECFIN. The key analytical outputs and tools are developed or maintained in-house, which is appropriate, while the outsourced work covers areas where specialist skills are required and/or independent analyses need to be carried out.

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20. Dissemination of DG ECFIN's research could be improved both in relation to internal and external users. Within DG ECFIN, members of operational Directorates are not fully aware of the research activities undertaken by Directorate A and how they can benefit. There is also a need for more detailed information to be made available on models and methodology used by Directorate A. From the perspective of external users, the website structure is seen as quite cumbersome and the existing email alerts do not cover all publications, nor is it easy to find the web pages where they can subscribe to email alerts.

Recommendations – organization of the economic research function

- *One way of ensuring that staff in operational Directorates have more exposure to economic research work would be to promote more joint working on specific projects. This could be positive for staff development generally. However, this needs to be balanced against the resource requirements within the Directorates to maintain their operations and releasing staff could be difficult.*
- *DG ECFIN and other DGs should identify suitable mechanisms for keeping informed about their economic research work. Regular updates in this area could help identify synergies and promote a sharing of knowledge and experience. Given the increasing focus on modeling type activities in a growing number of DGs, consideration should be given to the possibility of organizing a Commission-wide website where all DGs, including DG ECFIN, could contribute material of interest.*
- *The website structure should be simplified to make it easier to locate publications and an email alert service should be introduced. Instead of having to subscribe separately for individual publications, the email alert should be set up in such a way that users can choose to subscribe to several publications at the same time.*

Introduction

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The evaluation of the economic research activities of Directorate-General for Economic and Financial Affairs (DG ECFIN) was carried out by the Centre for Strategy & Evaluation Services (CSES). This document contains the final report.

1.1 Study Aims

The terms of reference for the evaluation were, in summary, to address the following questions:

- To what extent are the **objectives** of DG ECFIN's economic research activities relevant to the needs and issues that they are supposed to address?
- How much do research activities contribute to enhancing the **overall analytical quality** of the DG's work and hence support the achievement of the DG's policy objectives?
- To what extent do the **outputs** of the DG's research activities have an effect outside the Community institutions (i.e. on policy makers, finance and bank analysts, academics, journalists, etc)?
- **Gaps** - what areas are not adequately covered by the DG's research activities from the point of view of both internal and external users of the research outputs?

The terms of reference included a number of more specific issues. These issues are tackled in the main body of the report where we present key findings, conclusions and recommendation in relation to each question.

1.2 Methodological Approach

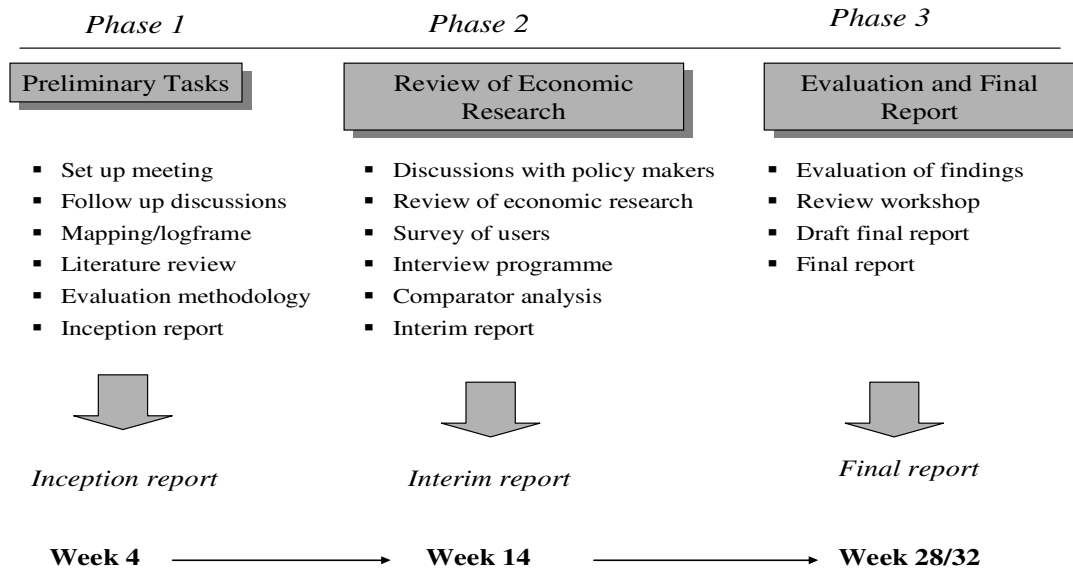
The research was carried out by CSES during the first half of 2006 and involved a combination of end user surveys, an interview programme with staff from DG ECFIN, other Commission DGs and organisations (including the key comparators), review of key economic research outputs by a panel of academics, and desk research. The evaluation methodology is explained in more detail in Section 2.

The assignment was undertaken three phases which are summarised in the following diagramme.

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Figure 1.1: Overview of Methodological Approach



During Phase 1 of the evaluation, a number of **preparatory tasks** were undertaken - a set up meeting and follow-up one-to-one discussions with key officials in DG ECFIN; a mapping exercise to capture key economic research outputs, identification of key audiences and a review of the organization of the economic research function in DG ECFIN, and finalization of the evaluation methodology. An inception report was prepared setting out the results of the Phase 1 preparatory tasks.

In the Phase 2, fieldwork was carried out involving a combination of **interviews and surveys**, a comparator analysis and an academic review of the quality of DG ECFIN's research outputs. In the survey, a total of 147 survey responses were obtained. As part of the interview programme, nearly 70 Commission officials were interviewed on either a face-to-face basis or by telephone from DG ECFIN and other DGs, EPC/EFC working group members, representatives from other Community institutions and external organisations, and a sample of end-users of DG ECFIN's economic research. A list of interviews and copies of the survey questionnaires and interview checklists are contained in the appendices to this report. The table below provides an overview of the fieldwork.

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Table 1.1: Summary Overview of Phase 2 Fieldwork

| Target groups | Survey Work | Interviews | | |
|---|-------------|------------|-----------|-----------|
| | Responses | Personal | Phone | Total |
| DG ECFIN Deputy Director General | - | 1 | 0 | 1 |
| EFC, EPC and working group members | 41 | 5 | 5 | 10 |
| Other European Commission DGs | - | 5 | 5 | 10 |
| DG ECFIN staff | 28 | 15 | 5 | 20 |
| EFN, Visiting Fellows and other external economic researchers | 51 | 5 | 5 | 10 |
| International (ECB, OECD, IMF) and national comparator institutions | - | 4 | 3 | 7 |
| External users (national authorities, financial institutions, students at universities, etc.) | 27 | 5 | 5 | 10 |
| Total | 147 | 40 | 28 | 68 |

As part of Phase 2 of the evaluation, an **academic review** of DG ECFIN’s economic research outputs was also undertaken. The purpose of the academic review was to review DG ECFIN’s outputs for their robustness in terms of academic quality. The academic advisers on our team examined a sample of 29 publications relating to DG ECFIN’s modelling activities and analytical work.

An important aspect of the evaluation of DG ECFIN’s economic research function involved comparisons with other organisations that carry out comparable or similar activities. Two of the comparators (the ECB and OECD) were interviewed on a face-to-face basis. With others (e.g. IMF), we relied on existing evaluations and publicly available material on their economic research activities. Key questions in this **benchmarking assessment** included: the organisation of research function in their organisations (i.e. centralized/decentralized across operational departments, in-house/outsourced, etc.); ways of securing access to specialist knowledge, i.e. do they have permanent academics researchers on their teams, an equivalent of the Group of Advisors or is it primarily outsourced; the role of research in policymaking within their organisations and linkages between research and policymaking; the process for identifying research priorities and the needs of the audiences; the type of outputs/research produced and which outputs are most useful to policymakers; the type of research events supported in addition to research work and which activities are particularly useful to their staff/external audiences; and what sort of dissemination methods are used and the ones that are particularly effective.

Towards the end of the Phase 2, we produced an **interim report** that included emerging findings. In the final phase of the evaluation, the research findings were subject to a more detailed analysis and written up in the form of a draft final report. A **workshop** with the key

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stakeholders from DG ECFIN and other DGs to discuss the evaluation findings was also organised. These and other inputs led to the preparation of this final report.

1.3 Key Evaluation Issues

The evaluation of DG ECFIN's economic research activities needs to be set within the overall context of the Commission's approach to evaluating activities covered by the Financial Regulation. In this respect, there are a number of key evaluation issues:

Relevance – the extent to which the economic research activities are relevant to the needs of the DG ECFIN, Commission and other users given policy priorities and key issues relating to the prevailing economic and financial affairs environment generally.

Effectiveness – how well the DG carries out economic research activities and the extent to which these activities meet their specific objectives and the general aim of contributing to the Commission's policy-making. There are a number of critical factors in this respect – the quality and quantity of research resources, the extent to which outcomes are relevant (see above), how effectively the interface works between research and policy functions, etc.

Efficiency – the cost of producing economic research and whether this is proportionate given the outcomes and use made of them. A related issue is value for money, i.e. whether the same research outputs could be achieved at a lower cost or, alternatively, whether reduced financial inputs could achieve the same outputs.

Coherence and synergies – from an internal perspective, how DG ECFIN's economic research activities combine together to provide a comprehensive and coherent basis for policy-making, whether there are gaps in coverage, etc. Externally, the question is the extent to which the economic research activities carried out by the DG complement rather than duplicate the research undertaken by other international and national organisations.

Impacts and added value – what effect economic research activities have on Commission policy making and the wider debate on EU economic and monetary affairs. Viewed from the slightly different perspective of users outside the Commission's policymaking circles (national authorities, business, academics, international institutions, etc), the question is to what extent does the DG's economic research activities demonstrate added value, i.e. add to the information they have access to from other sources?

DG ECFIN's Directorate A ('Economic Research and Studies') was established in 1999 to strengthen links between research and policy making in the DG as a whole. It is clearly appropriate, now that it has been operating for a while, for Directorate A's activities to be reviewed. However, at the same time it needs to be borne in mind that some activities are still in the process of being developed. Also, some economic research is carried out by other DG ECFIN Directorates.

The terms of reference set out a number specific evaluation issues. These are summarised below.

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Evaluation questions focused on the organisation of the economic research function in DG ECFIN

- To what extent does the existing interaction between the DG ECFIN and its audiences ensure close integration of economic research and policymaking structures?
- To what extent is economic research produced by DG ECFIN unique within the Commission or are there any duplication and therefore scope for greater synergies?
- To what extent is current organisation of research activities between in-house and outsourced research suitable for reaching the required quality and level of research outputs?
- Are the existing dissemination methods satisfactory in reaching the DG ECFIN's key economic research audiences?

Evaluation questions focusing on the needs of external and internal target groups

- To what extent are the objectives of the DG's economic research activities relevant to the needs and issues that they are supposed to address?
- How much do research activities contribute to enhancing the overall analytical quality of the DG's work and hence support the achievement of the DG's policy objectives?
 - To what extent are the results of internal and external research effectively channelled into policy debate within the DG and other Community institutions?
 - How much do the results of internal and external research respond to the needs of Commission staff in terms of policy relevance, quality, timeliness and other relevant criteria?
- To what extent do the outputs of the DG's research activities have an effect outside the Community institutions (i.e. on policy makers, finance and bank analysts, academics, journalists, etc) including in terms of:
 - Promoting debate, raising awareness and understanding among an increasingly wider audience about the DG's policy approach, economic developments in the EU, main challenges and policy issues, etc.?
 - Developing perceptions of the policy relevance of research activities, in particular of officials of other international institutions and academics?
 - The utility and use of ECFIN publications and publicly available databases?
- To what extent do the DG's modelling activities, medium-term studies, statistical coordination and database support activities respond to the needs of the DG's staff and beyond in terms of relevance, accessibility and other relevant criteria?
- What if any areas exist where the coverage of the DG's research activities is not adequate from the point of view of both internal and external users of the research outputs?

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Evaluation questions focusing on the activities undertaken by the Group of Advisors

- To what extent do the activities implemented, in particular those under the responsibility of the Group of Advisors, support the maintenance and development of the DG's intellectual capital by:
 - Improving interactions with outside networks, including the economic research community
 - Allowing better access to ongoing research work, new approaches and insights on relevant issues?
 - Supporting discussions among academics, Commission and other officials from international institutions on key issues
 - Contributing to formal training actions (e.g. the DG's Summer School)
 - Providing an opportunity for officials to publish research
- To what extent do the Group of Advisors:
 - Actively participate in economic policy debate through publications and discussions in relevant fora via their liaison activities?
 - Contribute to enhancing the overall analytical quality of the DG's work through their analytical background papers, reports, notes, etc.?

1.4 Structure of the Final Report

The final report is structured as follows:

- *Section 2* gives **background information** on DG ECFIN's research activities/outputs and identifies the key users of DG ECFIN's research;
- *Section 3* assesses the **relevance and effectiveness** and impact of DG ECFIN's research in meeting the needs of key users of its research;
- *Section 4* evaluates the activities undertaken by the **Group of Advisors**;
- *Section 5* assesses the **organisation of the research function** in DG ECFIN and it presents a comparative analysis of research functions in other international organisations;
- *Section 6* examines the **quality of DG ECFIN's economic research** and modelling activities using feedback from an academic panel;
- *Section 7* presents overall **conclusions and recommendations** from the evaluation.

The report is supported by a number of appendices containing copies of the questionnaires used for the various surveys undertaken as part of the evaluation, interview checklists, and other supporting information such as the full academic reviews of DG ECFIN's economic research.

DG ECFIN's Economic Research Function

2

This section sets out the background to the research – the nature of economic research and its relationship with policy-making, the specific objectives of DG ECFIN's research activities, how these activities are organised, the key outputs and who they are used by, and other basic factors. We then review the key evaluation issues.

2.1 Role of DG ECFIN

DG ECFIN defines its mission as being to 'foster the success of Economic and Monetary Union both inside and outside the European Union, by advancing economic policy coordination, conducting economic surveillance and providing policy assessment and advice'.

The principal instruments for achieving this mission include the 'Broad Economic Policy Guidelines', assessments of the Stability and Convergence Programmes submitted by the Member States, and preparation of the 'Convergence Reports'. Other reports, including 'Public Finance in EMU', the 'EU Economy Review' and the Commission's economic forecasts, are issued as support for policy documents and as preparation for policy discussions by the Council and the European Parliament.

Economic analysis and evaluation are also provided in support of Community policies and priorities in general, covering both internal affairs (including Lisbon Strategy, internal market, environment, agriculture and employment) and external relations (enlargement, development, trade, international affairs, including the management of macro-financial assistance to third countries).

In certain areas, DG ECFIN also implements EU investment financing programmes on behalf of other Commission DGs in close co-operation with the EIB, EIF and EBRD as well as undertaking financial market operations.

2.2 Nature of Economic Research

Economic research in the context of this evaluation can be broadly defined as research activities that provide an analytical basis for operations and policies that fall within DG ECFIN's remit. Section 2.3 describes the nature of these research activities in more detail. The importance of high quality economic research is largely self-evident and lies in improving operations and policy-making.

Section 6 of this report reviews economic research activities in several other international organisations. From this it can be seen that there are varying definitions: for example, the IMF makes a distinction between 'policy foundation' research (developing basic analytical tools and frameworks), 'policy development' research (draws on policy foundation research or help develop strategies to guide operations) and 'policy analysis' research (examines specific issues). The ECB for its part distinguishes between 'analytical research' (undertaken

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to support operations but not necessarily of the highest academic standards) and ‘research’ (which does match international academic standards). From a management perspective, a distinction is also made between ‘analytical research’ (i.e. research that is undertaken ‘on demand’ specifically to support the ECB’s operations and policy making), ‘directed research’ (projects undertaken for the ECB at the request of the Research Committee and that are required to be of the highest academic quality) and ‘free research’ (ECB staffs’ own research, preferably for publication in academic journals).

These varying definitions are covered by two broader categories – economic research that is supply-driven, i.e. reflects the interests of the researchers, and activities that are demand-driven, i.e. are undertaken on the request of management to directly support operations and policy making. It is generally accepted that to attract and retain high quality research staff, and to develop intellectual capital generally, a balance needs to be struck between allowing researchers to pursue their own interests, on the one hand, and contributing to their employers’ requirements, on the other. Similar considerations mean that the quality of economic research is also influenced by the corporate culture in which it is conducted and the interaction with the economic research community generally. From a management perspective, the challenge in ensuring that such a balance exists is considerable.

2.3 DG ECFIN's Economic Research Activities

The primary focus of DG ECFIN’s research activities is to support policy making. It does this by:

- Developing research tools and analysis that helps DG ECFIN deliver relevant analyses to policymakers;
- Delivering tools and analysis in order to help determine priorities and to guide and support the policy-making in the European Commission’s bodies generally;
- Absorbing external influences and thinking and, when appropriate, challenging assumptions and helping to identify new priorities;
- Disseminating and communicating research findings related to DG ECFIN’s policy priorities both internally and externally.

DG ECFIN undertakes both **economic research** and **operational research**. Economic research (the subject of this evaluation) addresses specific EMU-related issues and develops research tools in support of policymaking generally. Operational research on the other hand focuses on a standard set of publications that monitor at regular intervals the state of the EU economy as well as some aspects of the international economy.

In terms of **thematic coverage**, DG ECFIN’s research focuses on issues that are relevant to the functioning of the EMU. However, it also covers a wider range of topics. These

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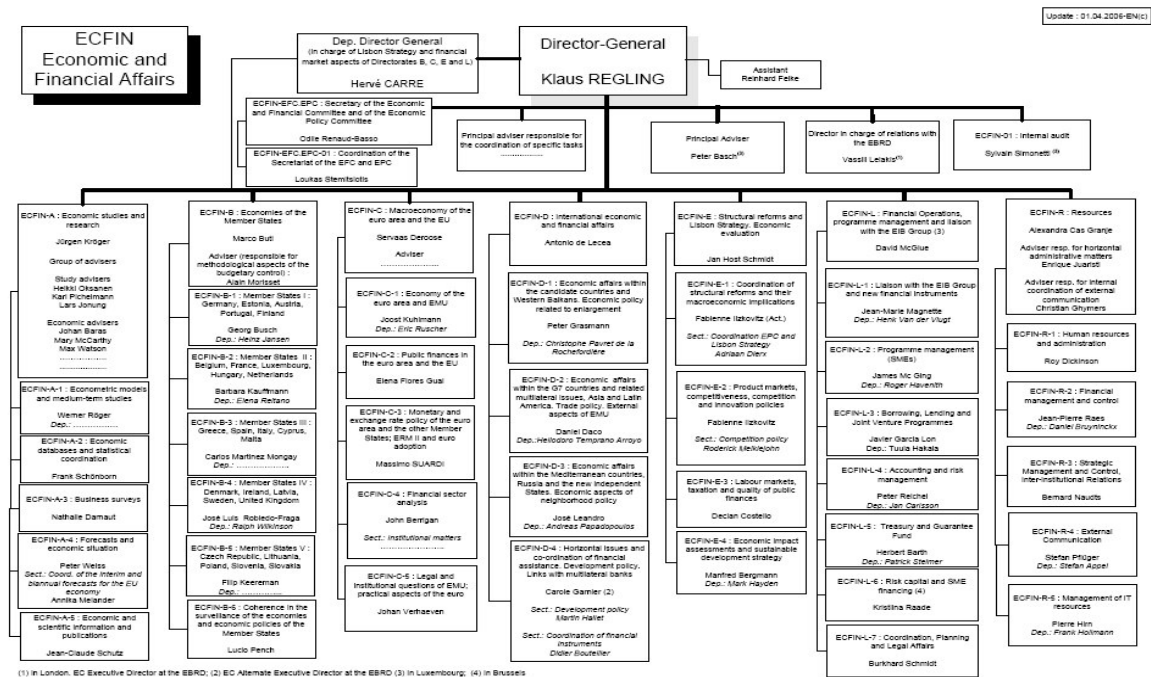
include, for example, financial stability issues in the context of enlargement and the analysis of structural reforms and their contribution to macro-economic performance (growth) in the context of the Lisbon Strategy. In this respect, DG ECFIN has a unique role within the Commission as it analyses structural policies within the context of macro-economic performance and the Lisbon Agenda as part of its work while other DGs analyse structural reforms per se. DG ECFIN also contributes to setting the Commission's wider economic policy agenda. For example, it has helped DG RTD to develop a strategy for socio-economic aspects of the R&D Framework Programmes.

2.4 Organisation of the Economic Research Function

Most of DG ECFIN's economic research is produced in-house. However, given the scale and scope of the research brief and limited in-house resources, some activities are outsourced to external researchers.

Within DG ECFIN, the primary responsibility for economic research lies with **Directorate A** ('Economic Research and Studies'). Directorate A was established in 1999 to strengthen links between research and policy making in the DG as a whole. The organisational positioning of Directorate A in DG ECFIN, and the structure of the Directorate itself, are shown in the following diagramme.

Figure 2.1: Directorate A – Structure and Positioning in DG ECFIN



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Within Directorate A, there are five units:

- A1 – Econometric models and medium term studies;
- A2 – Economic databases and statistical coordination;
- A3 – Business surveys;
- A4 – Forecasts and economic situation;
- A5 – Economic and scientific information and publications.

In addition, there is a **Group of Advisers**, reporting directly to the Director of Directorate A, whose main role is to act as a bridge between academic research and DG ECFIN policy analysis. The Group of Advisers' members are senior economists with expertise in a particular area of economic research. Their background is usually in academia and/or other international institutions. There are currently three permanent advisers and five posts for temporary advisers.¹

The Group of Advisers' research agenda is set in line with the DG's and overall Commission's policy priorities. For example, during 2005, the Advisers focused on several topical issues such as ageing and the sustainability of pension systems, financial stability and crisis prevention, innovation and EU research strategies, business cycle behaviour in the euro area, productivity and labour market trends, the design of fiscal and monetary policies, and globalisation. The Group of Advisers' key outputs include analytical papers, contributions to conferences and workshops, technical support and advice on research activities across the DG as well as the organisation of events such as Economic Research Conferences.

DG ECFIN also has a **Visiting Fellows Programme** and the **Economic Seminar Programme** through which external economic researchers undertake short-term visits (one or two weeks with a possible extension of up to six weeks) to DG ECFIN. The aim of the Visiting Fellow Programme is to enhance the overall quality of work done by DG ECFIN and to strengthen in-house know-how by improving the relationship with the wider economic research community. During their stay, Visiting Fellows are expected to present their research work at a seminar and prepare an accompanying seminar paper for

¹ In 2005, one of the temporary posts was occupied and two new appointments were made in November that year. In the past (until end of 1998), advisers on temporary posts were placed directly under the Director General's responsibility.

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publication in the Economic Papers. Those participating in the Visiting Fellows Programme typically include leading economists from academia, international organisations, governments and top research institutions.

In addition to being a full member, technical assistance is provided by DG ECFIN staff to the **Economic Policy Committee (EPC)**, **Economic and Financial Committee (EFC)**² and the working groups associated with them.

Some economic research tasks are outsourced by DG ECFIN to external experts through the **European Forecasting Network (EFN)**, **Economic Studies Programme** and the European Commission's **Framework Programmes** on Research and Technological Development (FP6 and FP7). In addition, econometric estimation work is undertaken for DG ECFIN by the **Joint Research Centre (JRC)** in Italy. **Eurostat** is a key provider of data for economic research.

The **European Forecasting Network** was launched in 2001 with an aim of improving the analysis of euro-area economic conditions and policy options. It consists of a network of leading EU research institutes, appointed through an open call for tenders, and is tasked with producing regular independent assessments of the economic outlook and policy challenges.³ The EFN has been managed by the Group of Advisers since the beginning of 2006. Apart from independent forecasts, the EFN members have produced a number of analytical papers.

The **Economic Studies Programme** is another mechanism for involving outside experts in the work of DG ECFIN. Studies are commissioned by all of DG ECFIN's Directorates from academic institutions and other research bodies through open or restricted calls for tender. Given the decentralized nature of these economic research activities, topics vary in accordance to the different requirements of DG ECFIN's Directorates and units within them. They can comprise theoretical analyses, methodological studies and/or empirical analysis of specific economic issues. Such studies make an important input to the ongoing work of DG ECFIN. When the studies are of interest to the wider public, they are published in the European Economy series or as Economic Papers.

² EFC and EPC are some of the key Committees involved in the institutional set up of the EMU. More information is given in the section on DG ECFIN's key audiences.

³ Two calls have been issued so far. A consortium of six research institutes across Europe was formed for the first EFN covering the period of 2002-2004. The second EFN was launched in 2005 for the period 2005-2007 and consists of ten research institutes.

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Through Directorate A, DG ECFIN has also recently become involved in submitting calls for research proposals of Commission-wide interest under the **Framework Programmes** FP6 and FP7. Two FP6 calls for proposals that DG ECFIN responded to subsequently led to research projects were selected for financing.⁴ A more ambitious set of economic research proposals is presently being prepared for submission under FP7 with this future work mainly oriented towards structural and fiscal policy research that can be used throughout DG ECFIN and the Commission as a whole. DG ECFIN was instrumental in having the heading of 'economic policy research' included in FP6 and is now seeking to expand this aspect of the programme under FP7.

Other Directorates within DG ECFIN also undertake economic research activities. This includes producing analytical papers and reports. But the main focus in other Directorates is on operational rather than economic research. The following table summarises current organisation of research function in DG ECFIN, indicating who produces research, internally and externally, and the nature of the basic research outputs.

| Table 2.1: Summary - Organisation of Economic Research in DG ECFIN | |
|--|--|
| <p><u>Internally produced research:</u></p> <ul style="list-style-type: none"> • Directorate A (research tools, economic analyses, technical support) • Other operational Directorates (economic analyses) • Group of Advisers (economic analyses, events/programmes) • Visiting Fellows Programme (economic analyses) • Economic Seminar Programme | <p><u>Externally produced (outsourced) research:</u></p> <ul style="list-style-type: none"> • Economic Studies Programme (economic analyses, methodological studies) • European Forecasting Network (independent forecasts, economic analyses) • Studies supported through DG RTD Framework Programmes (research tools) |

⁴ The FP6 research funding totalled € 6 million. €5.5 million was invested in an industry level project which is intended to develop a monitoring tool for assessing progress with the Lisbon Agenda (i.e. EUKLEMS tool) and € 500,000 was committed to a financial market integration study.

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2.5 Key Economic Research Outputs

DG ECFIN's economic research outputs can be broadly categorised as follows:

- **Research tools** that are developed to support operational activities in DG ECFIN;
- **Economic analysis** work - reports and papers - that provide original analyses of the EU economy, as opposed to standard operational reports that are also produced by DG ECFIN;
- **Events and programmes** – there are a number of external and internal events and programmes aimed at increasing the profile of DG ECFIN, fostering links with external research community and other DGs and Community institutions).

In the following sections, we provide a summary analysis of each type of economic research output. A summary is contained in the tables at the end of this sub-section.

Research tools are essential for supporting operational research and policy instruments that are used in DG ECFIN for economic policy coordination and surveillance (such as the 'Broad Economic Policy Guidelines' or 'Country Studies'). They are also used for the preparation of both operational and economic research analyses. The tools are available to other DGs: for example, in the case of econometric models, DG ECFIN has been asked by other DGs to run simulations for them. There are over 2,000 registered external users of the BACH database.

Economic analyses based on economic, rather than operational, research are publicly available on DG ECFIN's website and key publications are also distributed to around 2,400 subscribers in hard copy and to further 1,100 via email alerts. Analytical pieces are targeted at policymakers and analysts within the Community institutions, the EPC and EFC working groups (who receive tailored policy 'Notes'), academics and the wider public. Some work is also published in external journals.

Apart from economic analyses that are publicly available, DG ECFIN also produces analytical pieces that are targeted at specific audiences. 'Topics in Economic Research' are distributed internally to DG ECFIN's staff in order to keep them up to date with the latest developments in broader economic research while research 'Notes' are aimed at the members of the EPC/EFC and their working groups. In addition to the economic analyses produced by DG ECFIN's staff, the analytical work that is outsourced to external researchers includes the reports produced by the European Forecasting Network and studies generated through the Economic Studies Programme.

Economic research events and programmes - DG ECFIN organises a number of activities, some of which are aimed at the Commission's staff while others attract wider

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audiences. These events include: the Annual Research Conference and Brussels Economic Forum which are aimed at increasing DG ECFIN's profile by engaging academics and policymakers; the Visiting Fellows Programme which (as noted earlier) seeks to strengthen links with the academic community; and a series of workshops, seminars and the Summer School for the Commission's staff. DG ECFIN's staff also actively participate in conferences and events outside the Commission.

2.6 Users of Economic Research Outputs

As noted earlier, DG ECFIN's key target groups are policymakers/policy influencers and DG ECFIN's own staff who produce analytical work aimed at policymakers.⁵

Within **DG ECFIN** itself, economic research activities are extensively used to support operational research and policy instruments such as BEPGs that are produced by DG ECFIN and submitted to policymaking bodies in the EU institutions. Researchers and analysts in **other DGs** use the operational and economic research outputs in their analyses which feed into policy initiatives elsewhere in the Commission. DG ECFIN's research also indirectly reaches **other EU policymaking bodies** such as the European Parliament (in particular the Economic and Monetary Affairs Committee) and the European Council.

The **EPC and EFC working groups** are the key bodies through which DG ECFIN's economic research directly influences policymaking process. There are several working groups which assist the EPC and EFC with their tasks. DG ECFIN is represented on the working groups as well as the Committees and produces some bespoke research for the working groups. The EFC is the main forum for the preparation of meetings and decisions at a ministerial level within the EMU institutional setting, including the **Eurogroup**⁶ and the **ECOFIN Council**⁷. Discussions cover issues related to the policy mix, including monetary and fiscal policies and financial markets. The EPC is a sister committee concentrating on specific areas of competence decided by the European Council with a central focus on structural policies to improve growth and employment in the EU. DG

⁵ Policymakers can be defined as the decision makers in EU bodies (Commissioners, Government representatives, EPC/EFC members, etc). Policy influencers tend to be intermediary bodies (e.g. members of the working groups linked with EPC/EFC who in turn advise ECOFIN Council).

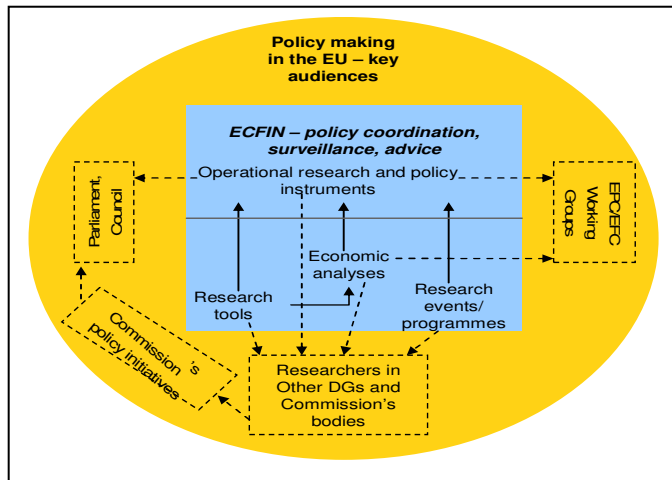
⁶ A forum for discussion among economic and finance ministers from EMU member states on issues connected with their shared responsibility for the single currency.

⁷ A council consisting of economic and finance ministers of EU25.

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ECFIN prepares regular policy updates ('Notes') for these committees and working groups prior to their meetings.⁸



The diagram opposite summarises the relationship between DG ECFIN and key policymaking audiences. Apart from policymaking circles, DG ECFIN's research is also aimed at wider audiences including academics, analysts from financial institutions/private companies, journalist, students and the wider public.

The **academic community** is an important target since it indirectly

influences policymaking by shaping opinion and debate. A further reason for DG ECFIN's engagement with academics is simply to participate in scientific debate on key economic policy issues. DG ECFIN therefore strives to maintain a close link with academics and leading economists from research institutions through its outsourced research (European Forecasting Network and Economic Studies Programme) and through the activities such as conferences, seminars, the Visiting Fellows Programmes, and the Summer School. DG ECFIN staff also actively participates in events organised by other organisations.

The relationship with **other target groups** such as journalists, financial institutions and private sector organisations is very much in the category of secondary audiences. Over the past few years, DG ECFIN has made efforts to develop relationships with financial services organisations to promote its research and learn more about the research undertaken in these organisations.

⁸ These documents are prepared specifically for the committees/working groups to help prepare discussion on specific policy issues relevant to the work programme of the committees/working groups. Apart from technical support related to economic analysis, DG ECFIN also provides logistical support to the working groups. Through the EPC and EFC Secretariats, DG ECFIN organises the meetings and co-ordinates communications to the working groups members.

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2.7 Process for Setting DG ECFIN's Research Priorities

Economic research priorities for Directorate A are identified through discussions involving DG ECFIN's Director-General, Directorate A's Director and the Group of Advisers. The research outputs produced by other Directorates in DG ECFIN are mainly driven by the thematic expertise of their staff members and operational priorities.

Directorate A is also often approached with ad-hoc demands for research/technical assistance by its users. While ad-hoc demand-side requests for economic research are generally met by redeploying Directorate A's existing resources, this has led to the outsourcing of some of the other work of individual units within Directorate A. Both Directorate A and other Directorates provide ad-hoc analytical work in order to support the work of the EPC/EFC and the working groups associated with them.

High level policy developments and ad hoc demand-side requirements tend to be the main drivers of the economic research agenda. Due to the large volume of work generated in this way, DG ECFIN has been constrained in its ability to develop more supply-side driven research activities. To the extent that this has been feasible, the Group of Advisers is expected to act as a main engine for generating research ideas based on developments in the wider economic research field. Interaction with external economic researcher in other institutions (central banks, private sector financial organisations, the ECB, OECD, etc) is also a way of stimulating DG ECFIN's economic research agenda.

2.8 Dissemination of Economic Research Outputs

DG ECFIN uses a wide range of mechanisms to disseminate its economic research outputs. The publications programme is made available each year in the Commission's 'Programme Ordinaire de publication' (POP) which is an internal communication document available to all Commission staff. Dissemination of economic research outputs within DG ECFIN is mainly via the **intranet**. There is, however, no dissemination via the Commission-wide IntraComm system to other DGs. Instead economic research outputs are disseminated to particular contacts in other DGs.

From an external perspective, DG ECFIN's **website** is a key tool for disseminating the results of economic research and providing access to databases and indicators. It also contains information about research-related events. The AMECO and BACH databases and the data gathered through Business and Consumer Surveys are all publicly available via DG ECFIN's website (during 2005, AMECO, which contains key annual macroeconomic indicators, was accessed 18,078 times for time series, 44,435 times for its methodological notes, and 306,794 times for its pre-formatted statistical annex. The BACH database has 2,078 registered external users).

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Directorate A also has a database of approximately 1,000 users outside the Commission who are sent **email updates** about DG ECFIN's research. A considerable volume of information is sent out in hardcopy by **post**. This includes Economic Papers (approximately 1,100 subscribers), EU Economy Review (approximately 730 subscribers), Enlargement Papers (approximately 300 subscribers) and European Economy, main and special reports (approximately 280 subscribers). In January 2006, the first DG ECFIN **newsletter** was also produced. Some of the work of the Group of Advisors, other Directorate A Units and other Directorates is published in **external academic journals** and in the publications produced by other institutions. DG ECFIN staff also actively participate in events organised by other institutions, e.g. conferences, and these also act as a channel for disseminating economic research outputs.

Whereas in the past, DG ECFIN adopted a quite targeted approach to the dissemination of economic research outputs, this is less so now. One reason for this is that although Directorate A takes the lead, the economic research function in DG ECFIN is based on a decentralized model with other Directorates also engaged in producing outputs. This makes it more difficult to coordinate dissemination activities in the way implied by having target groups.

Assessment of DG ECFIN's Economic Research Activities

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In this section, we provide an assessment of DG ECFIN's economic research function mainly using feedback from the survey work and interviews. We begin by assessing the feedback from within DG ECFIN itself and then move on to other user groups – other Commission DGs and external users.

In relation to each user group, we examine a similar set of issues – the quality and relevance of economic research outputs, how these outputs are used and in particular their relevance to policymaking, and other questions such as the timeliness with which information is delivered to users.

3.1 Internal Perspective - DG ECFIN Users

DG ECFIN's economic research activities are intended, in the first instance, to support the analytical and policy-related work within the DG itself.

The key issue highlighted in the terms of reference in this respect was: *'How much do research activities contribute to enhancing the overall analytical quality of the DG's work and hence support the achievement of the DG's policy objectives?'*

3.1.1 Nature and Use of Economic Research Outputs

As a starting point to the assessment, Table 3.1 analyses feedback from the survey work on which Directorate A research economic research outputs and tools are used most often across DG ECFIN as a whole.

Table 3.1: Which economic research outputs and tools developed by Directorate A (or other Directorates) do you use and how frequently?

| Research outputs and tools | Regularly | Sometimes | Rarely | Never | N/A |
|--|-----------|-----------|--------|-------|-----|
| | % | % | % | % | % |
| Macro models and econometric models | 21.4 | 28.6 | 28.6 | 21.4 | 0.0 |
| Databases (AMECO, TRIMECO, BACH) | 57.1 | 28.6 | 14.3 | 0.0 | 0.0 |
| Business and Consumer Surveys Data | 32.1 | 17.9 | 21.4 | 28.6 | 0.0 |
| EU Economy Review | 35.7 | 32.1 | 28.6 | 3.6 | 0.0 |
| Public Finances in EMU | 21.4 | 17.9 | 35.7 | 21.4 | 3.6 |
| Economic Forecasts (Spring and Autumn) | 50.0 | 35.7 | 7.1 | 7.1 | 0.0 |
| Economic, Enlargement, Occasional Papers | 42.9 | 32.1 | 17.9 | 7.1 | 0.0 |
| Special Reports | 25.0 | 46.4 | 17.9 | 3.6 | 7.1 |
| Country Focus Series | 17.9 | 35.7 | 35.7 | 10.7 | 0.0 |
| Quarterly Report on the Euro Area | 21.4 | 32.1 | 35.7 | 10.7 | 0.0 |
| Price and Cost Competitiveness Report | 3.6 | 39.3 | 28.6 | 28.6 | 0.0 |
| Topics in Economic Research | 7.1 | 28.6 | 57.1 | 7.1 | 0.0 |

Source: CSES analysis of survey responses

Assessment of DG ECFIN's Economic Research Activities

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Among the research tools, **databases** are most frequently used with a combined 57% of DG ECFIN staff responding to the survey using them regularly. This finding is not surprising, given that access to databases is open to all staff. DG ECFIN's staff also make extensive use of economic analyses, the most frequently read publications being **Economic Forecasts**, with 50% of the surveyed staff indicating that they read them regularly and 36% reading them sometimes. Other frequently used publications are **Economic Papers, Enlargement Papers, Occasional Papers, EU Economy Review** and **Special Reports**. Although the EU Economy Review is a widely read publication, it is used less extensively in the daily work of DG ECFIN's staff.

The publication **Topics in Economic Research**, which is designed to keep DG ECFIN staff updated on the developments in external economic research, does not seem to be as extensively used (according to our survey, 57% of staff indicated that they rarely read this publication and a further 29% only reading it sometimes). It needs to be borne in mind, however, that Topics in Economic Research is a relatively new product. As such it would be premature to conclude that it should be discontinued. A publication such as this does serve a useful function in helping DG ECFIN staff identify relevant economic research. Moreover, with a larger Group of Advisers, more could be done to develop the publication. Presentational aspects could also be improved (perhaps by adopting the Country Focus format). So, overall, we suggest that no action is taken for the time being but that use of the Topics in Economic Research is kept under review and changes considered if after another 6-9 months the situation does not change.

The **training activities** that DG ECFIN organises to increase the know-how and skills of its staff are considered of good quality and helpful in keeping up to date with external economic research: a third of the survey respondents had attended DG ECFIN's Summer School, with 57% rating it as being of good value and further 22% rating it as being of high value. A total of 57% of the survey respondents had attended the Workshops Programme, with almost 70% of them rating them as medium-high value. The feedback from the interviews is also very positive about of the workshops programme. Given the wide scope of the research undertaken by DG ECFIN, it is understandable that the workshops cannot easily cover the full range of staff research interests. Nevertheless, even if the learning points taken from the workshops and the Summer School cannot be always directly incorporated into analytical work, they are still valuable mechanisms of broadening the appreciation of economic research issues.

Overall, our research suggests that DG ECFIN's economic research outputs are extensively used within the DG. In the background section, we elaborated in some detail on how these economic research outputs are used: in summary, the economic research work feeds directly into the operational analyses produced by DG ECFIN's staff. Research tools are used to source data and/or to generate simulations required for operational analyses while economic analysis contained in publications is used as background information for a wide range of DG

Assessment of DG ECFIN's Economic Research Activities

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ECFIN activities. However, there is scope for awareness within DG ECFIN of economic research outputs to be improved. For example, one respondent to our survey stated that: “It is not possible to get informed about research activities in Directorate A on a regular basis, i.e. knowledge management in DG ECFIN could be improved”. Another person suggested that “Short internal seminars would improve internal communication. Not all staff is aware of what can be found in our own publications”.

3.1.2 Research Tools

In the terms of reference for the evaluation, the question was posed: *‘To what extent do the DG’s modelling activities, medium-term statistical coordination and data base support activities respond to the needs of the DG’s staff and beyond in terms of relevance, accessibility and other relevant criteria?’*

The key research findings with respect to the use of key research tools were discussed in some detail earlier and confirm that the research tools are indispensable to the work of DG ECFIN’s staff and are widely used in organisations outside DG ECFIN. It is mainly DG ECFIN’s staff, but also officials in other parts of the Commission, who use **macro-economic models** which are developed and run by Directorate A. Given that the models cannot be directly accessed by external individuals and organisations in a way that is possible with DG ECFIN’s databases, Directorate A needs to run simulations on their behalf and their direct use outside DG ECFIN is therefore limited. Nevertheless, the interview feedback from those who have accessed Directorate A’s modelling services is very positive with regard to the service provided.

Similarly, the use of **Business and Consumer Survey** data is quite extensive and given its unique nature as an EU-wide survey and it is considered to be highly valuable. Within DG ECFIN, it is extensively used for forecasting activities and in addition to the publicly available data, DG ECFIN produces also an internal publication aimed at staff which contains a more sophisticated set of indicators. The data is also used to brief Commissioners who participate in the ECB Council. Ad-hoc demands for briefs based on the data are also quite common and, for example, include requests from the Cabinet of the President of the Commission as well as the Commission’s external relations services, i.e. DG RELEX and DG Trade.

DG ECFIN’s **databases** are the most widely used of all research tools across all user groups. A substantial proportion of respondents to our survey in each user group (around 30-50%) use the databases regularly. For example, the AMECO database was (as noted earlier) accessed over 350,000 times in 2005. The databases are developed primarily to cater for internal needs since DG ECFIN is conscious of the need to avoid duplicating the work already done by EUROSTAT for the wider public, but the databases seem to be nevertheless widely used outside DG ECFIN. For example, there are over 2,000 external subscribers to the BACH database. In our survey, both internal and external users indicated that the data is very relevant to their needs as the same information cannot be easily obtained from other

Assessment of DG ECFIN's Economic Research Activities

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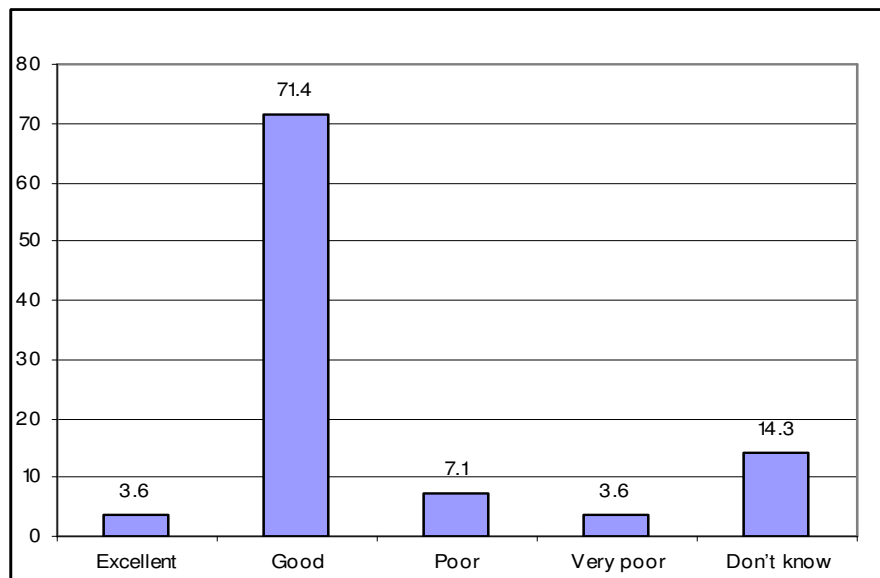
sources. DG ECFIN's databases compare very favourably in terms of usability with EUROSTAT's databases. They are considered particularly user-friendly in terms of data downloads.

Overall, DG ECFIN has a robust set of economic research tools which are widely used and highly regarded by both external and internal users.

3.1.3 Quality and Relevance of Economic Research

DG ECFIN's economic research is regarded by most Commission staff (71%) responding to the survey as being of a good quality. Figure 3.1 provides a full breakdown of the feedback from staff on the quality of the research.

Figure 3.1: Overall, how would you rate the quality of DG ECFIN's economic research activities?



Source: CSES analysis of survey responses

Feedback from within DG ECFIN's on the quality of economic research was a little less positive than that received from other sources. However, in the interviews we undertook with DG ECFIN staff, no significant issues were raised about the quality of research tools or analyses used to produce operational analyses. Concerns about quality were more to do with the time available to staff to carry out research. More specifically, the demands associated with operational research are seen as imposing significant constraints on the amount and quality of economic research that can be produced.

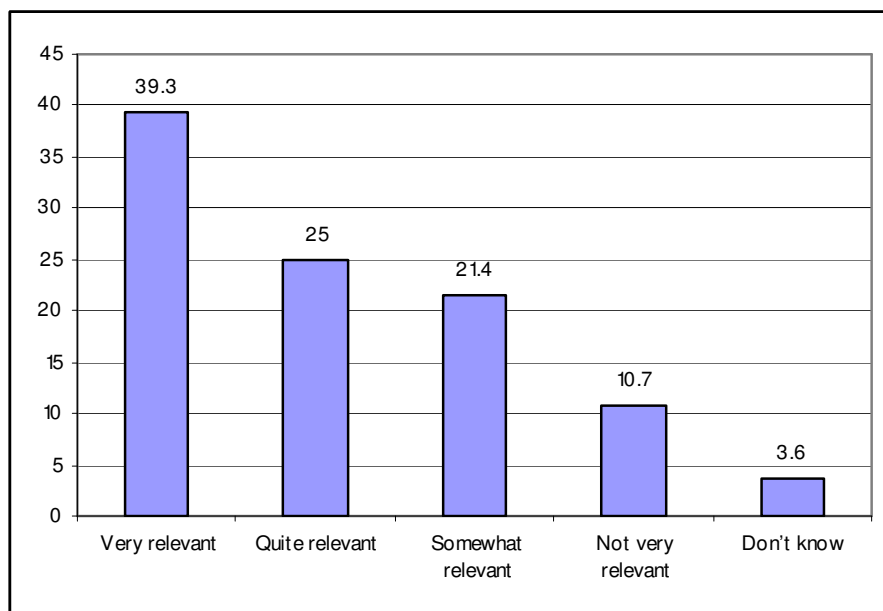
Assessment of DG ECFIN's Economic Research Activities

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It is clearly possible for research to be of a high quality and yet for it not to meet the needs of users. A key question posed in the terms of reference was: *'To what extent are the objectives of the DG's economic research activities relevant to the needs and issues that they are supposed to address?'*

The survey findings indicate that economic research outputs are seen as essential to DG ECFIN's analytical capacity with some 65% of DG ECFIN's staff who responded to the survey stating that they are either 'very relevant' or 'quite relevant' to their needs. There were very few exceptions to this: for example, one survey respondent stated that: "In the field of financial markets research provided by the financial industry/IMF/OECD/ECB/NCB is usually more relevant than ECFIN research." But, overall, as Figure 3.2 shows, some 40% of DG ECFIN's staff considered that the economic research being produced was 'very relevant' to their research and analytical needs.

Figure 3.2: Overall, to what extent is the economic research produced by DG ECFIN relevant to your research and analytical needs/ needs of your Unit/ Directorate?



Source: CSES analysis of survey responses

Our evaluation indicates that research outputs are also being delivered in time to enable the Directorates to carry out their operational tasks (71% of survey respondents confirmed this).

The survey feedback suggests that awareness of **outsourced research activities** and their relevance to DG ECFIN is lower compared with internally-produced economic research:

Assessment of DG ECFIN's Economic Research Activities

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- Some 40% of respondents were not aware of the EFN outputs;
- Of those who were aware of them, approximately 60% of respondents considered the reports to be of medium-low relevance;
- 70% respondents considered that EFN outputs did not add very much value to the forecasts undertaken already by DG ECFIN and in other institutions.

These findings are not particularly surprising because outsourced research activities fulfil a specific function in relation to Directorate A's research agenda and are not directly relevant to the activities of other DG ECFIN Directorates. Although not widely used in DG ECFIN, **EFN** forecasts nevertheless have a high value to the forecasting unit. EFN forecasts are delivered at an earlier point in time compared with DG ECFIN's own forecasts and involve the use of a different model. The EFN's output is therefore used to some extent as a benchmark for the DG's own forecasts and its value lies in this function.

However, reinforcing an earlier point about improved internal communication generally, there is a case for further promotion of EFN's activities to DG ECFIN's staff and other potential target groups. Apart from the forecasts, the EFN also produces economic reports on topics agreed with Directorate A. Both the reports and forecasts are currently published on a separate website and presenting at least some of this material on DG ECFIN's own website (perhaps under Economic Papers or another appropriate series) could help wider audiences better understand the scope and value of the EFN's work. Also the timing of EFN reports – they have tended to be made available in the spring and autumn when DG ECFIN's workload is at a peak – has not helped increase their visibility. However, the EFN's role is important as a source of external expertise and we see scope for it to be expanded (see Section 4).

Awareness of the **Economic Studies Programme** seems to be even lower with only around 14% of DG ECFIN respondents being familiar with the outputs. However, given that these studies are commissioned to cater for the specific needs of different DG ECFIN Directorates, it is perhaps unsurprising that many DG ECFIN's researchers are not particularly familiar with the full range of the studies undertaken. More could again, however, be done to improve transparency and the integration of the Economic Studies Programme into DG ECFIN's research outsourcing generally. A more centralised – or at least coordinated - approach to procuring studies (at present, decisions are taken at Head of Unit level) could help in this respect. From a different perspective, the Group of Advisers role in the Economic Studies Programme should be more closely integrated into their work programme.

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3.1.4 Role of Technical Assistance

We also examined the quality of **technical assistance** available to DG ECFIN staff on specific economic research issues. The development of economic research tools is concentrated in Directorate A and it has an important function in making technical expertise available to other DG ECFIN Directorates. We examined the same question in relation to the Group of Advisers because of the nature of their role in providing economic expertise on specific issues.

Approaching two-thirds (64%) of DG ECFIN's staff responding to the survey had made use of the technical assistance available from Directorate A. As can be seen from Table 3.2, satisfaction levels are generally high. Fewer respondents (36%) had had contact with the Group of Advisers to obtain technical assistance and this is reflected in the satisfaction ratings.

Table 3.2: How satisfied were you with Directorate A/Group of Advisers' technical assistance?

| Satisfaction with technical assistance | Dir A staff | Group of Advisers |
|--|-------------|-------------------|
| Very satisfied | 38.9 | 30.0 |
| Satisfied | 55.6 | 50.0 |
| Fairly satisfied | 5.6 | 20.0 |
| Not satisfied | 0.0 | 0.0 |
| Don't know | 0.0 | 0.0 |
| Total | 100.0 | 100.0 |

Source: CSES analysis of survey responses

3.1.5 Comparisons with Other Sources of Economic Research

As outlined in Section 2, the main objective of economic research activities is to support DG ECFIN's analytical work and policy analysis/making. During this evaluation we discussed economic research outputs with a wide range of users inside and outside DG ECFIN.

Feedback from the consultations indicates that there is a strong consensus that DG ECFIN's economic research should maintain its focus on supporting policymaking and policy analysis (as opposed, for example, to having a more academic orientation). A key feature of the economic research being undertaken is that it focuses on the macro-economic policy issue of specific relevance to DG ECFIN and other Community institutions: the focus on the EU policy issues, especially with respect to the euro area, is the key differentiator of DG ECFIN's research. As such, it is more EU policy orientated and focused on the issues relevant to Commission policy priorities than the research available

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from other international institutions (OECD, IMF, World Bank, ECB, other international institutions) or from academia.

One survey respondent summarised the situation as follows: “The focus of our research is to give substance to our policy proposals and advice to others - not more but also not less. Here we have our comparative advantage and that is where our own demand is. Other research should be done by research institutions”. Our evaluation confirms that the specific function of DG ECFIN's economic research in supporting Commission policy making, and the distinction in this respect with research carried out by other sources, is generally recognised.

Table 3.3: Overall, what is the added value and quality of the DG ECFIN's economic research compared with research that is available from other sources?

| Extent of added value | No. | % |
|-----------------------|-------|-------|
| High | 38 | 25.9 |
| Medium-High | 59 | 40.1 |
| Medium | 21 | 14.3 |
| Low-Medium | 10 | 6.8 |
| Low | 2 | 1.4 |
| Don't know | 17 | 11.6 |
| Total | 100.0 | 100.0 |

Source: CSES analysis of survey responses.

There is inevitably some overlap in the subject matter covered by DG ECFIN's economic research hand that of other institutions.

However, as another survey respondent commented: “General purpose publications like the EU Review and the Economic Papers are more likely to overlap with publications from other institutions. This is unavoidable and is not necessarily negative. The same topics (e.g. macroeconomic challenges facing acceding countries) can be approached from alternative perspectives in the EU Review or, say, the OECD's ‘Economic Outlook’. A similar point was made by somebody else from within DG ECFIN: “Even if there is sometimes an overlap (e.g. forecasts are done by ECFIN, ECB, OECD, IMF etc, and the same is true for research on some other topics) the assessment by the different institutions as well as their political analysis may differ - which is in itself of high relevance for my work”.

We did not come across any compelling arguments suggesting that DG ECFIN should change role of conducting policy-oriented economic research. But there seems to be some scope for defining more precisely the objectives of the research vis-à-vis policymakers in the Commission. In the following sections, we explain this further.

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3.1.6 Contribution to Policy Making

Bearing in mind the earlier comments, a key question is the extent to which DG ECFIN's research stimulates and supports policy-making. The specific question in this respect from the terms of reference was: *'To what extent are the results of internal and external research effectively channelled into policy debate within the DG and other Community institutions?'*

Within DG ECFIN and among policymakers in the EPC and EFC working groups, economic research outputs are seen as fulfilling this role:

- 46% of DG ECFIN's staff indicated in the survey that DG ECFIN's economic research stimulates policy debates in their Directorate or across the DG as a whole 'to some extent' (with a further 38% stating that it stimulates the debates either 'quite a lot' or 'very much');
- On balance, DG ECFIN's staff consider that internally produced research contributes more to policy debates than outsourced research;
- In terms of externally generated research, the EFN reports seem to be weak in stimulating debates within DG ECFIN, but the ESP reports are quite successful.

Members of the EPC and EFC working groups consider that both the Notes that DG ECFIN prepares for them and DG ECFIN's staff who participate in the working groups' meetings make a significant contribution to the policy discussions within their working groups. A total of 84% of the survey respondents indicated that this material contributes 'quite strongly' to the policy debates in the working groups and 77% said the same about DG ECFIN's representatives who participate the working groups meetings.

Table 3.4: What contribution do DG ECFIN's representatives make to the work of your Working Group (where 1 is 'weak contribution' and 5 is 'strong contribution')?

| Contribution to working groups | 5 | 4 | 3 | 2 | 1 | Don't know |
|--|------|------|------|-----|-----|------------|
| | % | % | % | % | % | % |
| Provide expertise on relevant economic policy issues | 51.2 | 36.6 | 7.3 | 0.0 | 0.0 | 4.9 |
| Bring to your attention new issues relevant to your area of economic policy | 9.8 | 51.2 | 31.7 | 2.4 | 0.0 | 4.9 |
| Help stimulate policy debate in your working group/committee and beyond | 31.7 | 46.3 | 14.6 | 2.4 | 0.0 | 4.9 |
| Help you identify and articulate the topics for future Notes | 22.0 | 34.1 | 31.7 | 2.4 | 0.0 | 9.8 |
| Help you identify and articulate areas where DG ECFIN can offer technical assistance | 26.8 | 39.0 | 17.1 | 7.3 | 0.0 | 9.8 |

Source: CSES analysis of survey responses.

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During the interviews, the working group members also commented on what is seen as the strong technical capabilities of DG ECFIN's staff and solid knowledge of economic issues as making an important contribution to their deliberations. Of particular interest in this respect was feedback from a EU10 representative who argued that the support provided had been extremely useful from a capacity building perspective, readily accessible and very promptly and efficiently delivered.

Whilst the contribution of DG ECFIN's economic research to policy-making is generally recognised, the reverse is less true. One survey respondent identified the issue as follows: "The mutual feedback between research and policy advice is neglected, i.e. research is only seen as input to policy advice whereas policy advice is also of interest for identifying research priorities".

3.2 EPC and EFC Working Groups

DG ECFIN's economic research is mainly made available to the EPC and EFC working groups in the form of 'Notes'. Feedback from the evaluation suggests that these 'Notes' are suitably tailored to the needs of the working groups. Both the interview and survey responses indicate very positive findings in this respect:

- 95% of the respondents from the working groups make use of the Notes;
- When asked about the relevance of the Notes to the needs of their working groups, 97% of the respondents stated that they are either 'very relevant' or 'highly relevant';
- 87% of the respondents indicated that they use the Notes to prepare for the meetings, with further 64% using them as background information for their own analyses.

Because they are specifically tailored to the needs of the working groups and cover policy issues relevant to them, the Notes are seen as having a considerably high added value in comparison to the research available from other sources (28% of the respondents consider that they have a 'high' added value compared to the research available from academia and other institutions, while a further 49% stated that the added value as at a 'medium-high' level). Overall, the Notes are considered as very useful pieces of analytical work that are well written in terms of their structure, language and subject matter knowledge, and highly relevant with regard to the topics addressed.

The table on the next page summarises the survey findings with regard to the usefulness of the Notes:

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Table 3.5: To what extent do the Notes contribute to the work of your Working Group?

| Use of Notes by working groups | 5 | 4 | 3 | 1 | Don't know | |
|---|------|------|------|-----|------------|-----|
| | % | % | % | % | No | % |
| Analyses relevant economic policy issues | 41.0 | 48.7 | 5.1 | 0.0 | 1 | 2.6 |
| Brings to your attention new issues relevant to your area of economic policy | 12.8 | 48.7 | 30.8 | 0.0 | 0 | 0.0 |
| Helps stimulate policy debate in your working group/committee and beyond | 30.8 | 53.8 | 12.8 | 0.0 | 0 | 0.0 |
| Provides useful material for briefing policymakers | 25.6 | 33.3 | 25.6 | 2.6 | 1 | 2.6 |
| Keeps you up to date with the latest developments in relevant wider economic research | 12.8 | 41.0 | 33.3 | 0.0 | 0 | 0.0 |

Source: CSES analysis of survey responses.

An aspect of the Notes that could be improved is presentation of conclusions with respect to policy options. It was suggested in our consultations that setting out a more explicit analysis of the economic implications, and costs, of various policy options presented in the Notes would strengthen their use in decision making.

There also seems to be some room for improvement of the timing of the delivery of the Notes. While just over half (51%) of the survey respondents agreed that the Notes are 'mostly' delivered in time, a further 39% stated that they are only 'sometimes' delivered in time to support their work. Several comments received from working group members underline this point: For example, one person indicated that: "As often mentioned, the notes are delivered too shortly before the meetings so that people have hardly the time to read them in advance. But there has been some improvement." Another reiterated: "It would be greatly appreciated if ALL notes are available at least a week and a half prior to the meeting".

Apart from the Notes, DG ECFIN's wider economic research is also used by the EPC/EFC working group members, mainly for general information and as background information. Although it is highly rated in terms of its quality (75% of the respondents rated as being of 'excellent' or 'good' quality), the wider economic research is considered somewhat less useful to the working groups compared with the Notes. However, given that DG ECFIN's research covers a wide range of topics and, unlike the Notes, is not exclusively focused on the subjects of interest to the working groups, this finding is not surprising.

Also in the case of working groups, the profile of the EFN's outputs is quite low with 30% of working group members who responded to the survey indicating that they never use these outputs and further 20% indicating that they are not aware of the EFN's activities in the first place. This would again suggest, as argued earlier, that the work of the EFN could be better

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promoted. However, overall, the working group feedback on DG ECFIN's wider economic research is very positive. The following table illustrates some of the responses:

Table 3.6: To what extent is DG ECFIN's wider economic research achieving key aims (where 1 = 'not at all' and 5 = 'very much')?

| Achievement of aims | 5 | 4 | 3 | 2 | 1 | Don't know |
|---|------|------|------|-----|-----|------------|
| | % | % | % | % | % | % |
| Addresses relevant economic policy issues | 22.0 | 39.0 | 14.6 | 2.4 | 0.0 | 22.0 |
| Brings to your attention new issues relevant to your area of economic policy | 7.3 | 26.8 | 39.0 | 4.9 | 0.0 | 22.0 |
| Keeps you up to date with the latest developments in relevant wider economic research | 14.6 | 22.0 | 31.7 | 9.8 | 0.0 | 22.0 |

Source: CSES analysis of survey responses.

An interesting finding is that neither the Notes nor the wider economic research manages significantly to draw the attention of the working groups to new issues relevant to their area of economic policy. The interviews with the working group representatives indicate that they do not necessarily expect this from DG ECFIN since there is a wide range of external economic literature that highlights such issues.

However, given the mission of DG ECFIN to provide support for economic policy, stronger 'thought leadership' could be beneficial to the policy makers. An important distinction was made here by one of the working group members: "One needs to be clear about the purpose: a note for the Working Group may have a different content and format to a note for high-level policy makers. For the Working Group, it should be rather detailed, and stimulate discussion, whereas for policy makers it must be relatively short and focused on the key issues/conclusions".

DG ECFIN's representatives also participate directly in the meetings working group meetings, providing advice and analytical support in response to ad-hoc requests by members. Overall, feedback from the interviews and the survey of working group members is very positive about DG ECFIN's input to the meetings: the contributions from the DG ECFIN's staff are very highly regarded and seen as generally offering clear and well grounded advice on economic issues. Below we present some of the key findings with respect to the contribution of DG ECFIN's staff to the working groups meetings:

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Table 3.7: Contribution of DG ECFIN's staff to the working groups meetings

| Contribution of DG ECFIN staff to working group meetings | 5 | 4 | 3 | 2 | 1 | Don't know |
|--|------|------|------|-----|-----|------------|
| | % | % | % | % | % | % |
| Provide expertise on relevant economic policy issues | 51.2 | 36.6 | 7.3 | 0.0 | 0.0 | 4.9 |
| Bring to your attention new issues relevant to your area of economic policy | 9.8 | 51.2 | 31.7 | 2.4 | 0.0 | 4.9 |
| Help stimulate policy debate in your working group/committee and beyond | 31.7 | 46.3 | 14.6 | 2.4 | 0.0 | 4.9 |
| Help you identify and articulate the topics for future Notes | 22.0 | 34.1 | 31.7 | 2.4 | 0.0 | 9.8 |
| Help you identify and articulate areas where DG ECFIN can offer technical assistance | 26.8 | 39.0 | 17.1 | 7.3 | 0.0 | 9.8 |

Source: CSES analysis of survey responses.

It is also interesting to note that the role that the DG ECFIN's economic researchers play in highlighting new issues relevant to EU economic policy seems to be more pronounced during the meetings themselves than through research or the Notes. This suggests that more face to face interaction with key users through workshops or presentations could help develop DG ECFIN's role as a source of forward looking research as a 'thought leader'.

DG ECFIN's ad-hoc technical assistance to the working groups on some specific issues is also considered to be very useful: 42% of the survey respondents had used DG ECFIN's ad-hoc inputs and 94% of them are either 'very satisfied' or 'fairly satisfied'.

Although participation in the Brussels Economic Forum and Annual Economic research conference is not particularly high among the members of the working groups, the interview feedback indicates that this is mainly to do with other commitments that coincide with the events rather than with the quality of the events themselves or their interest in the subject matter. The events are considered as being useful platforms for bringing policymakers and economic researchers together and a good tool for raising the profile of DG ECFIN.

3.3 Other Commission DGs and Community Institutions

Key users of DG ECFIN's research in other DGs are analytical/ research staff that produce research for the policymakers. Other DGs have only a very limited capacity to carry out economic research on their own (for example, DG REGIO has only three staff doing this type of work) and DG ECFIN's Commission-wide role is therefore a potentially very important one. Its activities in the economic research field are also directly relevant to other Community institutions.

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3.3.1 Relationship with Other DGs

Although it is difficult to generalise, the relevance of DG ECFIN's research outputs to other DGs seems reasonably high. Bearing in mind that DG ECFIN conducts a different kind of economic research to other DGs by focusing on issues that are pertinent to EMU and macro-economic aspects of structural policies, rather than structural policies themselves, there are limits to which DG ECFIN's activities are likely to be directly relevant to other DGs. Similarly, DG ECFIN does not have the resources that would be required to cover economic research aspects of all other EU policy areas in depth. Its contribution to the research needs of other DGs is therefore necessarily limited.

The feedback we received from other DGs reflects this. On the positive side, several of those we spoke to indicated that the research produced by DG ECFIN is of a high standard and topical. Opinions on the academic merit of economic research vary but it was commented that the work does not need to be highly original to fulfil the needs of its users, particularly from the point of view of policy work. DG ECFIN needs to maintain a certain degree of independence within the Commission to be able to produce 'objective' analyses of the macro-economic impact of EU policies which could be potentially eroded by producing research that specifically meets the needs of other DGs.

This consideration does not apply to the research tools developed by DG ECFIN that are highly relevant to most other DGs with the models being used for simulations and databases being accessed for analytical work. In general, the economic modelling provided by DG ECFIN is seen as useful and readily available, although a hope was expressed that the models be more easily expandable so as to make them more user-oriented. The distribution and presentation of the research also received positive comments. In this respect, the idea of DG ECFIN setting up a modelling website so that other DGs are better informed about this aspect of economic research activities is highly relevant and to be supported.

Although the main target group for the seminars series organised by DG ECFIN is internal, staff from other DGs also attend them and they are considered to be useful and informative. Participation by staff from other DGs in the seminars is, however, low. Staff from other DGs can also contribute to the 'EU Economic Review' and the inter-service consultation provides a way of obtaining an input from other DGs on the text.

Our consultations suggest a need for a more systematic, demand-driven approach to the coverage of EU policy areas as it is felt that economic research that is relevant to other DGs tends to be supply driven and rather ad hoc. Others suggested that in certain specialist areas, such as agriculture, the subject area knowledge of economists in DG ECFIN is not sufficient to produce research of the highest quality. As such, it is felt that some economic research activities relating to specific issues could be more effectively conducted by the DGs themselves.

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In considering these arguments, the earlier comment above concerning DG ECFIN's limited economic research resources needs of course to be stressed. DG ECFIN simply does not have the resources to generate research on a large scale on behalf of other DGs. However, an economic research programme that is developed through consultation with other DGs would nevertheless be advantageous, together with thorough explanations of the expected added value and rationale for the type of economic research being undertaken by DG ECFIN.

The lack of such a Commission-wide economic research programme and the consequent difficulty of knowing what research is being undertaken by DG ECFIN has led some DGs to launch their own studies in areas that might be covered by DG ECFIN. To rectify this, one possibility would be to establish a group with representatives from other DGs to advise on economic research priorities across the Commission. This could also be a mechanism enabling research being undertaken elsewhere in the Commission to be identified where a DG ECFIN view would be appropriate and helpful. It could also play a role in the dissemination of DG ECFIN economic research outputs.

In addition to the relationship with individual DGs, DG ECFIN has had an increasing influence on the research agenda of the **R&D Framework Programme**. A reflection of this is that a heading 'Economic Policy Research' has been included for the first time in FP6. Projects that are undertaken have to be of Commission-wide interest and, as such, DG ECFIN's involvement in the Framework Programme is an effective way of strengthening links with other DGs. DG ECFIN has also had a Commission-wide impact in other ways. For example, it encouraged the Joint Research Centre to establish a unit on modelling for use by other DGs.

3.3.2 Relationship with other Community institutions

Turning to other European institutions, DG ECFIN has a good relationship with DG Economics at the **European Central Bank** and some links with its DG Research (the relationship with the ECB is examined in more detail in Section 5).

There is very little direct contact, however, with the **European Parliament**, in particular its Economic and Monetary Affairs Committee. This has quite a wide brief that includes oversight of the ECB but only a consultative role in relation to macro-economic affairs (for example, the Committee produces opinions on DG ECFIN reports). Many of DG ECFIN's economic research outputs are also used to brief MEPs. This includes economic forecasts, the Public finance Reports, and some research papers (e.g. the EPC's research on pensions and population ageing).

The EP's Economic and Monetary Affairs Committee is supported by a unit consisting of 12 officials but this does not include economists. Its links with the Commission are strongest

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with DG Internal Market given the Committee's role in the field of financial services legislation where the European Parliament has co-decision powers. Because of the lack of in-house expertise, the unit relies quite heavily on the economic research produced by DG ECFIN to brief MEPs.⁹

We understand that the feedback from MEPs on DG ECFIN's economic research outputs is generally very positive. The only criticism is that some material could be more concise with a summary aimed at policy-makers (the IMF's briefing material is seen a good model in this respect). Overall, our consultations suggest that there is scope for DG ECFIN to strengthen its relationship with the EP's Economic and Monetary Affairs Committee and, subject to adequate resources, to undertake economic research on its behalf. One source of funding for this could be the resources available to the Panel of Monetary Experts for undertaking studies.

Key conclusions and recommendations regarding the contribution of DG ECFIN's economic research work to internal policymaking

(Questions 1-1.1.B in the Terms of Reference)

Key conclusions:

- DG ECFIN's economic research corresponds very well to the needs of its staff and the policymakers within the EPC/EFC working groups and plays an important role in stimulating policy debate.
- The research is also considered to be of good quality and value-added among DG ECFIN's staff and EPC/EFC working groups.
- DG ECFIN's economic research activities are indispensable in supporting the operational research carried out across DG ECFIN's Directorates and therefore enhancing the analytical quality of DG ECFIN's work.
- DG ECFIN's Directorates are the key user group of a wide range of DG ECFIN's economic research. Databases, economic forecasts and analytical papers series being most frequently used outputs and they are considered as very useful in enabling staff to complete their daily tasks and in enhancing general level of knowledge. The seminars programme is also considered valuable in keeping staff up to date with the wider economic research.
- On the other end of the spectrum, despite being a publication aimed at enhancing the awareness of staff about external developments, Topics in Economic Research (TIERs) are neither frequently used nor are they considered particularly useful. However, this is a relatively new publication and more time is needed to establish its usefulness.

⁹ The European Parliament also has a Panel of Monetary Experts who provide ad hoc papers on issues dealt with by the Economic and Monetary Affairs Committee. Some support is also available from the EP's researchers who include a small number of economists. The EP had a separate Research Department but this was restructured in 2004 with its staff being assigned to particular policy departments.

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- The members of the EPC and EFC working groups find both the research Notes, DG ECFIN's wider economic research as well as their technical assistance very useful and of good quality. Some aspects such as writing style, timing of the Notes and some analytical and presentational aspects could be improved.
- The use of DG ECFIN's outputs by researchers in other DGs varies depending on their research and policy priorities. If this is the case, DG ECFIN's research is still used for personal interest. DG ECFIN's databases are quite widely used in other DGs and many of their staff find the seminars programme useful and informative.

Key recommendations:

- After a further 6-9 months, review the content of TIERS if the current low readership does not improve. The staff generally finds exposure to the external economic research beneficial (e.g. through seminars programme) and TIERS do have a role to play in raising the level of skills in the DG.
- When assessing different policy options (in both the research Notes produced for the working groups and wider outputs) it would help policymakers to have more explicit analyses of economic implications of different policy options. Every effort should be made to ensure that the working groups receive the Notes in a timely manner, i.e. at least a week before the meetings take place.
- Given the specific orientation of DG ECFIN's research in comparison to other DGs, i.e. its approach to analysing structural policies within the macro-economic context, it would not be realistic for DG ECFIN to undertake significant additional work specific to the needs of DGs, given the level of its current resources.

3.4 External Users of DG ECFIN's Economic Research

From an external perspective, an important starting point has been to examine the extent to which target groups were aware of the research undertaken by DG ECFIN.

3.4.1 Awareness of DG ECFIN economic research activities

Overall, we found that there is a reasonably familiarity with DG ECFIN's research with a third of respondents stating that they knew about most of the outputs and activities.

Table 3.8: Overall, how aware are you of economic research activities undertaken by DG ECFIN?

| Awareness | No. | % |
|--|------------|--------------|
| I have a good picture of all DG ECFIN's economic research activities | 8 | 6.7 |
| I am quite familiar with most of DG ECFIN's economic research activities | 39 | 32.8 |
| I am aware of some of DG ECFIN's economic research activities, but I am not certain about the full range of their research | 61 | 51.3 |
| I am not very familiar with DG ECFIN's research | 11 | 9.2 |
| Total | 119 | 100.0 |

Source: CSES analysis of survey responses

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Nevertheless, as can be seen from Table 3.8, a high proportion of respondents (51%) were not aware of the full range of DG ECFIN economic research outputs. To investigate this further, we asked external users to indicate which particular research outputs they were aware/not aware of and which they tend to use the most. Table 3.9 provides a full breakdown of the survey responses to these questions. In summary:

Table 3.9: Which economic research outputs organised by DG ECFIN have you used frequently?

| Economic Research | Regularly | Sometimes | Rarely | Never | N/A |
|---|-----------|-----------|--------|-------|------|
| | % | % | % | % | % |
| Macro models and econometric models | 14.3 | 36.7 | 17.0 | 24.5 | 7.5 |
| Databases (AMECO, BACH) | 42.2 | 22.4 | 9.5 | 18.4 | 7.5 |
| Business and Consumer Surveys Data | 26.5 | 27.9 | 15.6 | 25.2 | 4.8 |
| EU Economy Review | 42.9 | 32.7 | 14.3 | 7.5 | 2.7 |
| Public Finances in EMU | 35.4 | 27.9 | 15.6 | 18.4 | 2.7 |
| Economic Forecasts (Spring and Autumn) | 64.6 | 20.4 | 4.8 | 8.2 | 2.0 |
| European Forecasting Network reports | 16.8 | 25.2 | 21.8 | 25.2 | 10.9 |
| Economic, Enlargement and Occasional Papers | 40.1 | 42.9 | 10.9 | 5.4 | 0.7 |
| Special Reports | 20.4 | 51.7 | 17.7 | 6.1 | 4.1 |
| Country Focus Series | 15.0 | 40.1 | 29.3 | 12.9 | 2.7 |
| Quarterly Report on the Euro Area | 31.3 | 26.5 | 23.1 | 16.3 | 2.7 |
| Price and Cost Competitiveness Report | 16.3 | 27.9 | 24.5 | 25.9 | 5.4 |

Source: CSES analysis of survey responses.

3.4.2 Use and relevance of economic research to external audiences

The terms of reference for this evaluation focused on a number of other issues regarding the use and relevance of DG ECFIN's economic research to external users:

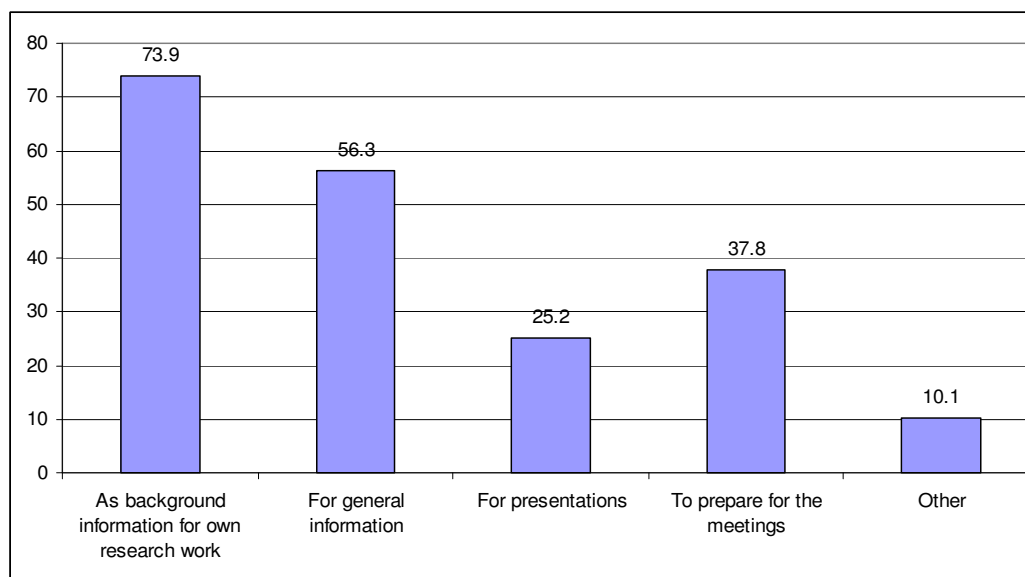
- Promoting debate, raising awareness and understanding among an increasingly wider audience about the DG's policy approach, economic developments in the EU, main challenges and policy issues, etc;
- Developing perceptions of the policy relevance of research activities, in particular of officials of other international institutions and academics;
- The utility and use of ECFIN publications and publicly available databases.

DG ECFIN's research outputs are used for a variety of purposes and strongly contribute to the analytical work of organisations and bodies outside DG ECFIN: 74% of respondents to our survey indicated that DG ECFIN's research feeds into their research work and 60% of respondents use it also for general information.

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Figure 3.3: Please let us know in which way do you use DG ECFIN's research



It is helpful to also examine which types of economic research outputs produced by DG ECFIN are mainly used externally. Table 3.10 provides an analysis of the survey feedback.

Table 3.10: Use of DG ECFIN's economic research by external audiences

| Economic research outputs | Regularly | Sometimes | Rarely | Never | N/A |
|---|-----------|-----------|--------|-------|------|
| | % | % | % | % | % |
| Macro models and econometric models | 10.3 | 42.3 | 15.4 | 25.6 | 6.4 |
| Databases (AMECO, BACH) | 37.2 | 21.8 | 10.3 | 25.6 | 5.1 |
| Harmonized Business and Consumer Surveys Data | 30.8 | 25.6 | 11.5 | 25.6 | 6.4 |
| EU Economy Review | 43.6 | 32.1 | 10.3 | 10.3 | 3.8 |
| Public Finances in EMU | 42.3 | 26.9 | 9.0 | 19.2 | 2.6 |
| Economic Forecasts (Spring and Autumn) | 65.4 | 15.4 | 5.1 | 11.5 | 2.6 |
| European Forecasting Network reports | 23.1 | 24.4 | 23.1 | 23.1 | 6.4 |
| Economic, Enlargement and, Occasional Papers | 46.2 | 39.7 | 6.4 | 6.4 | 1.3 |
| Special Reports | 23.1 | 47.4 | 17.9 | 7.7 | 3.8 |
| Country Focus Series | 15.4 | 39.7 | 29.5 | 12.8 | 2.6 |
| Quarterly Report on the Euro Area | 38.5 | 21.8 | 16.7 | 19.2 | 3.8 |
| Price and Cost Competitiveness Report | 21.8 | 30.8 | 19.2 | 24.4 | 3.8 |
| Annual Economic Research Conference | 9.0 | 29.5 | 23.1 | 28.2 | 10.3 |
| Brussels Economic Forum | 10.3 | 23.1 | 23.1 | 35.9 | 7.7 |

Source: CSES analysis of survey responses.

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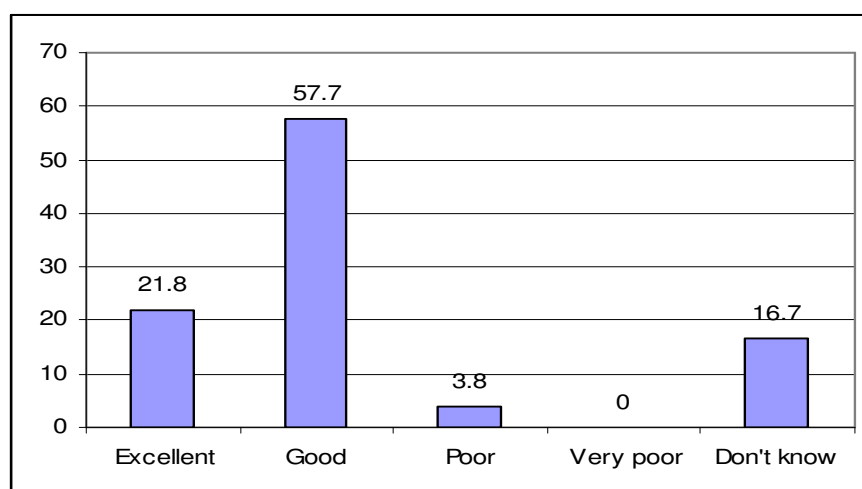
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As Table 3.10 shows, the Economic Forecasts, analytical papers series and Quarterly report on the Euro area are the publications that are most frequently used. The use of databases and Business and Consumer Surveys data is also quite widespread.

3.4.3 External perceptions regarding quality, relevance and added value

The overall quality of DG ECFIN's research activities is highly rated amongst external users with around 80% of respondents stating that is of either 'good' or 'excellent' quality.

Figure 3.4: Overall, how would you rate the quality of DG ECFIN's economic research activities?



Taking the overarching question highlighted earlier about the effects of DG ECFIN's economic research on external users, the research is very well received among the users outside the Community institutions: overall, 66% of survey respondents stated that it is either 'very relevant' or 'quite relevant' to the needs of their organisations. The tables below present amalgamated results from the surveys of external economic researchers and other external users of DG ECFIN's research.

Table 3.11: Overall, how relevant is DG ECFIN's research to your work/ needs of your organisation?

| Response options | % |
|-------------------|--------------|
| Very relevant | 33.3 |
| Quite relevant | 33.3 |
| Somewhat relevant | 21.8 |
| Not very relevant | 0.0 |
| Don't know | 11.5 |
| Total | 100.0 |

Source: CSES analysis of survey responses.

Assessment of DG ECFIN's Economic Research Activities

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In comparison to the research available from other institutions, DG ECFIN's work is also seen as demonstrating a high degree of added value. This stems from its focus on the issues relevant to the EMU and EU economic policy generally which external users cannot easily obtain from other sources (other European Commission services, academia, OECD, IMF, World Bank, ECB, other international institutions, etc).

Table 3.12: Overall, what is the value added and quality of the DG ECFIN's work compared with research produced by other sources?

| Response options | % |
|------------------|--------------|
| High | 26.9 |
| Medium-High | 37.2 |
| Medium | 12.8 |
| Low-Medium | 7.7 |
| Low | 1.3 |
| Don't know | 14.1 |
| Total | 100.0 |

Source: CSES analysis of survey responses.

There is also a perception that DG ECFIN's economic research is delivered in a timely manner with approaching two-thirds (64%) of external users who responded to the survey indicating that this was 'always' or 'mostly' the case.

Table 3.13: Is DG ECFIN's research delivered in time to provide information on key issues related to the European Commission's economic policy?

| Response Option | % |
|-------------------|--------------|
| Always | 6.4 |
| Mostly | 57.7 |
| Sometimes | 14.1 |
| Rarely | 1.3 |
| Never/No response | 20.5 |
| Total | 100.0 |

Source: CSES analysis of survey responses.

Our research in relation to the second question from the terms of reference on the ability of DG ECFIN's research to raise awareness of EU economic policy also shows that DG ECFIN achieves this successfully. Respondents to the survey indicated that the research plays an important role in helping them to understand both issues that are relevant to EU economic policy and the current state of the EU economy. In addition to its publications,

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DG ECFIN organises many activities to help promote discussion of key policy issues. DG ECFIN staff also make frequent inputs to events run by other organisations.

The **Annual Economic Research Conference** and **Brussels Economic Forum** seem to be good vehicles for raising the profile of DG ECFIN both amongst academics and policymakers. From a perspective of academics, the key benefit of participating in these events is to find out about EMU-related issues and policies directly from Commission officials themselves. Some 60% of academic respondents to the survey indicated that these events are either 'quite important' or 'somewhat important' economic research events.

More generally, the survey feedback from economic researchers indicates that DG ECFIN's research plays a role in stimulating debate in academic circles and an exchange of views with the Commission. For example, the **European Forecasting Network** promotes the work of DG ECFIN through conferences and seminars organised by the network members. During these events, they present the Special Topics reports that the academics produce within the framework of EFN, thus engaging a wider group of researchers.

The results of these debates are then channelled back into the papers produced by EFN members. As such, the EFN has considerable added value in promoting international contact and cooperation amongst academics on issues that would otherwise be confined to discussions at a purely national level. More specifically, it provides a platform for academics to discuss and debate the wider European implications of national developments and policies. Usually, these developments are analysed only within a national context and without EU-wide academic discussions about potential implications beyond national borders.

The **Visiting Fellows programme**, too, is successful in promoting debate amongst academics. Apart from engaging in discussions with the Group of Advisers and DG ECFIN staff, it adds value by encouraging networking and co-operation between external researchers. For example, two visiting fellows who recently worked together on a project for DG ECFIN subsequently extended the scope of the project and continued working on it after their visit ended.

The Visiting Fellows programme is a very good way of maintaining the relationships with the external academic community. It is attractive to external researchers as it gives them exposure to the policy environment whilst not being disruptive to their on-going work. The academics we interviewed confirmed that the duration of visits at DG ECFIN, which is currently between one to six weeks, is helpful in allowing them to combine it with their ongoing work. There is some indication from our consultations of an interest among academics in having the option of longer fellowships in the range of 12-24 months. Ideally, the Visiting Fellows programme also requires more promotion since it does not appear to be well known amongst researchers. This seems to be the case even with the researchers who have been following DG ECFIN's work for a number of years. In order to widen the pool

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of good quality external researchers it is worth considering more direct promotion of the Visiting Fellows Programme to the economics departments of selected universities. It is recognised that DG ECFIN cannot make approaches to individual academics.

Interestingly, there is some evidence to suggest that DG ECFIN's research is also reaching **policymakers at a local/regional level**. For example, one interviewee who works for a municipal public transport authority circulates regular updates to his colleagues on the relevant EU economic policy issues based on DG ECFIN's research material. He also uses DG ECFIN's research as background material in preparation for the meetings of the local authority. In recent years, DG ECFIN has made an effort to strengthen its links with external users from the financial markets. DG ECFIN's Country Focus Series, AMECO database, the Spring and Autumn Forecasts, Report on Public Finances, Quarterly Report on the Euro area and Business and Consumer Surveys data are particularly useful in this respect.

In relation to the third question from the terms of reference on developing **perceptions of the policy relevance of research activities** among academics and officials from other international institutions, we found that DG ECFIN's is successfully doing this.

The feedback from the academics who have been closely involved with DG ECFIN's work either through the Visiting Fellow programme, workshops or EFN indicates that their exposure to policymaking environment has been very beneficial in helping them to develop an appreciation of research-policy links and an understanding of EU policy priorities. Furthermore, the research undertaken by academics can be influenced by their contact with DG ECFIN. For example, there is evidence of this from the testimony of a Visiting Fellow who incorporated some new perspectives into his work on ageing and monetary policy after his visit to DG ECFIN. However, unless academics' work is undertaken specifically for DG ECFIN, the potential to have a significant impact on their research agenda should not be overstated. Academics' own research topics have the highest priority for them and they may incorporate policy perspectives if there is a good match with their own research interests.

DG ECFIN considered the idea of establishing its own economic journal in order to further promote its research and raise its profile. However the feedback from the interviews indicates that publishing DG ECFIN's work in the existing format (i.e. as various paper series available on the internet) makes it easier for the users to access the research. The journal would also be just another among many that are already well established. Publishing in other well known journals probably contributes more towards raising DG ECFIN's profile than starting its own journal would be able to.

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Key Conclusions and Recommendations regarding the effect of DG ECFIN's economic research on external users

(Question 2 in the Terms of Reference)

Key conclusions:

- DG ECFIN's research is very relevant to the needs of external organisations including academic and research institutions, international institutions, financial institutions, because of its focus on the policy issues relevant to the EU policy and a good range of its research outputs is used among the external audiences.
- It helps external users to understand the issues relevant to the EU's economic policy and the current state of the EU economy. The economic research's quality and added value are considered as high and it is delivered in time to provide information on the key EU economic policy issues.
- The Annual Economic Research Conference and Brussels Economic Forum are considered as useful events for bringing researchers and policymakers together and for providing information on the relevant policy issues.
- DG ECFIN's research stimulates a good level of debate among external organisations and activities that involve academics directly in the work of the DG ECFIN (Visiting Fellows Programme and EFN) are very useful in this respect. The EFN in particular demonstrates added value in promoting debate among institutions across Europe on the issues that would be normally discussed only in the national context.
- The interactions with external economic researchers are very beneficial in helping them develop an understanding of research-policy links and an understanding of the EU policy priorities. The Visiting Fellows Programme is quite attractive to external researchers as it provides insights to DG ECFIN's work but does not disrupt their ongoing work. However, the Programme is not that widely known among the academic community. There are some indications that a more long-term, sabbatical type engagement with DG ECFIN of 12-24 months could be also attractive to some researchers.

Key recommendations:

- Active engagement with external economic researchers should be continued as this helps increase both DG ECFIN's intellectual capital and it raises awareness of EU economic policy environment and issues among external researchers. Participation by DG ECFIN staff in external events is also important in raising visibility.
- If anything, external researchers should be more involved in DG ECFIN's economic research. Whilst DG ECFIN cannot ask individuals to apply, the Visiting Fellows Programme needs to be marketed more pro-actively to universities and research institutes in order to increase its visibility and attract high calibre researchers. Since DG ECFIN's outputs are used to a large extent also by the financial sector institutions, the engagement with them should be maintained.

3.5 Gaps in Economic Research from a User Perspective

In the terms of reference, the question was asked: *what areas exist which are not adequately covered by the DG's research activities from the point of view of both internal and external users of research outputs?*

There is no compelling evidence that emerged during our consultations with the users of DG ECFIN's research regarding significant gaps in the current coverage of topics. In our

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view, the majority of comments related to the gaps in DG ECFIN's research coverage stem from the lack of awareness/understanding of what DG ECFIN's research priorities are and who are they directed at. We examine this question in further detail below but first we provide an overview of the feedback with regard to thematic coverage of DG ECFIN's research activities.

The user feedback is positive about the topics covered and suggests that DG ECFIN has the right focus on macro-economic performance and the issues concerning the operations of EMU. The interview feedback indicates that the focus on the economic policy issues pertinent to the EU, EU Member States and EMU lends a comparative advantage to DG ECFIN over other institutions. One survey respondent suggested that there should be "More coverage of important policy issues not directly related to EMU and the SGP, e.g. structural reforms, trade, and development". However, it is difficult to see how research coverage can be extended in this way given current level of resources available to DG ECFIN without the quality of the output being compromised.

3.5.1 Scope for Extending Economic Research

Although there do not seem to be any serious gaps in terms of thematic coverage, the evaluation feedback suggests that there could be a case for even deeper coverage of some existing topics. For example, several respondents from both DG ECFIN and other DGs commented that even more work should be done on the links between macro-economic performance and the impact of structural reforms.

There were also some suggestions that more research should be done on the issues related to the Lisbon Agenda such as innovation, research and development as well as globalisation, international trade and development. It is recognised that some work on the Lisbon Agenda is done through outsourcing (for example, the development of a productivity database for the EU, EUKLEMS, through FP7) but there is a perception that this work is not sufficiently integrated into the internal work of DG ECFIN. DG ECFIN staff in operational Directorates also pointed out areas in relation to their work where analytical work could be further strengthened, such as the impact of monetary policy and econometric modelling of sustainability assessments and financial risks.

There also seems to be a lack of awareness among Commission users on DG ECFIN's remit as far as economic research is concerned resulting in perceived gaps. Moreover, there are diverging views among the internal stakeholders on the types of policy analyses that DG ECFIN should perform and the key policy makers that it should serve. For example, from the perspective of other DGs, there are some perceived gaps in DG ECFIN's research and, at the same time, a view that in some areas, DG ECFIN addresses the issues that should be tackled within their own DGs.

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3.5.1 Other DGs and the Economic Research Agenda

There is a widespread view that DG ECFIN's links with other DGs should be stronger in order to produce research that is relevant to the needs of different Commission services.

This, it is argued, would help policy making in some DGs by compensating for their own weak research capacity. Even in cases where DGs are already doing some analytical work, it could provide further relevant research that they cannot carry out themselves. Given that the focus of DG ECFIN's work as far as structural policies are concerned is on their assessment within macro-economic framework, it is questionable to what extent this can be a realistically included in the scope of DG ECFIN's economic research activities.

Other DGs rely mainly on their own analyses and it does not seem that they make much use of DG ECFIN's work on structural policies from macro-economic perspective. There are also cases where it is perceived that DG ECFIN carries out the work that goes beyond the analysis of macro-economic implications of structural policies and into the analysis of structural policies themselves. Above all, however, it needs to be recognised that with limited resources, DG ECFIN is not in a position to undertake extensive economic research activities on behalf of other Commission DGs.

Our previous analysis has demonstrated that the members of the EPC, EFC and the working groups are associated with them are the policy makers who DG ECFIN works most closely with. Given that the primary objective of DG ECFIN's research is to foster the success of EMU, this is an appropriate group of policymakers to focus on. Within this context, other DGs are not the key target policymakers for DG ECFIN's economic research activities.

A question with regard to the future direction of DG ECFIN's research is whether its research should be more closely related to the needs of other DGs, bearing in mind the limited resources available and the need to maintain its independence at the same time. Comments on research gaps raised by the members of the EPC/EFC working groups were also related to the issue of the remit of DG ECFIN's research. While there is a high level of satisfaction with DG ECFIN's outputs for the working groups, some of the EFC/EPC members expect that DG ECFIN's analyses should address more issues that would aid policymaking at the national level.

In order to manage expectations with respect to the type of research that DG ECFIN can produce given its overall objectives, there is a strong case for DG ECFIN communicating more clearly the position of its economic research in relation to other DGs. DG ECFIN's mission statement in relation to the Commission's policies, apart from the EMU, is quite broad in stating that the aim is to 'provide economic analysis and evaluation in support of Community policies and priorities in general ...' A more precise definition of DG ECFIN's economic research mandate, the type of analyses that DG ECFIN needs to carry out to

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support this mandate, and key policymakers and target groups/stakeholders (including other DGs) is needed. The Annual Management Plan could provide a good starting point for this but it is far too detailed to be communicated outside DG ECFIN in its current form. A short document that addresses the key issues outlined above explains the nature and scope of the economic research function would be preferable as a communication tool.

| Key findings and recommendations related to the gaps in the research activities from the perspective of the external and internal users (Question 3 from the terms of reference) |
|--|
| <p><u>Key findings:</u></p> <ul style="list-style-type: none"> • There are no significant gaps in the coverage of the main research topics that were raised either by internal or external users, but there are some perceived gaps due to the poor understanding of DG ECFIN's research mandate. • The comments with regard to the gaps mainly relate to the need for deeper coverage of the existing topics. This includes a better integration of analyses related to the Lisbon Agenda, international economic issues relevant to the Commission and more analyses on specific topics relevant to the operational Directorates. • There are diverging views among the stakeholders within the policymaking environment on the policy focus and remit of DG ECFIN's research. For example, some DGs think that there are gaps in DG ECFIN's research in relation to their needs, while on the other hand DG ECFIN sometimes produces analyses that should be carried out within other DGs. Some policymakers at the working groups think that DG ECFIN's research should also better support policymaking at the national level. These views could partly stem from the lack of familiarity with DG ECFIN's research mandate and the role of its research within the Commission. |
| <p><u>Key recommendations:</u></p> <ul style="list-style-type: none"> • Consideration should be given to organising consultations within DG ECFIN with the representatives from operational Directorate to identify any further economic research needs required to help their work. This could be done via periodic workshops involving key officials from different Directorates. Any additional commitments emanating from this consultation process would need to be backed up by the allocation of additional resources. • Clearly articulate the mandate of DG ECFIN's economic research and communicate to the audiences in the Commission's policymaking circles, especially its role vis-à-vis other DGs. Linked to this, consideration should be given to including representatives from other DGs on a consultative group. The key messages that need to be sent out include the overall mission of DG ECFIN, the type of economic research outputs required to support its mission and who are the audiences in the Commission policymaking circles whose needs DG ECFIN's economic research needs to meet and how. At the same time, emphasis needs to be placed on the limited resources available to DG ECFIN to undertake economic research for other Commission DGs. |

Role of the Group of Advisers

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The terms of reference for this evaluation raised a number of specific issues concerning the role of the Group of Advisers and activities organised by them. In this section, we review their role and positioning in DG ECFIN, the nature of their brief, contribution to economic research outputs and other key issues.

4.1 Brief of the Group of Advisers

The first question in the terms of reference was to assess *the extent to which the activities and events undertaken by the Group of Advisers strengthens the research function within DG ECFIN*. A number of more specific issues with regard to the role of the Group of Advisers in maintaining and developing intellectual capital were also highlighted in the terms of reference:

- Improving interactions with outside networks, including the economic research community;
- Allowing better access to ongoing research work, new approaches and insights on relevant issues;
- Supporting discussions among academics, Commission and other officials from international institutions on key issues;
- Contributing to formal training actions (e.g. the DG’s Summer School);
- Providing an opportunity for officials to publish research.

The analysis in the previous sections demonstrates that both DG ECFIN’s tools and publications capture the attention of external researchers. Its events and programmes attract high quality researchers and encourage cooperation between them.

The analysis of the research-focused events, the EFN and the Visiting Fellows Programme (which are managed by the Advisers), indicated that they are very successful in strengthening DG ECFIN’s relationship with the external economic researchers and that, looking ahead, there is an interest among academics for even more interaction of this kind.¹⁰ In the previous section, we also provided some insights into the role of these programmes and events in providing platforms for discussions between Commission officials, academics and international institutions, with overall very positive conclusions. These activities also enrich the intellectual capital of DG ECFIN not only through interactions and seminars but also through the publications produced by the participating researchers.

¹⁰ The Group of Advisers also has a limited role in the Economic Studies Programme insofar as it is responsible for financial coordination and making sure that the budget is not exceeded.

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The Visiting Fellows Programme is a particularly useful tool in exposing DG ECFIN staff to outside research work and new insights and approaches. Officials have an opportunity to learn and exchange ideas with Visiting Fellows during their stay in DG ECFIN and even if they do not work with them directly, they benefit from the seminars and papers delivered by Visiting Fellows. The extent to which staff is able to benefit from Advisers' outputs as well as the Visiting Fellows does of course depend on how well they correspond to their areas of research as well as the time available to review publications or participate in the seminars.

4.2 Role within DG ECFIN

As the following table shows, overall, DG ECFIN staff make considerable use of the Group of Advisers and Visiting Fellows outputs in terms of frequency of use.

Table 4.1: How often do you use the publications and services delivered by the Group of Advisers?

| Group of Advisers' services | Regularly | Sometimes | Rarely | Never | N/A |
|--|-----------|-----------|--------|-------|-----|
| | % | % | % | % | % |
| Advisers' contributions in EU Economy Review | 21.4 | 32.1 | 32.1 | 7.1 | 7.1 |
| Advisers' contributions in Economic Papers, Enlargement Papers, Occasional Papers or Special Reports | 17.9 | 35.7 | 32.1 | 7.1 | 7.1 |
| Publications by members of Visiting Fellows Programme | 7.1 | 46.4 | 28.6 | 10.7 | 7.1 |
| Seminars programme | 14.3 | 60.7 | 14.3 | 7.1 | 3.6 |

Source: CSES analysis of survey responses

The feedback from the interviews both with DG ECFIN staff and the staff from other DGs indicates that the **seminars** are generally considered to be of good quality. As a way of providing on-the-job training and access to wider research, the activities of Visiting Fellows are therefore invaluable. If anything, more interaction with external researchers would be desirable from the perspective of DG ECFIN's staff. More than 60% of the surveyed staff indicated that the Visiting Fellows programme and other activities involving external researchers should be further developed to promote more interaction with outside researchers.

The Group of Advisers also has a role to play in **refereeing economic research** that is published externally. All DG ECFIN's Directorates are involved, in varying degrees, in producing economic research which is mainly published under one of DG ECFIN's papers or reports. However, some of the papers are also published in external economic journals or by external research associations. Publishing more research externally would help raise the profile of DG ECFIN as a source of high quality economic research. The Group of Advisers can play an important role here in ensuring that the research produced in DG ECFIN is of

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publishable quality and by identifying opportunities for official to publish research. Our survey results indicate that this aspect of their work should be further strengthened.

4.3 Group of Advisers' Analytical Outputs

The second question in the terms of reference seeks to assess the **analytical outputs** of the Group of Advisers itself - both those outputs delivered outside and within the DG ECFIN. Here the issues to be investigated included the role of the Group of Advisers with respect to:

- Actively participating in economic policy debate through publications and discussions in relevant fora via their liaison activities;
- Contributing to enhancing the overall analytical quality of the DG's work through their analytical background papers, reports, notes, etc.

The Advisers are certainly well positioned to fulfil these functions as they are reputable researchers with backgrounds either in academia and/or other international institutions. As such, they have access both to academics and researchers in international institutions through their personal networks. As highlighted earlier, they are successful in building strong relationships with external economic researchers through the Visiting Fellows Programme. The Advisers also take part in conferences and publish material in reputable external journals or in books. Some of the Advisers also have active links with other research institutes and spend short periods of time as visitors in these institutions.

However, because of their involvement in the activities internal to DG ECFIN such as managing the Visiting Fellows Programme, training initiatives, providing economic advice and refereeing research, the time that they can spend on such activities is limited. This is especially so given that there is no research support function for the Advisers (in particular, junior researchers).

4.3.1 Relationship with Operational Directorates

There is certainly an advantage in having economic advisers in DG ECFIN as subject matter experts who can provide advice to DG ECFIN's Directorates on specific issues. Although they are formally attached to Directorate A, the Advisers work closely with other Directorates on specific projects related to their field of expertise.

Our consultations suggest that there is a good working relationship with operational Directorates with a valuable role being played through the provision of technical assistance and the delivery of economic research. As highlighted earlier, the survey feedback points to a high level of satisfaction with the technical assistance received from the Advisors with 80% of DG ECFIN's staff who are aware of their inputs stating that they are either 'satisfied' or 'very satisfied' with the help received. Some researchers in operational Directorates have worked with the Advisers on joint projects and they were particularly satisfied with the

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Adviser’s inputs. One survey respondent from this category commented as follows: “The Group of Advisers take care that ideas circulate in DG ECFIN. This is a crucial task and could be further enhanced (e.g. there is scope for increasing the number of Visiting Fellows positions)”. The more general survey feedback is summarised below:

Table 4.2: Contribution of Group of Advisers to Key Economic Research Activities

| Role of Group of Advisers | 5 | 4 | 3 | 2 | 1 | Don't know |
|---|------|------|------|------|------|------------|
| | % | % | % | % | % | % |
| To what extent are the activities undertaken by the Advisers' relevant to your needs/needs of your Directorate? | 10.7 | 17.9 | 21.4 | 25.0 | 10.7 | 14.3 |
| To what extent do you think the Advisers' activities and publications stimulate policy debates within your Directorate/across the DG? | 3.6 | 17.9 | 25.0 | 25.0 | 10.7 | 17.9 |
| Overall, to what extent Advises' activities help to enhance the quality of your own/your Unit's analytical work? | 7.1 | 14.3 | 21.4 | 21.4 | 28.6 | 7.1 |

Source: CSES analysis of survey responses

It would not be reasonable to expect that the Group of Advisers should significantly contribute to the work of all staff in DG ECFIN given that there are few Advisers and they have specialist areas which are not directly relevant to all Directorates. It could be argued that focusing their efforts on working with fewer colleagues on particular projects would be a better use of their time than trying to spread available resources thinly across a wider range of activities and areas in DG ECFIN.

4.3.2 Role of Group of Advisers in ‘Thought Leadership’

Certain aspects of the Group of Advises’ brief, in particular the role in providing new insights and approaches to key issues, could be further strengthened and the Advisers could contribute more to the overall analytical capacity in DG ECFIN in this way.

An internal publication aimed at DG ECFIN staff, Topics in Economic Research (TIERs), aims to provide updates on the latest trends in wider economic research but it fails to capture significant attention. As mentioned earlier, it is not often consulted by DG ECFIN staff and it is not considered to contribute significantly to their knowledge. A priority should be to use the Group of Advisers to rectify this shortcoming if this situation continues. This is emphasized by the survey feedback.

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Table 4.3: Role of Group of Advisers in identifying new issues

| Role of Group of Advisers | 5 | 4 | 3 | 2 | 1 | Don't know |
|--|------|------|------|------|------|------------|
| | % | % | % | % | % | % |
| Do the Advisers' activities provide sufficient insights into and access to the latest relevant economic research and new approaches in research? | 10.7 | 21.4 | 17.9 | 21.4 | 10.7 | 17.9 |
| To what extent does the Group of Advisers bring to your attention new issues relevant to economic policy? | 10.7 | 7.1 | 32.1 | 21.4 | 17.9 | 10.7 |

Source: CSES analysis of survey responses

There is similar feedback from the survey of working group members. DG ECFIN is aware that it is not providing as much 'thought leadership' it could. Much of this has to do with resource constraints.

Our overall impression is that the wide range of activities undertaken by the Group of Advisers, coupled with weak research support, limits the amount and quality of the research that they can produce and their role in 'thought leadership'. Until 2001, the Advisers used to be attached to individual Directorates but a decision was taken then to centralise the function within Directorate A, partly with a view to enhancing the policy focus of their work. In our view, this decision was justified given that Directorate A leads the economic research function in DG ECFIN and has helped to give the Advisers' role a thematic focus rather than one linked to the operations of individual Directorates. This, in turn, has helped the Advisers to work across different Directorates and to focus on the key policy issues relevant to DG ECFIN as a whole. Feedback from our consultations with staff in other Directorates confirms that there is an increased interaction with the Group of Advisers.

However, while the policy focus of Adviser's work has improved, their function is still perceived as being more academic than policy oriented. Given the other findings presented in this section, some changes in the way in which the Advisers are organised should be considered. It has also been quite hard to attract external researchers into the Advisers posts and several temporary positions are still vacant.

4.4 Organisational Positioning and Support

The role of the Group of Advisers within DG ECFIN needs to be more closely defined. At a strategic level, DG ECFIN needs to decide what the primary function of the Group of Advisers should be.

Our impression is that their skills as highly qualified economists are underutilised at the moment and that their primary objective should be to ensure that DG ECFIN is up to date with the latest thinking, driving forwards new ideas relevant to policymaking and producing high quality research relevant to DG ECFIN's mandate. Some tasks (but not overall

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responsibility) associated with other activities such as the Visiting Fellows Programme could be delegated to more junior administrative staff in order to free up the Group of Advisers' time for research activities. Their mandate is currently quite broad and, usually, initiating specific activities and research projects depends on individual Advisers. While it is desirable to preserve a reasonable degree of flexibility, there is a case for having more structured work plan for the Group of Advisers as a whole defining priorities and short-medium term goals in more detail in a way that is more closely aligned with the needs of DG ECFIN and its operational Directorates.

4.4.1 Group of Advisers and Support Needs

Lack of supporting research staff is a major constraint on the Group of Adviser's activities and this shortcoming needs to be rectified. Options for securing research support include the secondment of staff from other Directorates to work on specific projects. Given the high degree of interest among DG ECFIN's staff generally in undertaking more economic research, providing opportunities to work with the Group of Advisers on projects for limited periods of time could be also beneficial from a personal development perspective. One survey respondent summarised this option as follows: "People from other Directorates could be integrated into Directorate A for short spells of research activity, e.g. for 2-3 months in order to draft an economic paper. This would ensure exchange of information and would prevent routine work from interfering with research". However, the difficulty with this option is that other Directorates are likely to be reluctant to release staff given their heavy workload.

Another possibility is the recruitment of special trainees to support the Group of Advisers. DG ECFIN has considered recruiting special trainees in the past but it has proved too difficult to find recruits who were sufficiently qualified. Introducing short-term contracts for young researchers or establishing a programme with national administrations to second national experts to DG ECFIN is another possible solution. Introducing short term employment contracts to attract young economists would be the quickest solution to addressing the research support gap as establishing a programme with national administrations would take some time. Another possibility would be to extend the EFN's mandate so that research assistants can be made available from this source.

4.5 Recruitment Arrangements

It is only recently that DG ECFIN has overcome recruitment difficulties and been able to fill all Group of Adviser appointments. The difficulties that have arisen in the past – and could reoccur – stem, according to our research - from a combination of factors. Overall, there is a need to make the Advisers' posts more attractive to external researchers. Our research has highlighted the question of the duration of the Advisers' posts as playing an important role here.

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Several external researchers commented that the Advisers' appointments are currently far too long. Even the temporary posts require a commitment of 3-5 years. External researchers would probably find positions lasting between 12-24 months more attractive. The reason for introducing long-term Advisers' posts was to ensure that they are fully integrated into the DG ECFIN research and policymaking environment to help them to produce policy relevant research and to exploit relevant policymaking networks. However, external researchers perceive long-term appointments as a risk that could lead them to losing contact with the academic world, especially if they are expected to undertake many activities other than research. There is also a perceived risk of eroding their research independence as they feel that a long-term commitment to the Commission could result in becoming too close to policy-making.

Introducing short term posts would necessitate a closer management of the Group of Advisers to ensure alignment of their work with policy priorities and access to the relevant documentation and policymaking networks. Feedback from existing and past Advisers indicates that this currently takes quite a long time. The difficulties that external economic researchers face in adapting their work to DG ECFIN's policymaking environment were precisely the reason for introducing longer term posts in the first place and for centralising the Group of Advisers in the Directorate A. However, we understand that the Advisers were at the time given almost full independence in their work, which led to the disconnection with policy priorities. Therefore, a more detailed definition of Advisers roles and tasks, combined with closer overall management, could lead to quicker integration with policy priorities.

The institutional background of the researchers recruited into the Group of Advisers is also a factor influencing the extent of integration. Generally, it seems that those working for research institutes adapt more easily to an environment such as DG ECFIN than their counterparts from universities. Researchers from institutes are more often more closely involved in policy related work than academic researchers. At the same time they still have strong academic credentials so they could be a more suitable source of recruitment for Adviser posts than academic researchers.

Overall, reviewing the role and duration of Advisers' posts as well as remuneration levels could benefit DG ECFIN by providing access to a larger pool of interested candidates. Some external benchmarking with regard to pay and benefits should also be conducted as anecdotal feedback suggests that DG ECFIN's arrangements do not compare favourably with similar organisations. The Commission's rules regarding the seniority levels of Advisers also make it hard to identify and attract talented researchers. Currently, there is a requirement for the Advisers to have at least 15 years of professional experience. But there are not many academics with that much experience who would be interested joining DG ECFIN at what is a relatively late stage in their careers. Recruiting high quality younger researchers could be easier but also shortening the duration of Advisers' posts, as discussed above, could also help attract more senior colleagues.

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Another option would be to outsource the Adviser function. This could be done by establishing a network of Advisers who are not based in-house but are recruited on a framework contract basis to carry out specific projects and/or advisory functions (one option in this respect, using the EFN, has been highlighted earlier). There are however potential pitfalls in not having experts in situ who are directly involved on a day-to-day activities, the difficulty in ensuring a close alignment of research with policy-making being one of them. Apart from a potential disconnect with policy issues it could also be harder to ensure the ready availability of Adviser support.

Key conclusions and recommendations with regard to the activities of the Group of Advisers

(Questions 1.2.A and 1.2.B from the terms of reference)

Key findings:

- Overall, the activities and policy focus of the Group of Advisers has significantly improved since 2001 and there is a good level of satisfaction with their work among DG ECFIN's staff, but there is still some scope for strengthening both the relevance of their outputs to DG ECFIN's staff and the policy focus of their work which is still sometimes perceived as too academic.
- Having Advisers' posts in DG ECFIN is helpful as they are able to deliver high quality expertise on specific policy issues. The Advisers also play an important role in promoting links with the academic community and external networking generally. Last but not least, the Group of Advisers have a critical function to play in helping to maintain intellectual capital. Overall, DG ECFIN's staff who has worked with the advisers either on joint projects or to whom Advisers assisted on specific projects, are satisfied with their inputs.
- The training in which Group of Advisers provide significant input (such as Seminars Programme delivered by the Visiting Fellows) are quite highly considered by DG ECFIN's staff. Visiting Fellows Programme, also managed by the Advisers, is considered by staff as particularly useful in helping them maintain exposure to wider economic research.
- However, apart from a very good feedback related to their involvement with staff on individual projects, there is a perception that they make only a 'moderate' contribution to the analytical quality of DG ECFIN's work as a whole, particularly when it comes to highlighting new issues and new approaches in economic research.
- The Group of Advisers seems to be currently involved in too many activities at the same time, some of which detract them from research activities and representing DG ECFIN among external research networks. While, as Advisers, they need to respond to the demand for advice from within DG ECFIN, there is probably scope for administrative tasks associated with the Visiting Fellows Programme to be delegated to more junior staff.
- Apart from the activities other than research that the Group of Advisers is involved in, the lack of research support, i.e. junior researchers is also a quite significant obstacle to generating more research;
- DG ECFIN has also found it challenging to attract external researchers to the posts of the Advisers, because of combination of factors. Current duration of the Advisers posts, even the temporary ones, is considered as too long by the external researchers, while the recruitment requirement to employ only the Advisers with more than 15 years of professional experience significantly narrow down the pool of potential candidates. There are some indications that the remuneration package could be less competitive than in other international organisations.

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Key recommendations:

- The role of the Group of Advisers needs to be more closely defined with respect to the balance between research and other activities. Their involvement in various activities needs to be reviewed and, where appropriate, the management of some activities should be delegated to more junior C grade staff.
- Whilst individuals already have work plans, a more structured work plan for the Group of Advisers as a whole should be developed as this would also help focus their work and research more on the relevant policy issues. One way of arriving at such a work plan would be for the group of advisers to hold planning ‘away days’ once or twice a year to agree the issues to be tackled, the priorities and the work programme. This and other steps are needed to more effectively promote group dynamics.
- More junior research staff should be recruited in order to provide support to the Advisers. Introducing short-term contracts for young researchers could be a quick and cost-effective way of securing this support. Another possibility would be to extend the Visiting Fellows Programme to provide additional research support.
- Longer appointments for Visiting Fellows posts of 4-6 months in duration (rather than up to two weeks as at present) would be more attractive to the external researchers as they would still not be disrupt their ongoing work and would provide greater exposure to the policy environment.

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In this section we review the organisation and role of DG ECFIN's economic research function. Comparisons are made with similar functions in other international organisations.

5.1 Key Issues and Comparators

The terms of reference highlighted a number of key questions with regard to the organisation of DG ECFIN's research function:

- To what extent does the existing interaction between the DG ECFIN and its audiences ensure close integration of economic research and policymaking structures?
- To what extent is economic research produced by DG ECFIN unique within the Commission or are there any duplication and therefore scope for greater synergies?
- To what extent is current organisation of research activities between in-house and outsourced research suitable for reaching the required quality and level of research outputs?
- Are the existing dissemination methods satisfactory in reaching the DG ECFIN's key economic research audiences?

Before we turn to the research function in DG ECFIN, we examine how this function is organised in other international institutions. The purpose of undertaking a comparator analysis was to identify good practice lessons from other organisations that could be applied to DG ECFIN. We then proceed with the analysis of the above questions, incorporating the good practice points from comparator organisations.

Since key users of DG ECFIN's economic research are policymaking bodies in the European Institutions, the remit, purpose and intended target group of the research function is more closely defined than is the case with other international institutions such as the ECB, IMF or OECD. Their research is broader in terms of thematic coverage and it is also targeted at a wider audience. In the case of the ECB the research is also of more academic nature although this is changing. These organisations also have much larger research resources than DG ECFIN and for this reason any comparisons must necessarily be treated with caution.

DG ECFIN's has a close relationship with a wide range of national and institutional institutions. For the purpose of the comparator analysis, we have focused on the OECD, ECB and IMF.

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5.2 Organisation for Economic Cooperation and Development (OECD)

In many ways, the role of research in the OECD and the way it is organised is similar to DG ECFIN.

The OECD's economic research is also quite closely related to policy rather than being of a more academic nature. Policy surveillance is the OECD's key aim and quite a lot of work is carried out on establishing internationally comparable indicators on various economic topics. Most of the research work is done in relation to the country policy surveillance as well as cross country work on various themes. The OECD adopts a broader geographical perspective given that its members include countries outside the EU.

Like DG ECFIN, the OECD's economic research function is also subdivided into directorates which focus on specific sectors (e.g. labour markets policies, environment, financial affairs, etc) and an economics directorate. The economics directorate has mainly a co-ordinating role that is designed to ensure that the work of other directorates is undertaken within a coherent overall framework. Research tools are mainly developed in-house with econometric work being undertaken within the economics department but resources devoted to this function are relatively modest in comparison with the overall work programme. There is a very good level of cooperation between sector-focused directorates and the economics directorate, mainly with respect to the development of indicators. It is estimated that, overall, just under 500 members of the OECD's staff take part in undertaking economic research.

Although most of the economic research work is undertaken in-house, some tasks are outsourced, usually to academics, in areas where the OECD does not have the necessary expertise in relation to specific topics or countries. The OECD does not have an economic advisory function comparable to the Group of Advisers in DG ECFIN, nor is there a Visiting Fellows scheme. There are some contacts with academia but this is mainly on an ad-hoc basis. External academics are invited to deliver workshops to the OECD's staff, but these are less numerous than the seminars organised by DG ECFIN. The OECD's staff receive training support which is delivered both in-house and by external providers.

The OECD research priorities are driven by the agenda set by the OECD's Committees and by ad-hoc requests which ensures close integration with the policy priorities. The OECD's staff also generate research ideas but these have to be approved by the Committees before work begins. The economics directorate works with two committees and two working parties dealing with macro-economic policy, structural issues, financial stability and monetary policy.

Quite a few of the OECD's publications can be purchased either as one-off publications or on a subscription basis and there is a marketing department that promotes its work. Working

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papers series are available as free downloads. The OECD's main dissemination tool is its website, but there are often press conferences to launch major publications, Economic Outlook and Economic Review, are released. The OECD also organises an annual event of similar nature to DG ECFIN's Brussels Economic Forum and this considered to be a particularly effective tool in raising the OECD's profile.

DG ECFIN's research is also consulted by OECD on a regular basis with the Business and Consumer surveys data being particularly heavily used. There is a good informal working relationship between DG ECFIN and OECD. Several projects have been carried out in co-operation with the OECD covering the topics such as ageing and fiscal issues. In contrast, there have been no significant joint research projects undertaken so far with the ECB or IMF.

5.3 European Central Bank (ECB)

DG ECFIN's economic research remit is distinct from the work carried out by the ECB which focuses on monetary strategy at the EMU level, while DG ECFIN focuses on the economies of individual member states of the EU. In the past, there has been a strong emphasis at the ECB on purely academic economic research. This is currently changing with a shift towards supporting ECB operations and policy making.

Economic research at the ECB is mainly carried out by DG Research which has 57 staff (full time equivalent).¹¹ There is a strong emphasis on recruiting high quality PhD economists. Some research is also undertaken by DG Economics but this is more operationally orientated. Moreover in recent years, the focus has been on monitoring the stability and growth pact and this has meant less time for research.

DG Research distinguishes between three types of research:

- *Analytical research* – i.e. research that is undertaken 'on demand' specifically to support the ECB's operations and policy making. It does not have to be up to international academic standards;
- *Directed research* - which involves projects undertaken for the ECB at the request of the Research Committee and that are required to be of the highest academic quality.

¹¹ The DG Research's personnel total of 57 breaks own into 8 principal economists, 27 economists, 3 statisticians and 5 research associates.

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Projects are included in the work plan and supervised by a senior member of the research team;

- *Free research* – ECB staff are encouraged to spend time undertaking their own research, preferably for publication in academic journals, and this category is used to describe these activities.

Under the ‘One Third Rule’ the aim is to try and ensure that economic researchers can devote equal amounts of time to each of the above activities.

Management arrangements for economic research have recently been revised at the ECB. In essence, the aim is to shift the emphasis away from a past supply-driven research agenda and to ensure that economic research is more demand-orientated, i.e. undertaken to directly support the ECB’s policy priorities. Apart from memos and econometric modeling, DG Research generally received few specific requests for research support from elsewhere in the ECB and tended instead to generate outputs according to the research interests of its staff. Under the new arrangements, the ‘One Third Rule’ has been reinforced and the ECB’s Research Committee has a stronger role in determining priorities overall. Economic research proposals are then signed off by the ECB Board. There is also a closer monitoring of research activities with bi-annual reviews to ensure that projects are on schedule and formal appraisals once a year.

Although it is too early to assess, the likelihood is that the new arrangements will lead to far more time being spent by DG Research staff on the ‘analytical agenda’ (research that supports policy making but does not necessarily match international academic standards) and less on ‘research’ (defined by the ECB as being of the highest academic standards). There is also likely to be pressure to reduce ‘free research’ and DG Research’s management considers one of their key roles as being to ‘shelter’ this activity, partly with a view to ensuring that the ECB can retain top-quality economists and maintain the Bank’s intellectual capital.

Unlike DG ECFIN, the ECB’s DG Research has a small number of research assistants to support its activities (DG Economics also has an internship programme under which PhDs spend 2-3 months at the ECB). Under the Duisenberg Fellowship scheme, DG Research offers placements of 6-9 months for senior academics who are involved in providing the ECB on major research projects (DG Economics does not have a visitor programme of this kind). However, there are relatively few (currently two) adviser positions of this sort at the ECB. Likewise, internal recruitment into these positions is modest despite the recent introduction of an ‘expert’ career path in 2005 designed to attract senior economists from within the ECB and leading academics.

Links between the ECB’s DG Economics and DG ECFIN are quite close with staff attending seminars and conferences, informal discussions on research activities and

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priorities, and staff exchanges. There have also been some joint projects (e.g. on boom-bust cycles) and a sharing of research in fields such as the stability and growth pact, structural reforms, etc. This is a less close relationship between DG ECFIN and the ECB's DG Research is concerned. Several attempts have been made in the past to develop collaborative research projects.

For example, it was suggested that a project should be undertaken to examine the impact of financial sector integration on growth and although there were some preliminary discussions between ECB staff from DG Research and DG ECFIN, the project did not go ahead. In contrast, DG Research has stronger links with the Commission's DG Internal Market and has worked on several joint projects (there is also an agreement to share research results). There is a desire to strengthen links between DG Research at the ECB and DG ECFIN, the suggestion being that this should involve 1-2 informal meetings a year to share views on research priorities, scope for collaboration, rather than more formal and possibly bureaucratic arrangements.

An evaluation of the ECB's economic research function was carried out in 2004-04. The terms of reference focused on assessing the academic quality of the work undertaken by DG Research although the final report also addressed wider issues such as the relevance of the research to policy making at the ECB (this was assessed as being very high through a comparison with the classification system of the 'Journal of Economic Literature'). The conclusion was that ECB research was 'good' in terms of quality but limited in volume given the number of staff.

5.4 International Monetary Fund (IMF)

An external evaluation of the IMF's economic research activities has also recently been carried out.

The evaluation contained a number of key conclusions. Firstly, the quality of economic research at the IMF was only judged to be only 'good'. A number of factors were seen as contributing to this conclusion: the fact that research was not as highly valued by the IMF's senior management as it should be, a perceived failure in the way in which the economic research function is managed which has tended to de-motivate staff, and insufficiently stringent sanctions on poor performance. The evaluation also suggested that there should be some reorientation of the research focus with less emphasis on country-specific research and more on issues of a cross-cutting nature where, it was argued, added value tends to be highest.

The evaluators also commented on the need to ensure that researchers are given more uninterrupted time to undertake tasks. They observed that this was more difficult to achieve in the IMF's decentralised research environment where staff can be too easily distracted by pressing operational demands (the comparison here with the ECB and the emphasis on

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‘sheltering’ staff so they can conduct ‘free research’ is pertinent). ‘Good research managers’, the evaluators argued, ‘supply research leadership by identifying important research issues and by ensuring that research is related to current policy issues, while at the same time giving enough freedom to individual researchers to motivate them to produce innovative work’ (the comparison with the ECB is again pertinent).

From an organisational perspective, as with the ECB, the number of research assistants at the IMF is considered to be low. Moreover, the evaluators argued that the duration of research assistant posts tended to be too long and a greater effort should be made to refresh the category through a higher turnover of staff concerned. The evaluators highlighted the important role played by the IMF’s visitor programme but argued that selection of candidates should be done in a more transparent way. Last but not least, on inter-institutional links, it was argued that there should be a closer relationship between economic research at the IMF and the World Bank.

Many of the findings relating to these comparators are similar and relevant to DG ECFIN. In the final section we present conclusions on how DG ECFIN’s economic research function compares with experience elsewhere and lessons to be learnt from benchmarking.

5.5 Organisation of Economic Research Function in DG ECFIN

In the background section of this report we outline in some detail the organisation of the research function in DG ECFIN. Below, we discuss particular issues highlighted in the terms of reference.

5.5.1 Relationship between Internal and External Research

Taking the question from the terms of reference on the relationship between in-house and outsourced research, most of DG ECFIN’s economic research is undertaken internally. Given the wide scope of research activities, both economic research and operational research, and limited in-house resources, it is necessary for DG ECFIN to outsource some of its research.

DG ECFIN should not aim to bring more of this research in-house since the outsourced activities cover specialists tasks that require expertise which does not exist in DG ECFIN. It would not make sense to seek to develop in-house expertise in areas where one-off and/or very specialised expertise is required, for example for methodological studies commissioned through Economic Studies Programme or through the DG RTD Framework Programme. The EFN forecasts also have a high internal value for DG ECFIN as they provide input into the forecasts produced internally. Some technical econometric work is also outsourced to the Joint Research Centre in Ispra in order to overcome the resource gap in Directorate A. Overall, it seems to us that there is a good balance between in-house/outsourced research given the current research demand and priorities. However, if a more pro-active approach to

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defining and implementing the economic research agenda is adopted in the future, this may require a greater level of external inputs.

The re-organisation of the research function in DG ECFIN in 2001, when Directorate A was created and the Group of Advisers brought under its management, has also had positive effects on economic research activities. As noted earlier, staff from other Directorates have reported improved interactions with the Group of Advisers, a generally more focused research effort, improved visibility of research outputs and more exposure to the external economic research community.

5.5.2 Relationship with Target Audiences and Policy Makers

We now turn to the question highlighted in the terms of reference on the interaction between DG ECFIN and its audiences, and the impact on the links between economic research and policymaking.

Most economic research is geared to responding to demands for DG ECFIN's services originating from EU policy priorities. The Annual Management Plan, which sets out the general direction for DG ECFIN's work including economic research, is driven by the high level policy priorities in the Commission. The annual planning process has been introduced quite recently and the feedback we have received indicates that it has helped to ensure that DG ECFIN's research work is aligned with the Commission's wider policy objectives. The AMP is however flexible enough to allow DG ECFIN to react to ad-hoc research requests from users, mainly the operational units in DG ECFIN, EPC/EFC working groups and other DGs in the Commission.

Although the bulk of economic research activities such as the development of tools are carried out in Directorate A, economic research activities are decentralised throughout DG ECFIN's operational Directorates. Other Directorates mainly produce economic analyses that are related to their field of expertise and operational priorities and there does not seem to be any overlap or duplication. Over two-thirds (71%) of DG ECFIN staff who responded to our survey stated that they have undertaken economic research work, apart from their operational work. The economic research is mainly undertaken in individual Directorates, with some cooperation with the Directorate A and other Directorates:

Table 5.1: Do you usually carry out economic research by yourself/with colleagues from your Directorate or in co-operation with Directorate A/other Directorates?

| Extent of joint working | % |
|--|-------|
| Usually by myself/within our Directorate | 65.0 |
| Usually in equal amount of cooperation with Directorate A and other Directorates | 10.0 |
| Usually in co-operation with Directorate A | 20.0 |
| Usually in cooperation with other Directorates (excluding A) | 5.0 |
| Total | 100.0 |

Source: CSES analysis of survey responses

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Quite a significant proportion of staff considers that co-operation between Directorate A and other DG ECFIN Directorates could be strengthened.

Table 5.2: Is there any need, do you think, for further cooperation on undertaking economic research between your Directorate and Directorate A?

| Joint working between DG ECFIN and other DGs | % |
|---|--------------|
| Much closer cooperation is required | 14.3 |
| Some closer cooperation is required | 28.6 |
| No, the existing level of cooperation is sufficient | 17.9 |
| Don't know | 39.3 |
| Total | 100.0 |

Source: CSES analysis of survey responses

An alternative to DG ECFIN's currently de-centralised model would be to centralise the economic research function within Directorate A with staff in other Directorates focusing exclusively on operational research. However, this would mean that the researchers who currently work in operational Directorates would become detached from specific policy/geographical areas in which they specialise through their operational work. This, in turn, could weaken their ability to produce good quality research on particular issues.

Carrying out economic research is also an important motivational factor for staff who are normally engaged in operational research according to the feedback from the interviews and the survey work. Given that economic research tends to be more stimulating and is an important determinant of job satisfaction, this is another reason for keeping the existing de-centralised model. The survey feedback from DG ECFIN's staff also confirms that they think that the Directorates should be doing more economic research:

Table 5.3: Do you think that any changes should be made to the way the research is currently organised to further improve the quality of the research outputs?

| Changes to organization of economic research function | % |
|--|--------------|
| Yes, more research should be done by other Directorates | 39.3 |
| Yes, it should be further centralized in the Directorate A | 3.6 |
| Yes, more research should be outsourced | 7.1 |
| No, it should remain as it is | 14.3 |
| Don't know | 35.7 |
| Total | 100.0 |

Source: CSES analysis of survey responses

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There is both the willingness in the operational Directorates to produce more economic research and the technical expertise needed to deliver high quality analyses. However, as things presently stand, staff in other DG ECFIN Directorates are not well-placed to generate more research due to constraints and on-going commitments with regard to operational research.

One option would be to arrange short-term secondments to Directorate A on specific projects. If staff from other DG ECFIN Directorates were integrated into the work of the Group of Advisers, this would also ease the resource constraints discussed in the previous section that the Advisers face in carrying out research. Last but not least, engaging more operational staff in Directorate A's activities could strengthen the ability of DG ECFIN to create a more supply-driven research agenda. Short term secondments could be beneficial also the other way around: some Directorates also seem to require more technical expertise on their teams to be able to liaise and collaborate more effectively with Directorate A.

These staff exchanges could mean that additional resources would be required in the Directorates whose resources are being allocated to another because all the Directorates currently operate at full capacity. Given the indications that there is also demand for further research by the policymakers in the EPC and EFC working groups and the staff in other DGs, the role of other Directorates in producing economic research certainly needs to be considered if DG ECFIN's research is to be further expanded in the future.

5.5.3 Defining the Economic Research Agenda

The analysis in the previous section indicates that there is a high level of satisfaction among DG ECFIN's staff with regard to the quality and relevance of economic research to their operational needs. There is also a good provision of ad-hoc support. However, there nevertheless seems to be some room for improving the involvement of staff from across DG ECFIN's in defining research priorities. This was argued by a number of those we spoke to and summarised by one of the survey respondents: "A closer co-operation could benefit the choice of topics and the quality of research so as the contributions of both directorates could be more mutually supportive".

Each DG ECFIN Directorate sets its own specific research priorities. Within Directorate A, this is done through discussion between its Director, Heads of Units and the Group of Advisers. In other Directorates, priorities are set on the basis of operational objectives and the thematic expertise available. Close on-going contact with colleagues from other Directorates enables Directorate A to be reasonably well informed about the economic research needs of other DG ECFIN Directorates but the evaluation feedback indicates that it would be beneficial to extend the consultations with regard to research priorities. For example, the survey feedback indicates that there is a quite low level of awareness of the

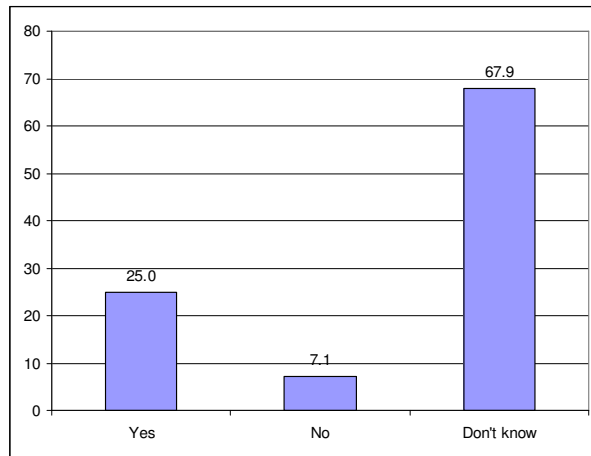
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extent and scope for the individual Directorates to be involved in setting DG ECFIN's economic research priorities:

Arguably, this is because some of the staff who completed the questionnaire do not operate at a strategic level in their Directorates, but the staff involved in day to day tasks nevertheless usually have a good idea where the gaps are and hence what the research priorities should be.

Figure 5.1: Do you know if your Unit/Directorate makes any suggestions on what the DG ECFIN's economic research priorities should be?



Operational staff also have a good picture of the needs of the policymakers who receive their outputs and can therefore provide useful feedback on the needs of the policymakers and the role of economic research in meeting these needs.

Therefore, involving them more systematically in consultations in the future could be beneficial. There is hardly any disagreement with regard to the question on whether individual Units and Directorates should contribute more to determining DG ECFIN's research priorities in the future. Overall, a more integrated consultation process involving

discussions between Directorate A, operational Directorates and the Group of Advisers to define economic research priorities at the DG ECFIN level would help to increase the links between research and policy-making even further. Now that DG ECFIN has a full team for the Group of Advisers, it would be appropriate to develop a more integrated research programme since the capacity to support and provide advice on such a programme is greater.

As noted earlier, key policymakers who are directly exposed to DG ECFIN's economic research are the members of the EPC and EFC working groups. DG ECFIN is in close contact with them, both through the bespoke research Notes that are prepared for them and through participation in their meetings. The cooperation between the members of the working groups and DG ECFIN in determining research priorities is very good, both in relation to the research Notes and DG ECFIN's wider research.

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Table 5.4: Does your Working Group make suggestions on the topics that are to be addressed in the Notes or is this primarily driven by the DG ECFIN's representatives?

| Topics for Notes | % |
|--|--------------|
| Primarily driven by DG ECFIN's representatives | 17.1 |
| Primarily driven by the Working Group | 14.6 |
| Equally driven by the Working Group and the DG ECFIN's representatives | 56.1 |
| Don't know | 12.2 |
| Total | 100.0 |

Source: CSES analysis of survey responses

Table 5.5: Does your Working Group make any suggestions on what the wider DG ECFIN's economic research priorities should be (beyond the suggestions for future Notes)?

| Response Option | % |
|-----------------|--------------|
| Yes | 43.9 |
| No | 34.1 |
| Don't know | 22.0 |
| Total | 100.0 |

Source: CSES analysis of survey responses

Although DG ECFIN already receives good inputs into its research activities from the policymakers on the working groups both the survey and interview feedback indicate that there is willingness on the part of the working groups to play a greater role in helping to define DG ECFIN's research priorities. As we mentioned in the previous section, in some instances this could stem from the poor understanding of DG ECFIN's research mandate, but it is worth periodically seeking the input of the working groups. For example, after the draft Annual Management Plan is completed and the general direction and scope of DG ECFIN's research agenda is set, a wider consultation could take place with the members of the working groups to get more formal feedback on their economic research needs.

Table 5.6: Do you think that your Working Group should further contribute towards economic research priorities of DG ECFIN?

| Role of working groups in setting research priorities | % |
|---|--------------|
| Yes | 26.8 |
| No | 14.6 |
| Don't know | 58.5 |
| Total | 100.0 |

Source: CSES analysis of survey responses

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5.5.4 Relationship with other DGs

As also noted earlier, DG ECFIN has good links with other DGs and there is some joint working on projects, e.g. DG ECFIN representatives sit on the steering groups for projects run by other DGs and vice versa. Staff in the research services of other DGs are quite often DG ECFIN's alumni which further helps maintain a good level of interaction. However, there is a perception among some DGs that the research carried out by DG ECFIN should relate more closely to their policymaking needs.

This issue has been addressed in some detail earlier in the report and as indicated earlier, there may be a lack of clarity with regard to the mandate of DG ECFIN and the type of research that its staff are tasked with producing. As recommended previously, the first step should be to develop a clear vision of the role of DG ECFIN's economic research and then to ensure that this message is communicated to the key stakeholders. This includes defining DG ECFIN's role in relation to the research and policymaking needs of other DGs. Consideration should also be given to actively involving (some) other DGs in the consultation process on DG ECFIN's research priorities.

As noted earlier, our findings in relation to the second question highlighted at the beginning of this section - on duplication of the research in DG ECFIN and other Commission's DGs - are largely positive. The focus of the DG ECFIN's research in comparison to other DGs differs. Feedback from the interviews indicates that DG ECFIN and other DGs indicates that there is very little overlap in what is done although in some instances the research remit of the DGs in relation to structural policies needs to be clarified. This issue was addressed in more detail in the previous section of this report.

Feedback from other DGs and DG ECFIN suggests that further benefits could be generated by forming closer relationships in the economic research field. More formalised cooperation would help strengthen co-operation and synergies in research across different DGs and promote the leveraging the research capabilities of different DGs. For example, other DGs outsource quite a lot of research that could be potentially useful to DG ECFIN and vice versa. However, in the absence of regular communications/meetings, individual DGs often do not have time to find out about the research in other parts of the Commission.

An area where several stakeholders from different parts of the Commission, including DG ECFIN, feel that further cooperation would be particularly beneficial is econometric modelling. At present, various models are being developed by different Commission's services (DG REGIO, DG RTD, DG ENTR, etc). The reason for developing separate models is that they serve different purposes and it is unlikely that a single model could be developed to cater for the needs of the whole Commission. However, there could be some

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scope for more joint working to ensure there is a closer exchange of information and views on theoretical assumptions underlying the models and their relative strengths and weaknesses. Regular updates on the modelling functions in different DGs would be a precondition for achieving this level of networking and sharing of information and outputs. Given that the modelling staff within DG ECFIN are very specialised and scarce (which is also the case in other DGs), care should be taken not to dilute intellectual capital by encouraging the creation of even more different models across the Commission. The guiding principle behind these cross-DG contacts should be to learn from each-other by assessing jointly whether new models are required in some areas before the work is commissioned and agreeing what can be learned from the experience across the Commission if further development of existing models is considered appropriate.

There is a good level of cooperation with EUROSTAT with respect to DG ECFIN's databases. The data for DG ECFIN's databases is sourced mainly from EUROSTAT (the BACH database has been developed specifically for DG ECFIN and the data cannot be obtained from EUROSTAT). DG ECFIN also regularly communicates the data requirements of its users to EUROSTAT which helps enrich their databases further and ensures that they are tailored to the Commission's needs.

We also investigated the extent of overlaps in economic research within DG ECFIN itself. It is widely considered that each Directorate produces quite specific research and that there are not any significant overlaps:

Table 5.7: Are there any overlaps in the research carried out by your Directorate and Directorate A?

| Overlaps between Directorate A/Other Directorates | % |
|---|-------|
| Yes, quite a lot | 3.6 |
| Yes, some | 3.6 |
| No, there are not any overlaps | 53.6 |
| Don't know | 39.3 |
| Total | 100.0 |

Source: CSES analysis of survey responses

Overall, the existing level of resources committed to economic research in DG ECFIN is sufficient to respond to already recognised demands stemming from the policy priorities. But the economic research function has to operate at full capacity to meet them. It would be challenging to move towards more forward-looking and supply-driven research agenda or to a research agenda that responds to any additional needs of policymakers without making changes to the existing structure and/or securing further resources.

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A specific operational problem highlighted by the evaluation is the difficulty DG ECFIN's economic researchers face in procuring the **most appropriate software tools**. As a result, some of the software used by DG ECFIN is not fully compatible with the packages used in other institutions and data on seasonal adjustments, for example, is calculated differently, making it hard for external users to harmonise the adjustments with the data available from their own sources.

We were told that the difficulties arise because there are restrictions on the range of software tools which can be run by the Commission. All software tools have to be supported by the Commission's IT services who also have to ensure that the programmes are compatible (or do not conflict) with other programmes used in the Commission. Clearly, there may be a restriction on the number of different software packages which can be supported but a more flexible approach would appear to be warranted. It is, however, beyond the scope of this study to examine Commission software procurement procedures.

5.5.5 Dissemination of Economic Research Outputs

We now turn to the last question from the terms of reference highlighted earlier on the organisation of DG ECFIN's research, in particular the efficiency of dissemination mechanisms.

In addressing this question, we have examined existing arrangements for the dissemination of research within DG ECFIN as well as dissemination to other target groups. Within DG ECFIN, we looked into the operational Directorates' awareness of Directorate A's research outputs. Both the interview and survey feedback indicates that there is scope for further raising awareness of Directorate A's activities among other Directorates. Representatives from other Directorates commented that they need to have a better overall picture of the activities of Directorate A and how economic research outputs can be used. Face-to-face communication via presentations or workshops was suggested as the most helpful way of familiarising external users with Directorate A's activities. To some extent this has been initiated already with the Group of Advisers organising seminars to talk about their work.

Table 5.8: Overall, how aware are you of the research which is undertaken and activities organised by the Directorate A?

| Response Option | % |
|---|-------|
| I have a good picture of all of Directorate A's activities | 17.9 |
| I am quite familiar with most of Directorate A's activities | 32.1 |
| I am aware of some of Directorate A's activities but not certain about the full range | 42.9 |
| I am not very familiar with Directorate A's activities | 7.1 |
| Total | 100.0 |

Source: CSES analysis of survey responses

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As argued earlier, there is also a need for greater transparency of modelling activities. Respondents from other Directorates commented that up to date and more detailed information on the models and methods available from Directorate A would be useful. This is particularly the case after any calculation methods have been changed. The communications currently coming from Directorate A such as emails or minutes in relation to the changes to models and methods are useful in making other Directorates aware of what has changed, but presentations and more comprehensive papers would also be helpful. This is because the research staff in other Directorates need to understand the broad range of parameters which explain the results of calculations or simulations.

The use of DG ECFIN's outputs could also be increased among external users by strengthening dissemination mechanisms. Most of external users consult DG ECFIN's economic research via the website, but our survey feedback suggests that they find the current website structure rather cumbersome. A clearly visible email alert service would also be very helpful. Currently, email alerts can be set for some of the publications but the subscription pages are not easy to find on DG ECFIN's website. There seem to have been some problems also with the details of the users who have subscribed as several users mentioned that their email alerts were stopped and they had to subscribe again. A more user friendly email alert service where users can choose to subscribe to several publications at the same time would be welcomed. Hard copy subscriptions are also still a very useful way of reaching users.

Key conclusions and recommendations with regard to the organisation of the research function in DG ECFIN

Key findings:

- There is a good balance between the internally produced and outsourced research in DG ECFIN, since the key analytical outputs and tools are developed or maintained in-house, while the outsourced work covers areas where specialist skills are needed or independent analyses need to be carried out (e.g. forecasting)
- The decentralised research model, whereby the research function is concentrated in the Directorate A, but economic research is carried out also in other Directorates is very effective. It both helps all DG ECFIN's staff to develop research skills and it is an important motivational factor for the staff in other Directorates. If anything, there is strong willingness across operational Directorates to get involved in more research.
- There is a good level of interaction with the policy making structure in ensuring the links between research and policy, starting point being the AMP which is based on the wider Commission's priorities. The working groups also provide quite good level of inputs into the research agenda of DG ECFIN, but they feel that they could contribute even more. Similarly, DG ECFIN's operational staff could be able to contribute more based on their knowledge of the needs of end-users of their analytical work.
- There is very little duplication in economic research carried out in DG ECFIN and that of other DGs because their research focus is different. However, there is a lack of awareness among all DGs about the extent of research undertaken in other DGs. Macro-economic models are being developed in

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different DGs and it could be useful to have regular updates between the DGs to discuss the developments and share knowledge. Some closer cooperation to address these areas would be beneficial.

- There are also strong synergies in the work produced within DG ECFIN and the work of its various Directorates is complementary, rather than duplication;
- Dissemination of DG ECFIN's research could be improved both in relation to internal and external users. Within DG ECFIN, members of operational Directorates are not fully aware of the extent of research activities undertaken by Directorate A and how they can benefit from it. There is also a need for more detailed information on models and methodology used by Directorate A. From the perspective of external users, the website structure is seen as quite cumbersome and the existing email alerts do not cover all publications, nor it is easy to find the web pages where they can subscribe to email alerts.

Key recommendations:

- One way of ensuring that staff in operational Directorates gets more exposure to economic research work, would be to promote more joint working on specific projects. This could be positive both for the staff's development and would help address the research support issues in the Group of Advisers. However, it needs to be balanced against the resource requirements within the Directorates.
- The existing level of integration of research with policy based on AMP should be maintained. However, there is some scope for a co-ordinated consultation between the DG ECFIN's Directorates as well as the active consultations with the key stakeholders in policymaking circles outside DG ECFIN.
- DG ECFIN and other DGs should identify suitable mechanisms for keeping other DGs updated of their economic research work, particularly in the area of macro economic models. Regular updates in this area could help them identify synergies and share knowledge accumulated within individual DGs, and avoid cases where two DGs undertake similar research without being aware of what the other may be doing. Given the increasing focus on modelling type activities in a growing number of DGs, consideration should be given to the possibility of organising a Commission-wide website where all DGs, including ECFIN, could contribute material of interest to the wider modelling community.
- DG ECFIN should formalise further its planning process. We have already suggested an away day planning process for the Group of Advisers and an annual research planning meeting of DG ECFIN could be beneficial. It might also be helpful to invite representatives of some other DGs.
- Documentation on models and methodologies used by the Directorate A should be provided to other Directorates to increase transparency and it could also help reduce the amount of enquiries that Directorate A is getting in relation to the results. Contingent on the availability of resources, Directorate A should consider more face to face interaction with other Directorates through presentations and seminars to further raise awareness of its research activities. (This has already been tried but there is a case for a renewed effort).
- The website structure should be simplified to make it easier to locate the publications and an email alert service should be introduced. Instead of having to subscribe separately for individual publications, the email alert should be set up in such a way that users can select to subscribe to several publications at the same time.

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This section summarises the feedback from the academic panel on the quality of DG ECFIN's economic research outputs. Detailed feedback from the academics is contained in the Appendices.

6.1 Quality and Relevance of Economic Research - Overall

Before turning to the academic feedback, we first provide a consolidated analysis of the survey findings with regard to the quality of DG ECFIN's economic research. This analysis combines feedback from internal DG ECFIN users, users elsewhere in the Commission and externally.

Overall, the various users of DG ECFIN's economic research gave a very positive feedback on its quality with 70% of survey respondents describing it as 'good' or 'high' quality. Only a very small proportion of users responding to the survey considered the quality to be 'poor'.

Table 6.1: Overall, how would you rate the quality of DG ECFIN's economic research activities?

| Overall quality | No. | % |
|-----------------|------------|--------------|
| Excellent | 27 | 18.4 |
| Good | 87 | 59.2 |
| Poor | 6 | 4.1 |
| Very poor | 1 | 0.7 |
| Don't know | 26 | 17.7 |
| Total | 147 | 100.0 |

Source: CSES analysis of survey responses.

6.2 Academic Feedback on Quality of Economic Research

In addition to obtaining feedback from users on the quality of DG ECFIN's economic research from the survey and interview programme, we also asked a panel of academics to review the two main econometric models used by DG ECFIN and a sample of 29 publications. The sample of publications was chosen at random from across the broad range of DG ECFIN's economic research outputs but with an emphasis on more recent publications (a full list and details of the academic panel are provided in Appendix C). DG ECFIN was then consulted on the representativeness of the sample.

In the terms of reference, a number of key issues were posed with regard to DG ECFIN's models:

- Theoretical consistency of the model, i.e. whether the model has been developed in line with its theoretical assumptions;
- Whether the simulation results of the QUEST II are in conformity with economic literature;

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- Whether the QUEST III is a state of art tool in terms of academic quality criteria.

In relation to the modelling activities, the key question that the academic panel addressed were the extent to which the results of the QUEST model, particularly QUEST 2, represent 'real' developments in the EU economy. The questions regarding DG ECFIN's analytical outputs were:

- Whether the latest developments in wider economic research are also taken into account;
- The extent to which the methodology used in the publications academically credible;
- Whether the papers are capable of stimulating debates/ further research among academic community.

Full details of the academic assessment of DG ECFIN's economic research are contained in Appendix C. Below we provide a synthesis of the feedback. As a way of providing an overview, we have used three categories to summarise the comments:

- A – the publication is regarded as being of a high academic standard, up to date with the latest thinking, etc;
- B – although judged to be good, there are some criticisms regarding the methodological approach and other aspects of the publication;
- C – the publication is not regarded as coming up to academic standards at all.

Half the publications reviewed by the academic panel fell into the first category with almost all of the remainder being in the second category. This is broadly in line with the feedback from users shown in the earlier table where almost all respondents who were in a position to judge assessed the quality of DG ECFIN's economic research outputs as being either 'excellent' or 'good'.

There are several other sources of opinion on the academic quality of DG ECFIN's economic research activities. As of March 2006, University of Connecticut's IDEAS website (a project dedicated to cataloguing and sharing economic research globally) ranked DG ECFIN among top 20% economic research institutions in Belgium. Its researchers are also well ranked with one current and three former DG ECFIN advisers featuring amongst the top 20% researchers in Belgium. Responses to open questions in our survey of external users (analysed in more detail earlier) were also positive with one respondent stating that 'DG ECFIN is doing the best work'.

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6.2.1 Quest Related Papers

The first academic review focused on a 1997 paper describing the Quest II model.¹² According to the reviewer, the **Quest II** model is ‘a very impressive piece of work that is very relevant today, and that must have been state of the art at the time at which it was built ... the modeling is very much in line with very well established academic macroeconomic theory.’

The main suggestion is that while the production function is a nested CES and Cobb Douglas production function (which is considered entirely standard and reasonable) it could be very interesting if possible to use a full CES specification, as this allows for effects of the level of the capital stock on the equilibrium rate of unemployment (these disappear in the Cobb-Douglas case). Other relatively minor points include: expressing the total amount being spent on firm vacancy costs as a fraction of GDP; the comment that whilst the monetary rule in the 1997 paper encompasses monetary targeting and interest rate targeting, does not fully encompass inflation targeting; a rather ad hoc introduction of nominal rigidities in wages through four period contracts.

Turning to the Quest II simulations, the (2002) paper that was reviewed is seen as providing ‘a good range of simulations and the results look interesting and sensible.’¹³ The only suggestion from the reviewer is that it might have been interesting to look at a supply shock that only affected one country rather than the EU area as a whole’. Another Quest II paper reviewed, examining the impact of the Stability and Growth Pact (SGP) on the European economy’s performance, was seen as ‘very competently done and interesting, but does make quite a serious omission if it is aiming to discuss the pros and cons of the SGP in a broader context’. By only looking at symmetric shocks, the reviewer argued, the analysis is essentially restricted to situations in which the SGP is unlikely to do significant damage. This is seen as a weakness and also unnecessary given that Quest II is a multi country model.

A further comment is that the 1997 paper on Quest II contained some interesting results on the general effects of fiscal expansions under varying tax assumptions but that it would have been very interesting to do a similar exercise in this application in terms of how each might lead to a breach of the SGP.

¹² “QUEST II: A Multi Country Business Cycle and Growth Model” (1997) by Werner Roeger and Jan in’t Veld.

¹³ Some selected simulation experiments with the European Commission’s Quest model” (2002) by Werner Roeger and Jan in’t Veld (also appearing in Economic Modelling)

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The third paper reviewed repeats the earlier observation for Quest II for **Quest III**, namely being a model for the euro area as a whole, it cannot attempt to capture the stabilization provided by fiscal policy at the level of the individual country.¹⁴ The reviewer argues that while he does not imagine this point is lost on the authors in any way, it would have been worthwhile bringing it out more in the paper. Otherwise, the conclusion is that the paper ‘is an impressive and extremely substantial piece of work that uses state of the art procedures in macroeconomic modeling’. Concerning the estimations contained in the paper using the model, the conclusion was that: ‘the authors have made use of up-to-date and advanced techniques available from the academic literature. In this respect, the paper is very well placed to compete with other alternative methods to analyze the impact of fiscal policy’.

6.2.2 EU Economy Review, Reports, etc

Amongst the publications reviewed was a paper contained in **EU Economy Review** on financial globalization.¹⁵

Purely descriptive aspects were considered by the reviewer to be ‘well organized, thorough, and detailed’ but not offering striking new insights. However, the reviewer argued that the paper’s consideration of the consequences of financial globalization was ‘sketchy, much less well organized and lacking in the balanced judgment of earlier parts (and rather poorly written)’. Elsewhere the paper is criticized for presenting conclusions which are not argued in the content of the paper itself; a chapter on the economics of immigration presents a considered ‘a sound but fairly standard account’; and, similarly, the chapter on the location of multinational across EU regions is seen as ‘not adding very much to the existing literature’ while another on econometrics is ‘very rough and ready’ and another on internationalization of R&D ‘is too poorly drafted to be of interest’. More positively, the reviewer argues that in the volume as a whole, ‘the conception of it and the various angles on the issue which are treated are imaginative and effective’ and the ‘work is up-to-date and takes into account a wide range of recent developments’.

A second EU Economy Review paper was examined by the reviewers on labour markets and wages. Overall, this was criticized because ‘the whole discussion of jobless growth is coloured by the feeling that it is a kind of growth’ and for failing to make clear enough that

¹⁴ Comments on: “Fiscal Policy in an estimated open-economy model for the Euro Area” by Ratto, Roeger and in’t Veld.

¹⁵ The EU Economy 2005 Review. Rising international economic integration – opportunities and challenges.

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this is merely what happens when output grows at the same speed as productivity.¹⁶ 'Recognizing that generally speaking, faster (sustainable) output growth and faster productivity growth are both desirable, it becomes hard to become excited by the 'danger' of their happening to be equal. Also, 'presumptions underlying parts of the analysis do not appear to be well founded'. Finally, the quality of the presentation is considered to be poor and makes it 'unlikely that the intrinsic interest of this paper will induce many people to struggle through it'.

A **Country Focus** paper on the Spanish housing market is also criticized: 'It is far from clear even what the objectives of this paper are, since the question in the title is never addressed. In any case, the analysis seems to be poorly considered and incomplete.'¹⁷ In particular, the argument that whilst helping to explain of demand for housing, the annual financial effort is also a key explanatory variable determining housing construction is seen as a 'very puzzling suggestion'. Moreover, the paper is judged by the reviewer as showing no awareness of the dangers to consumption arising from a fall in household wealth as house prices fall, or of any dangers to mortgage-lenders' solvency.

A **Quarterly Report** was also covered by the academic review.¹⁸ On a chapter examining the economic effects of population ageing, the reviewer's conclusion was that 'whilst the general thrust of what is said is perfectly sensible, the fact that the details of the analysis are not presented and that some of the conclusions do not follow from what is presented limit its interest'. Another chapter containing the argument that structural reform is easier to achieve in growing economies is seen as 'quite possibly false'. In contrast, another focus (on the inflationary consequences of the oil price increase) is seen as addressing 'all the important issues in a sensible and balanced way'. Overall, the reviewer concludes that 'a report of this kind is not likely to stimulate much research, but it does serve a useful purpose in presenting material and might well be of use'.

Other publications reviewed included the **Prices and Competitiveness Report** (4th Quarter 2005) where the conclusion was that 'presentation is for the most part clear and such discussion of the data as is offered is pertinent' while it was considered to be 'sound

¹⁶ Labour market and wage developments in 2004, with special focus on risk of jobless growth. Directorate-General for Economic and Financial Affairs – online version from http://ec.europa.eu/economy_finance/publications/eespecialreports_en.htm.

¹⁷ The Spanish Housing market: are we in for a soft landing? Ecfm Country Focus, Volume 3, issue 1. by Javier Yaniz Igal. Directorate-General for Economic and Financial Affairs

¹⁸ Quarterly Report on the euro area economies, Volume 4 No 4 (2005). Directorate-General for Economic and Financial Affairs

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methodologically and to reflect current issues that might well be of use to other researchers'.¹⁹

6.2.3 European Forecasting Network

Two EFN documents were reviewed, the first being the EFN **Spring 2006 Report** which discussed policy issues around entering euro which is very relevant for EU10 countries.²⁰ However, according to the reviewer: 'The models and the papers have not relied on the recent notions and results. There is no reference to models of third-generation currency crisis. Spontaneous euroisation and its policy consequences are not really mentioned, while liability euroisation for both the households and the public budget is relevant for exchange rate exposure and vulnerability'. Moreover, 'The whole literature on equilibrium exchange rate is disregarded because of the large range of values without discussing its relevance for NMS and the special conditions of monetary integration'.

The second EFN report (also Spring 2006) was on 'Entry rates and the risks of misalignment in the EU8'.²¹ The assessment of this document was more positive: 'The assumptions are in line with the latest empirical and theoretical results the result sheds some new light on the required output loss of smaller countries with hard peg while satisfying the nominal convergence conditions of the monetary union'.

6.2.4 Analytical Papers

The first of the Analytical Papers examined was 'The stacked leading indicators dynamic factor model: a sensitivity analysis of forecast accuracy using bootstrapping'.²² The conclusion was very positive: 'The paper has been written with the highest academic standards. The work produced is on top of the existing literature on the area and it is potentially publishable in a top forecasting/econometrics journal. Academically the paper makes progress on the existing state of knowledge and it is very relevant to inform policy making as it results in forecasts of GDP with very reasonable properties.' The reviewer goes on to suggest that 'The author should be congratulated for the careful and painstaking

¹⁹ Price and Competitiveness Report, 4th Quarter 2005.

²⁰ SZCZUREK, M: EMU ACCESSION STRATEGIES, "Economic Assessment of the Euro Area: Forecasts and Policy Analysis" The EUROFRAME - EFN Spring 2006 Report.

²¹ Fic, T, R Barrell and D Holland: Entry rates and the risks of misalignment in the EU8, "Economic Assessment of the Euro Area: Forecasts and Policy Analysis" The EUROFRAME - EFN Spring 2006 Report.

²² 'The stacked leading indicators dynamic factor model: a sensitivity analysis of forecast accuracy using bootstrapping' by Daniel Grenouilleau.

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analysis of the issue, which is not a trivial enterprise.’ Apart from some relatively minor points on the presentation of the material, and a suggestion that comparisons between forecast accuracy and other models could include other methods more familiar to those coming from an econometric background, there were no criticisms.

A second paper on ‘How much has labour taxation contributed to European structural unemployment?’ was also positively reviewed.²³ ‘This paper’, the reviewer argued, ‘makes an important contribution to the literature and is academically very valuable. It is not only important for policy making, but also takes a step forward the debate on the impact of taxes on European unemployment. Technically, the paper is well crafted and uses up-to-date econometric models. This is a sound and credible piece of research’.

‘International oil price changes: impact of oil prices on growth and inflation in the EU/OECD’ involved a simulation exercise using the QUEST model and comparing it with the results from other macro models.²⁴ Here, the conclusion was that: ‘The paper presents a useful modeling exercise that is undoubtedly informative for policy makers’. The only criticism was that academically, the research would have benefited from further input from econometric models of the impact of oil prices.

Included in the academic review were several papers from the series **European Economy Economic Papers** on ‘Pension reforms: an illustrated basic analysis’ (April 2004).²⁵ Again there were positive conclusions: ‘the analysis appears to be sound and is commendably lucid, well-judged, illuminating, and persuasive’. Only on wider questions concerning the interrelation of a pension system and the public finances generally was the paper considered to be less successful. This, however, was not seen as detracting from the value of the paper in achieving its primary goal of elucidating the central problems around pensions themselves.

A further example from European Economy Economic Papers was ‘The Lisbon strategy and the EU's structural productivity problem’.²⁶ According to the reviewer, this paper was ‘lucid, balanced, well-informed, and insightful. On all its central points it is persuasive and valuable. Some of the details might be controversial, but if so, then the paper certainly serves

²³ How much has labour taxation contributed to European structural unemployment? by C. Planas, W. Roeger and A. Rossi.

²⁴ International oil price changes: impact of oil prices on growth and inflation in the EU/OECD by W. Roeger.

²⁵ Pension reforms: an illustrated basic analysis by Heikki Oksanen. European Economy Economic Papers No 201, April 2004. Directorate-General for Economic and Financial Affairs.

²⁶ The Lisbon strategy and the EU's structural productivity problem by C Denis, K McMorrow, W Röger, and R Veugelers. European Economy Economic Papers No 221, February 2005. Directorate-General for Economic and Financial Affairs.

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to stimulate further research ... it is an excellent example of useful public-sector economic research. It reflects up-to-date material, is methodologically sound, and contributes to debate and discussion'. There were similarly positive comments about other Analytical Papers. Thus, 'Stabilizing output and inflation: Policy conflicts and co-operation under a Stability Pact' (Journal of Common Market Studies, 2001) was considered by the reviewers to be 'a competent and worthwhile contribution to the academic literature in its field'(28).

The other examples from European Economy Economics Papers were also generally assessed positively (29). In the case of 'EMU and the euro – the first 10 years. Challenges to the sustainability and price stability of the euro area – what does history tell us?' the view was generally complementary but a shortcoming was highlighted, namely that 'Deeper analysis should have highlighted the internal structure of the decision making within ECB, its relation with other EU bodies, the role of large countries and their coalitions' (30).

In the **Occasional Papers**, the publication 'Improving the Stability and Growth Pact: the Commission's three pillar approach' was criticized as 'quite unsatisfactory' in not addressing the argument that fiscal surveillance should focus exclusively on debt and sustainability, rather than monitoring deficit developments (31). In the **Enlargement Papers** series, there was a generally positive assessment of the publication 'Progress towards meeting the economic criteria for accession: 2005 Country assessment' although the reviewer felt that the labour market should have been analysed in close relation with the informal economy (32).

²⁸ Stabilizing output and inflation: Policy conflicts and co-operation under a Stability Pact, Marco Buti, Werner Roeger, and Jan in't Veld. Journal of Common Market Studies, 2001.

²⁹ Wälde, K and C Wood: The empirics of trade and growth: where are the policy recommendations? EUROPEAN ECONOMY. ECONOMIC PAPERS. No. 204. May 2004. European Commission. Brussels. and Jonung, L: To be or not to be in the euro? Benefits and costs of monetary unification as perceived by voters in the Swedish euro referendum 2003, EUROPEAN ECONOMY. ECONOMIC PAPERS. No. 205. June 2004. European Commission. Brussels.

³⁰ Jonung, L: EMU and the euro – the first 10 years. Challenges to the sustainability and price stability of the euro area – what does history tell us? ECONOMIC PAPERS. No. 165. February 2002. European Commission. Brussels.

³¹ Deroose, S and S Langedijk: Improving the Stability and Growth Pact: the Commission's three pillar approach, EUROPEAN ECONOMY. OCCASIONAL PAPERS. No.15. February 2005. European Commission. Brussels.

³² Progress towards meeting the economic criteria for accession: 2005 Country assessment EUROPEAN ECONOMY. ENLARGEMENT PAPERS. No. 26. November 2005. European Commission. Brussels.

Overall Conclusions and Recommendations

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7.1 Overall Conclusions

1. *Overall, the results of this evaluation of DG ECFIN's economic research activities are positive.* Within a relatively short period of time and with quite modest resources, DG ECFIN has developed a wide range of economic research tools and products. Feedback from the evaluation indicates that the various economic research outputs are widely used inside DG ECFIN, elsewhere in the Commission and by external users. They are generally seen as being of a high quality and make a valuable input to the Commission's policy-making.
2. *Economic research in the context of this evaluation can be broadly defined as research activities undertaken by DG ECFIN that provide an analytical basis for operations and policies.* The importance of high quality economic research is largely self-evident and lies in improving the effectiveness of operations and ensuring that policy-making is based on sound analysis.
3. *From a management perspective, there is a challenge in striking a balance between economic research that is supply-driven, i.e. reflects the interests of the researchers and is important to maintaining intellectual capital, and activities that are demand-driven, i.e. are undertaken to support day-to-day operations and policy making.* As experience in other comparable organisations demonstrates, achieving this balance is not easy. Our evaluation suggests that while steps could be taken to strengthen each aspect, DG ECFIN is largely achieving such a balance.

Below, we summarize key conclusions with regard to the specific issues set out in the terms of reference for the evaluation and recommendations.

7.2 Internal Use of Economic Research

We first consider issues relating to the use of economic research within DG ECFIN – how it contributes to the work of operational Directorates and policy-making – and the extent to which the research is relevant to the needs of other Commission DGs.

4. *Overall, our evaluation suggests that DG ECFIN's economic research outputs are extensively used within the DG.* The research is regarded by most Commission staff (71%) responding to the survey as being of a good quality. Among the research tools, databases are most frequently used with a combined 57% of DG ECFIN staff responding to the survey using them regularly. Similarly, the use of Business and Consumer Survey data is quite extensive and given its unique nature as an EU-wide survey is considered to be highly valuable.
5. *The most frequently read publications being Economic Forecasts, with 50% of the surveyed staff indicating that they read them regularly.* Other frequently used publications are Economic Papers, Enlargement Papers, Occasional Papers, EU Economy Review and Special Reports. Less positively, the publication Topics in Economic Research, which is designed to keep DG ECFIN staff updated on the developments in external economic research, does not seem to

Overall Conclusions and Recommendations

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be as extensively used (according to our survey, 57% of staff indicated that they rarely read this publication). It needs to be borne in mind, however, that this is a relatively new publication.

6. *DG ECFIN's economic research outputs are generally regarded as being of a very high quality.* In addition to feedback from the survey work, a panel of academic experts were asked to review a sample of DG ECFIN's publications. Half the publications reviewed by the academic panel fell into the top category ('high academic standard, up to date with the latest thinking, etc') with almost all of the remainder being in the second category ('judged to be good but some criticisms regarding the methodological approach and other aspects of the publication'). This assessment was broadly in line with the survey feedback from users where almost all respondents who were in a position to judge assessed the quality of DG ECFIN's economic research outputs as being either 'excellent' or 'good'.

7. *The evaluation indicates that economic research outputs are seen as essential to DG ECFIN's analytical capacity.* Some 65% of DG ECFIN's staff who responded to the survey stated that the economic research is either 'very relevant' or 'quite relevant' to their needs. There is a strong consensus that DG ECFIN's economic research should maintain its focus on supporting policymaking and policy analysis (as opposed, for example, to having a more academic orientation).

8. *Members of the EPC and EFC working groups consider that both the Notes that DG ECFIN prepares for them and DG ECFIN's staff who participate in the working groups' meetings make a significant contribution to the policy debates.* A total of 84% of the survey respondents indicated that this material contributes 'quite strongly' to the policy debates in the working groups. DG ECFIN's representatives participate in the meetings working group meetings, providing advice and analytical support in response to ad-hoc requests by members. Overall, feedback from working group members is very positive about DG ECFIN's input to the meetings: the contributions from the DG ECFIN's staff to the meetings are very highly regarded and generally offer clear and well grounded advice on economic issues.

9. *Although it is difficult to generalize, the relevance of DG ECFIN's research outputs to other DGs seems reasonably high.* Bearing in mind that DG ECFIN conducts a different kind of research to other DGs by focusing on issues that are pertinent to EMU and macro-economic aspects of structural policies, rather than structural policies themselves, there are limits to which DG ECFIN's research is likely to be directly relevant to other DGs. Similarly, DG ECFIN does not have the resources that would be required to cover economic research aspects of all other EU policy areas in depth. Its contribution to the research needs of other DGs is therefore necessarily limited.

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Recommendations – Internal Use of Economic Research

- *After a further 6-9 months, the content and presentation of TIERs should be reviewed if the current relatively low readership does not improve.*
- *When assessing different policy options (in both the research Notes produced for the working groups and wider outputs) it would help policymakers to have more explicit analyses of economic implications of different policy options. Every effort should be made to ensure that the working groups receive the Notes in a timely manner, i.e. at least a week before the meetings take place.*
- *Given the specific orientation of DG ECFIN's research, i.e. its approach to analysing structural policies within the macro-economic context, it would not be feasible for DG ECFIN to undertake significant additional work specific to the needs of DGs without additional resources.*

7.3 External Use of DG ECFIN's Economic Research Outputs

DG ECFIN's economic research outputs are disseminated externally to a wide range of organisations. Below, we summarise key findings and conclusions on this aspect of the evaluation.

10. *DG ECFIN's research is very relevant to the needs of external organisations.* External users include academic and research institutions, international institutions, financial institutions, because of its focus on the policy issues relevant to the EU policy and a good range of its research outputs is used among the external audiences.

11. *According to the survey work, 74% of external users consider that DG ECFIN's research activities make a positive contribution to their research work.* The overall quality of DG ECFIN's research activities is also highly rated amongst external users with around 80% of respondents stating that is of either 'good' or 'excellent' quality. The Annual Economic Research Conference and Brussels Economic Forum seem to be good vehicles for raising the profile of DG ECFIN both amongst academics and policymakers. The Visiting Fellows programme, too, is successful in promoting debate amongst academics. Apart from engaging in discussions with the Group of Advisers and DG ECFIN staff, it adds value by encouraging networking and co-operation between external researchers.

12. *In comparison to the research available from other institutions, DG ECFIN's work is also seen as demonstrating a high degree of added value.* This stems from its focus on the issues relevant to the EMU and EU economic policy generally which external users cannot easily obtain from other sources

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Recommendations – External Use of Economic Research

- *Active engagement with external economic researchers should be continued as this helps increase both DG ECFIN's intellectual capital and it raises awareness of EU economic policy environment and issues among external researchers. Participation by DG ECFIN staff in external events is also important in raising visibility.*
- *If anything, external researchers should be more involved in DG ECFIN's economic research. Whilst DG ECFIN cannot ask individuals to apply, the Visiting Fellows Programme needs to be marketed more pro-actively to universities and research institutes in order to increase its visibility and attract high calibre researchers. Since DG ECFIN's outputs are used to a large extent also by the financial sector institutions, the engagement with them should be maintained.*

7.4 Gaps in Economic Research Coverage

An important question is the extent to which the coverage of the DG ECFIN's economic research activities is adequate from the point of view of both internal and external users.

13. *There are no significant gaps in the coverage of the main DG ECFIN policy remit. However, there is a need for deeper coverage of some existing topics. This includes a better integration of analyses related to the Lisbon Agenda, international economic issues relevant to the Commission and more analyses on specific topics relevant to the operational Directorates.*

14. *Elsewhere in the Commission, some DGs consider that there are gaps in DG ECFIN's research in relation to their needs. On the other hand DG ECFIN sometimes produces analyses that could be carried out by other DGs. Some members of the EPC and EFC working groups also argued that DG ECFIN's research should better support policymaking at a national level. These views partly stem, however, from a lack of familiarity with DG ECFIN's research mandate and the role of its research within the Commission.*

Recommendations – Gaps in Economic Research Coverage

- *Consultations should be undertaken within DG ECFIN with the representatives from operational Directorate to identify any further economic research needs required to help their work. This could be done via periodic workshops involving key officials from different Directorates. Any additional commitments emanating from this consultation process would need to be backed up by the allocation of additional resources.*
- *The mandate of DG ECFIN's economic research needs to be more clearly communicated to audiences in the Commission's policymaking circles, especially its role vis-à-vis other DGs. Linked to this, consideration should be given to including representatives from other DGs on a consultative group to help define the economic research agenda..*

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7.5 Role of the Group of Advisers

The Group of Advisors has an important role to play in helping to maintain and develop DG ECFIN's intellectual capital. It also has a brief to actively participate in economic policy debate through publications and discussions in relevant fora and to contribute to enhancing the overall analytical quality of the DG's work.

15. Overall, the activities and policy focus of the Group of Advisers has significantly improved since 2001 and there is a good level of satisfaction with their work among DG ECFIN's staff. But there is still some scope for strengthening both the relevance of their outputs to DG ECFIN's staff and the policy focus of their work which is still sometimes perceived as too academic.

16. The Group of Advisers provide high level expertise on specific policy issues. The Advisers also play an important role in promoting links with the academic community and external networking generally. Last but not least, the Group of Advisers have a critical function to play in helping to maintain intellectual capital. Overall, DG ECFIN's staff who has worked with the advisers either on joint projects or to whom Advisers assisted on specific projects, are satisfied with their inputs.

17. The training in which Group of Advisers provide significant input (such as Seminars Programme delivered by the Visiting Fellows) are well regarded by DG ECFIN's staff. Visiting Fellows Programme, also managed by the Advisers, is considered by staff as particularly useful in helping them maintain exposure to wider economic research.

18. However, the Group of Advisers seems to be currently involved in too many activities, some of which detract from research activities and representing DG ECFIN among external research networks. While, as Advisers, they need to respond to the demand for advice from within DG ECFIN, there is a need to provide more support for administrative tasks associated with the Visiting Fellows Programme, Economic Studies Programme, etc. The lack of research support, i.e. junior researchers, is also a significant obstacle to generating more research. There is also a case for tasks associated with the Economic Studies Programme to be more closely integrated into the Group of Advisers' work programme.

19. There are also difficulties in attracting external researchers to the posts of the Advisers. Current duration of the Advisers posts, even the temporary ones, is considered as too long by the external researchers, while the recruitment requirement to employ only the Advisers with more than 15 years of professional experience significantly narrow down the pool of potential candidates. There are some indications that the remuneration package could be less competitive than in other international organisations.

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Recommendations – Group of Advisers

- *The role of the Group of Advisers needs to be more closely defined with respect to the balance between research and other activities. Their involvement in various activities needs to be reviewed and, where appropriate, the management of some activities should be delegated to more junior C grade staff.*
- *Whilst individuals already have work plans, a more structured work plan for the Group of Advisers as a whole should be developed as this would also help focus their work and research more on the relevant policy issues. One way of arriving at such a work plan would be for the group of advisers to hold planning ‘away days’ once or twice a year to agree the issues to be tackled, the priorities and the work programme. This and other steps are needed to more effectively promote group dynamics.*
- *More junior research staff should be recruited to support to the Advisers. Introducing short-term contracts for young researchers could be a quick and cost-effective way of securing this support. Another option would be to extend the Visiting Fellows programme to provide additional research support.*
- *Longer appointments for Visiting Fellows posts of 4-6 months in duration (rather than of up to two weeks as at present) would be more attractive to the external researchers as this would not disrupt their ongoing work and would provide greater exposure to the policy environment.*

7.6 Organization of the Economic Research Function

Although the bulk of economic research activities such as the development of tools is carried out in Directorate A, economic research activities are decentralized throughout DG ECFIN’s operational Directorates. A key question is whether this model is the most effective way of organizing economic research.

20. *The decentralized research model, whereby the economic research function is concentrated in the Directorate A, but some research is also carried out also in other Directorate is an appropriate model. This approach helps ensure that all DG ECFIN’s staff to develop research skills and it is also important motivational factor for those in other Directorates.*

21. *There is a good level of interaction within DG ECFIN between economic research and policy-making. The working groups also provide a good level of input to the research agenda of DG ECFIN. Similarly, DG ECFIN’s operational staff could contribute more based on their knowledge of the needs of end-users of their analytical work.*

22. *There is very little duplication in economic research carried out in DG ECFIN and that of other DGs because their research focus is different. However, there is a lack of awareness among some DGs of the economic research work being undertaken by DG ECFIN. Macro-economic models are being developed in different DGs and it could be useful to have closer contact to discuss the developments and share knowledge.*

23. *There is a good balance between the internally produced and outsourced research in DG ECFIN. The key analytical outputs and tools are developed or maintained in-house, which is appropriate,*

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while the outsourced work covers areas where specialist skills are needed and/or independent analyses need to be carried out.

24. *Dissemination of DG ECFIN's research could be improved both in relation to internal and external users.* Within DG ECFIN, members of operational Directorates are not fully aware of the extent of research activities undertaken by Directorate A and how they can benefit from it. There is also a need for more detailed information on models and methodology used by Directorate A. From the perspective of external users, the website structure is seen as quite cumbersome and the existing email alerts do not cover all publications, nor is it easy to find the web pages where they can subscribe to email alerts.

Recommendations – organization of the economic research function

- *One way of ensuring that staff in operational Directorates have more exposure to economic research work would be to promote more joint working on specific projects. This could be positive both for staff development and could help address the research support needs of the Group of Advisers. However, it needs to be balanced against the resource requirements within the Directorates.*
- *DG ECFIN and other DGs should identify suitable mechanisms for keeping informed about their economic research work, particularly in the area of macro economic models. Regular updates in this area could help identify synergies and promote a sharing of knowledge and experience. Given the increasing focus on modeling type activities in a growing number of DGs, consideration should be given to the possibility of organizing a Commission-wide website where all DGs, including DG ECFIN, could contribute material of interest.*
- *The website structure should be simplified to make it easier to locate the publications and an email alert service should be introduced. Instead of having to subscribe separately for individual publications, the email alert should be set up in such a way that users can select to subscribe to several publications at the same time.*

Economic Research Outputs, Producers & Users

A

The following tables map out the relationship between DG ECFIN's research outputs (tools, analysis and events), producers of outputs and users of research. Where appropriate, we specify who in DG ECFIN has the responsibility for specific outputs (Chef de File), which DG ECFIN's Directorates contribute to producing the outputs and who the users of each research output are.

Key research tools

| DG ECFIN's Key Research Tools | Chef de File | Contributing Directorates/Units | Key users |
|--|---------------------------|---------------------------------|--|
| <i>Macro models and econometric estimations</i> | Directorate A/ Unit A1 | Directorate A/Unit A1 | Research output for Commission (DG ECFIN and other DGs), academics, international/national institutions, research community and wider audience |
| <i>Databases (AMECO, TRIMECO and BACH, EUKLEMS (industry level data)</i> | Directorate A/Unit A2 | Directorate A/Unit A2 | Publicly available (AMECO, BACH) (TRIMECO not yet), but primarily designed for internal users in DG ECFIN |
| <i>Business and Consumer Surveys Data</i> | Directorate A/Unit A3 | Directorate A/Unit A3 | Publicly available via a dedicated website. Previous evaluation indicates a wider user base both within and outside the Commission bodies. |

Key analytical publications

| DG ECFIN's Key Economic Analyses | Chef de File | Contributing Directorates/Units | Key users |
|---|--------------------------------|---|---|
| <i>Public Finances in EMU</i> | Directorate C/Unit C2 | Directorate C, Directorate A/Unit A1 and Group of Advisors | DG ECFIN, other Commission's bodies, research community. |
| <i>EU Economy Review</i> | Group of Advisors (since 2005) | Responsibility of the Group of Advisors, all Directorates contribute | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |
| <i>Economic Forecasts (spring and autumn)</i> | Directorate A/Unit A4 | Directorate A/Unit A4 co-ordination, aggregation of data, consistency checking, analysis. Directorate B provides country forecasts. Contributions from Units in Directorate | Commissioner for Economic and Financial Affairs, other Commissioners. Other DGs, (including DG BUDG, DG EMPL, ESTAT, DG REGIO, in particular). Academics, international and national institutions, wider audience |

Economic Research Outputs, Producers & Users

A

| | | | |
|--|--------------------------|---|---|
| | | A: A1, A2, A3, Directorate C: Unit C3, Directorate D: Units: D1 and D2. | |
| <i>Economic Papers, Enlargement Papers, Occasional Papers,</i> | All Directorates | All Directorates. All Units in Directorate A, except Unit A2, and the Advisers | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |
| <i>Special Reports</i> | All Directorates | All Directorates | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |
| <i>Country Focus Series</i> | Directorate B | Directorate B | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |
| <i>Quarterly Report on the EURO area</i> | Directorate C/Unit C1 | All Directorates | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |
| <i>Price and Cost Competitiveness Report</i> | Directorate C/Unit C3 | Directorate C/Unit C1 | DG ECFIN, other DGs, academics, international and national institutions, research community, wider audience. |

Analytical work that is aimed at specific internal audiences

| DG ECFIN's Key analyses/information for internal audiences | Chef de File | Contributing Directorates/Units | Key users |
|---|--|---|---|
| <i>Topics in Economic Research</i> | Directorate A/Unit A4 | A4 responsible for publishing, with analytical work and support by other units in Dir A, the Group of Advisers and other Directorates | Aimed at internal users in DG ECFIN to inform them of the latest developments in relevant external economic research |
| <i>Notes for EPC/EFC/Working groups</i> | Directorate C/Unit C1 for inputs to EFC Directorate E/Unit E1 for inputs to EPC | All Directorates (Units A1, A3, A4 from Directorate A) | EPC, EFC, working groups |

Economic Research Outputs, Producers & Users

A

Key events organised by DG ECFIN

| Key events related to economic research | Chef de File | Contributing Directorates/Units | Key users |
|--|----------------------------|---------------------------------------|--|
| <i>Economic Seminars Programme</i> | Group of Advisers | All Directorates present | DG ECFIN staff, staff from other DGs |
| <i>Visiting Fellows Programme</i> | Group of Advisers | N/A | DG ECFIN staff (and other DG staff benefits from Visiting Fellows presentations in Seminars Programme) |
| <i>Summer School</i> | ECFIN's Training Committee | Training Committee, Group of Advisers | DG ECFIN staff and other Commission's staff |
| <i>Workshops on specific topics</i> | Directorates C and E | | Commission's policymakers/academics |
| <i>Brussels Economic Forum</i> | Directorate A | TBD | High profile participants (ministers, presidents of central banks, commissioners, journalists) |
| <i>Annual Economic Research Conference</i> | Directorate A | All Directorates, sometimes other DGs | A large number of academics participants |
| <i>Contributions for external Conference and Workshops and publications in books and external journals</i> | All Directorates | All Directorates | Academics, international and national institutions, research community, wider audience. |

Summary of Key Publications and Research Tools

B

| In-house Research Outputs | Description |
|---|---|
| <i>Public Finance in EMU Report</i> | Public Finance in EMU report is co-ordinated by Unit C2 and contains mainly the contributions from the Directorate C. The Group of Advisors and Unit A1 also contribute to this publication. Public Finance Report is mainly used by other Directorates in DG ECFIN, other Commission's bodies and wider research community. Published since 2000, this report makes an in-depth review of the conjunctural, institutional and analytical issues related to public finances. Among them the budgetary developments, the policy-mix, the operational and institutional aspects of the implementation of the Stability and Growth Pact, methodological issues linked to the assessment of fiscal policy and fiscal surveillance as well as long-term sustainability of public finances. The report includes two regular sections: budgetary developments, including the overview of the stability and convergence programmes and the long-term sustainability; and evolving fiscal surveillance. It also includes two or three analytical studies on public finances addressing new challenges and particularly policy relevant aspects. |
| <i>EU Economy Review</i> | Since 2005, the Group of Advisors is responsible for co-ordinating the EU Economy Review. The Review consists of contributions by the Directorate A (mainly A1 and Advisers) and other Directorates in DG ECFIN. It is used by a wide audience including DG ECFIN, other DGs, academics, international and national institutions, research community and other organisations. The annual EU Economy Review forms an integral part of the Commission's ongoing surveillance of economic developments and policies in the Member States, the euro area and the EU. It provides a comprehensive overview on recent and prospective developments and also studies specific economic topics that are of particular importance for economic policy. It therefore increases understanding of what is happening in the EU economy and provided background analyses for BEPGs, which are the key instruments for EU policy co-ordination produced by DG ECFIN. |
| <i>Economic Forecasts (Spring and Autumn)</i> | <p>Unit A 4 co-ordinates publication of the Economic Forecasts, conducts consistency checks analytical work and aggregate analysis. Individual country forecasts are provided by the Directorate B. These short-term forecasts are produced twice a year (in spring and autumn) and they are most relevant to the short-term policy analysis. Twice a year, the interim updates to the forecasts are also prepared. The focus is on GDP and inflation for the current year; and for the five largest Member States.</p> <p>The forecasting work for individual countries is done by country desks from Directorate B, and the EU-wide data are obtained by aggregation in Unit A4. A separate trade consistency model and various statistical tests are used to ensure consistency at the aggregate level also by Unit A4. The Commissioner in charge of economic and financial affairs presents the forecasts to the media and informs the European Commission (the College of Commissioners) about the outcomes of the forecasts. As from 2006, bi-annual interim forecasts are carried out in addition to the regular forecasts. It is based on forecasts for the five largest Member States provided by directorate B, while directorate A ensures aggregation and estimation for the EU and the euro area aggregate.</p> |
| <i>Economic Papers,</i> | Some of the key research publications are issued under the Economic Papers, |

Summary of Key Publications and Research Tools

B

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| <i>Enlargement Papers, Occasional Papers</i> | Occasional Papers, Enlargement Papers and Special Reports whose publication and dissemination is managed by unit A5. All Directorates publish under these paper series. Within Directorate A, all Units and the Advisors contribute. Economic research produced under these papers covers a wide variety of topics and it is aimed at a wide audience, including DG ECFIN, other DGs, academics, international and national institutions, research community and other institutions. |
| <i>Special Reports</i> | All Directorates contribute to the Special Reports, which provide detailed analyses of specific macro-economic issues. |
| <i>Country Focus Series</i> | The publication is issued twice a month by the Directorate B; it provides a concise analysis, set within the broader economic and policy debate, of a topical economic issue concerning one or more Member States. |
| <i>Quarterly Report on the Euro Area</i> | The Report is issued by Directorate C three times a year and it intends to contribute to a better understanding of economic developments in the euro area and to improve the quality of the public debate surrounding the area's economic policy. It provides the Commission's view on economic policy challenges and the information necessary to make an assessment of the economic situation in the euro area. From Directorate A, Unit A4 also contributes to this report. |
| <i>Price and Cost Competitiveness Report</i> | The series of quarterly reports produced by the Directorate C which provides data on price and cost competitiveness of the euro area and the individual Member States of the European Union. The reports provide information on the international and intra-EU price and cost competitiveness positions, the data for the euro area and for each EU Member State, Bulgaria and Romania, as well as for the United States and Japan. |
| In-house research tools | Description |
| <i>Macro models and econometric estimations</i> | The modelling activities are undertaken by the Unit A1 and the models are used by other Directorates and other DGs. The key tool is the QUEST model. QUEST is designed to analyse the economies in the member states of the European Union and their interactions with the rest of the world, especially with the United States and Japan. The focus of the model is on the transmission of the effects of economic policy both on the domestic and the international economy. Apart from simulations related to the Commission's short and medium term projections, the model is intensively used to analyse the impact of the Maastricht criteria on growth and employment and the long run effects of fiscal consolidation and structural reforms in Europe. QUESTII is the model that is currently being used, while QUEST III is currently being used as a prototype for the Euro Area and if successful it will be extended to all 25 member states. QUEST III has been developed in order to keep up with the latest developments in modelling literature and the key difference between QUEST II and QUEST III is that QUEST III is estimated, not calibrated. QUEST III has also been adapted to handle specific tasks such as those related to ageing, ICT/productivity, globalization and adjustments in EMU. |
| <i>Databases (AMECO, TRIMECO, BACH)</i> | The databases are developed and maintained by Unit A2 and although publicly available they are mainly used internally by DG ECFIN's Directorates. The key databases are AMECO and TRIMECO and BACH. |

Summary of Key Publications and Research Tools

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| | <p>-AMECO (Annual Macro Economic Database) is an internal working database of DG ECFIN. It contains annual macro economic data for EU Member States, other OECD countries and the candidate countries. The database is regularly cited in DG ECFIN's publications and is indispensable for DG ECFIN's analyses and reports.</p> <p>-TRIMECO is a new internal working database of DG ECFIN; it contains quarterly macro-economic data for EU Member States, with a content similar to that of AMECO. Its structure and methodology is designed according to internal user requirements. Its public dissemination will be considered after further experience with it.</p> <p>- BACH is a database containing harmonised annual accounts statistics of non-financial enterprises for 11 European countries, Japan and the United States. The database was set up in 1987 with a view to supplement other information sources on company sector already existing at European level.</p> <p>Unit A2 also conducts statistical co-ordination in order to support the economic analysis of DG ECFIN by providing better access to appropriate statistical information. Unit A2 identifies the statistical needs of the DG ECFIN and communicates them to the European Statistical System (EUROSTAT, ECB, national statistical offices).</p> |
| <p><i>Business and Consumer Surveys Data</i></p> | <p>Unit A3 co-ordinates the EU wide Business and Consumer surveys. It aims to inform the EU authorities, the Member States and the various economic agents about the present economic situation. The survey results are published monthly via a dedicated website and they attract a broad audience both within and outside the Commission. The harmonized surveys encompass different sectors of the economies in the European Union (EU) and the applicant countries.</p> <p>Harmonisation is essential to allow the comparison of business cycles in the different Member States and the calculation of a meaningful business cycle index for the euro area and for the EU as a whole. The joint harmonised EU programme is intended for short-term economic analysis, in particular for signalling changes of direction in the economy and for predicting turning points in the economic cycle.</p> <p>The surveys are addressed to representatives of the construction, industry (manufacturing), retail trade and services sectors, as well as to consumers. These surveys allow comparisons among different countries' business cycles and have become an indispensable tool for monitoring the evolution of the EU and the euro area economies, as well as monitoring developments in the applicant countries. Business and consumer surveys summarise attitudes and judgement of a large number of managers and consumers.</p> |
| <p>Analyses/Information for Internal audiences</p> | <p>Description</p> |
| <p><i>Topics in Economic Research</i></p> | <p>Topics in Economic Research series (TIER), targeted at DG ECFIN's staff, was initiated in 2001. The series are co-ordinated by Unit A4 and it aims at disseminating non-technical analysis of recent debates/advances in the economic</p> |

Summary of Key Publications and Research Tools

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| | <p>theory and policy literature. All Directorates and the Group of Advisers contribute to the content. The notes, written in an attractive and concise format, can be a useful tool to keep abreast of developments in several economic fields that are related to the ongoing work at DG ECFIN.</p> <p>Each issue tackles a topic from one of four research fields: Econometrics; Monitoring the euro area economy; Medium- and long-term issues; and New and old theory</p> <p>TIERs have been published periodically since 2002, with number of annual publications increasing to 6 in 2005. The same number is planned for 2006.</p> |
| <i>Notes to EPC/EFC/Working Groups</i> | All Directorates contribute towards Notes, which are aimed at EFC and EPC (and its working groups). The Notes are usually prepared before the EPC/EFC/working group meetings and circulated to the members of the committees/working groups. The topics cover various economic issues that are relevant to EPC/EFC/working groups. The content of the Notes is drawn up on the basis of work programmes of the committees/working groups. Unit C1 co-ordinates all DG ECFIN's contributions to EFC and E1 co-ordinates inputs to EPC. |
| Key activities | Description |
| <i>Economic Seminars Programme</i> | The general aim of the Seminars and Lectures Programme is to allow DG ECFIN staff to gain better access to ongoing research work and to be confronted with new approaches and insights on issues of relevance for DG ECFIN. DG ECFIN seeks to attract leading economists from academia, international organisations, governments and top research institutions to give a seminar in DG ECFIN. The speakers present and discuss original research related to the functioning of EMU, both from a macroeconomic and a microeconomic perspective. ESP is coordinated by the Group of Advisers. |
| <i>Visiting Fellows Programme</i> | The general aim of the Visiting Fellow Programme is to enhance the overall quality of work done by DG ECFIN and strengthen in-house know-how by improving its connection with economic research community. DG ECFIN seeks to attract leading economists from academia, international organisations, governments and top research institutions on short-term visits to DG ECFIN (one –two weeks, with a possible extension of up to six weeks). During their stay, Visiting Fellows are expected to present their research work at a seminar and prepare an accompanying seminar paper for publication in the Economic Papers series. Visiting Fellows Programme is co-ordinated by the Group of Advisers. |
| <i>Brussels Economic Forum</i> | The Brussels Economic Forum is organized in April-May and it provides an important platform for an exchange of views with academics and policy makers on the economic developments in the EU and the main challenges and policy issues. BEF addresses a wide range of economic issues and has a high political profile, as its participants or speakers are often ministers, presidents of the central banks, commissioners, etc. BEF is organised by the Directorate A. |
| <i>Annual Economic</i> | Economic Research Conference is organized in September-October on a specific |

Summary of Key Publications and Research Tools

B

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| <i>Research Conference</i> | economic topic, for example in 2006 it will cover the topic of adjustment challenges in EMU. It is more academic in nature than BEF and it provides a good platform to exchange views with academics. The Conference is organised by the Directorate A. |
| <i>Summer School</i> | Summer School is organised by the DG ECFIN's Training Committee and it aims to provide further training opportunities for DG ECFIN's and Commission's staff. |
| <i>Publications in books and journals, conference contributions</i> | Apart from generating additional research, the aim is to support wider policy debates, to help strengthen the understanding of research/policy linkages among researchers and to raise the profile of DG ECFIN outside the Commission. Publications in books and journals, and contributions to conferences and workshops play an important role in this respect. |
| Outsourced Research | Description |
| <i>Economic Studies Programme</i> | ESP is an instrument for involving outside expertise in the work of DG ECFIN. Studies are commissioned by DG ECFIN's directorates from academic institutions and other research bodies via open or restricted calls for tender. Given the decentralised nature of the Economic Studies Programme, topics vary in accordance to the specific requests of different Directorates and units within them. They can comprise theoretical analyses and/or empirical analysis of specific economic issues and they mainly serve as a background material for ongoing work of DG ECFIN's staff. When they are of interest to the wider public, they are published in the European Economy series or as Economic Papers. |
| <i>European Forecasting Network</i> | The EFN was initiated in 2001 with an aim of improving the analysis of euro-area economic conditions and policy options. This should be promoted through the production of regular independent assessments of the economic outlook and policy challenges by a network of leading EU research institutes. A consortium of six research institutes across Europe was formed for the period of 2002-2004. Second EFN was launched in 2005 for the period 2005-2007 and it consists of ten research institutes. The reports can be accessed on the current EFN website: http://www.euroframe.org/index.php?id=34 The EFN is coordinated by the Group of Advisers since the start of 2006. |

Summary of Key Publications and Research Tools

B

| Advisor/Unit from Directorate A | DG ECFIN's Directorates advised/co-operated with | Research outputs used by DG ECFIN'S directorates |
|---------------------------------|---|--|
| Unit A1 | B, C and E are most frequent users. Also Unit D1. | Simulations based on A1's models; econometric modelling; technical assistance regarding modelling work undertaken in the Directorates; analytical papers/studies (in Economic Papers, Public Finance Report and European Economy Review). A1 contributes to the DG's budgetary surveillance function by calculating, using its production function methodology, potential growth rates and output gaps for all of the 25 Member States. With the objective of improving the transparency of the approach and facilitating its widest possible use, a CIRCA website has also been set up by the unit. Unit A1 is also responsible for the coordination of ECFIN's research work in the context of the Commission's Research Framework Programmes. |
| Unit A2 | All operational research directorates. | Databases are aimed primarily at internal DG ECFIN users, but are made available to external users as well for reasons of transparency. User requirement studies and feedback from users are used to define database development priorities. |
| Unit A3 | Directorates B and C | Business and consumer survey data, quarterly euro-area GDP growth projections updated on a monthly basis, monthly briefs and factor model based indicators. |
| Unit A4 | Directorates B,C, D | EU and Euro area aggregate forecasts; bi-annual regular and interim forecasts; technical assistance with forecasts. |
| Unit A5 (since February 2005) | Whole DG | The unit handles the dissemination of information and publications and manages DG ECFIN's Library. It has a role in terms of administrative support for : managing ECFIN's Library, managing the publication programme, the production cycle of DG ECFIN for individual publications and their dissemination (mailing lists, contracts, copyright issues, marketing); managing the websites and online publications; organising/participating in events (conferences, workshops, ...). |
| Max Watson | Directorates B, C, D | Publications; technical assistance |
| Lars Jonung | Directorate C | Publications; technical assistance |
| Heikki Oksanen | Units E3 and C2 | Publications; technical assistance |
| Karl Pichelmann | Directorates B, C, D, E | Publications, technical assistance |

Academic Reviews

C

| Quest II related | Reviewer |
|--|---------------------------------------|
| 1. “QUEST II: A Multi Country Business Cycle and Growth Model” (1997) by Werner Roeger and Jan in’t Veld | Mathan Satchi |
| 2. “Some selected simulation experiments with the European Commission’s Quest model” (2002) by Werner Roeger and Jan in’t Veld (also appearing in Economic Modeling) | |
| 3. “The SGP fiscal rule in the case of sluggish growth: Simulations with the QUEST model” (2005) by Fritz Breuss and Werner Roeger | |
| Quest III related | |
| 4. “Fiscal Policy in an estimated open-economy model for the Euro Area” by Ratto, Roeger and in’t Veld. | Mathan Satchi and Miguel Leon-Ledesma |
| EU Economy Review, Reports, etc | |
| 5. The EU Economy 2005 Review. Rising international economic integration – opportunities and challenges” | James Forder |
| 6. “Labour market and wage developments in 2004, with special focus on risk of jobless growth”, Special Report | |
| 7. “The Spanish Housing market: are we in for a soft landing?” by Javier Yaniz Igal, County Focus. | |
| 8. Quarterly Report on the euro area economies, Volume 4 No 4 (2005) | |
| 9. Price and competitiveness report, 4th Quarter 2005 | |
| 10. Public Finance Report | Laszlo Halpern |
| European Forecasting Network | |
| 11. EFN Spring 2006 report: “EMU Accession Strategies” by Mateusz Szuczurek | Laszlo Halpern |
| 12. EFN Spring 2006 report: “Entry rates and the risks of misalignment in the EU8” | |
| Analytical papers | |
| 13. “The stacked leading indicators dynamic factor model: a sensitivity analysis of forecast accuracy using bootstrapping.” By Daniel Grenouilleau | Miguel Leon-Ledesma |
| 14. “How much has labour taxation contributed to European structural unemployment?” by C. Planas, W. Roeger and A. Rossi | |
| 15. “International oil price changes: impact of oil prices on growth and inflation in the EU/OECD” by W. Roeger | |
| 16. “Pension reforms: an illustrated basic analysis” by Heikki Oksanen | James Forder |
| 17. “The Lisbon strategy and the EU’s structural productivity problem” by C Denis, K McMorrow, W Röger, and R Veugelers. | |
| 18. “Stabilizing output and inflation: Policy conflicts and co-operation under a Stability Pact” by Marco Buti, Werner Roeger, and Jan in’t Veld. Journal of Common Market Studies, 2001 | |
| 19. “Improving the Stability and Growth Pact: the Commission’s three pillar approach” | Laszlo Halpern |
| 20. “Progress towards meeting the economic criteria for accession: 2005 Country assessment” (Enlargement Paper, number 26) | |

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| 21. “EMU and the euro – the first 10 years. Challenges to the sustainability and price stability of the euro area - what does history tell us?” by Lars Jonung (Economic Paper, number 165) | |
| 22. “The empirics of trade and growth: where are the policy recommendations?” by Klaus Waelde and Christina Wood (Economic Paper, number 204) | |
| 23. “To be or not to be in the euro? Benefits and costs of monetary unification as perceived by voters in the Swedish euro referendum 2003” by Lars Jonung (Economic Paper, number 205) | |
| 24. “Will the new stability and growth pact succeed? An economic and political perspective” by Marco Buti | |
| 25. “Adopting the Euro: an introduction to four case studies” by Max Watson | |
| 26. “Assessing Financial Stability: a Central Banking Toolkit” by Max Watson | |
| 27. The dynamics of regional inequalities, Salvador Barrios and Eric Strobl | Mathan Satchi |
| 28. ‘A useful tool to identify recessions in the Euro-area’, Pilar Bengoechea and Gabriel Perez Quiros | |
| 29. ‘Progressive Taxation, Macroeconomic Stabilization and efficiency in Europe’, Carlos Martinez-Mongay and Khalid Sekkat | |

Quest II Related

1. “QUEST II: A Multi Country Business Cycle and Growth Model” (1997) by Werner Roeger and Jan in’t Veld
2. “Some selected simulation experiments with the European Commission’s Quest model” (2002) by Werner Roeger and Jan in’t Veld (also in Economic Modeling)

Comments on the model:

The model is a multi country model of the member states of the European Union. Overall, the model is a very impressive piece of work that is very relevant today, and that must have been state of the art at the time at which it was built. The comments made below are relatively minor, and are all made in light of this.

The production function is a nested CES and Cobb Douglass production function. While this is entirely standard and reasonable, it could be very interesting if possible to use a full CES specification, as it allows for effects of the level of the capital stock on the equilibrium

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rate of unemployment (these disappear in the Cobb-Douglass case). This issue has been thought to be of possible relevance to the European experience.²⁷

A similar suggestion can be made for the Quest III model. However, a full CES specification may well be (or might have proved to have been) too cumbersome to work with as often the case.

The authors are quite right on the lack of information concerning firm vacancy costs. As a point of comparison to more recent literature, however, it is useful to express the total amount being spent on vacancy costs as a fraction of GDP. Andolfatto (1996, *American Economic Review*) uses a figure of 1% for the U.S.A., though a higher figure might be appropriate for the European Union.

The introduction of nominal rigidities in wages through 4 period contracts seems a little ad hoc; the theoretical justification given in the paper is sketchy. This not to suggest that the empirical case for introducing such a feature is unconvincing. The monetary rule in the 1997 paper, while encompassing monetary targeting and interest rate targeting, does not fully encompass inflation targeting in the sense that an output gap measure or something similar is omitted. This is not true in the 2002 paper which uses a standard Taylor Rule.

As a final minor point, I was puzzled by the suggestion in the model description at the start of the 1997 paper that the long run growth rate would be influenced by the rate of time preference.

None of the above comments constitute significant criticisms. The model has a very sound and well-developed theoretical basis. It captures a large number of market failures that are commonly associated with the Euro zone, and incorporates them in a coherent way. The modelling is very much in line with very well established academic macroeconomic theory.

It is worthwhile to note that it is in general very difficult to build theoretically coherent, large, forward-looking models of this nature that are stable, produce sensible results and are consistent in the sense that they obey the various restrictions such as the adding-up constraints for international trade. It would not be at all surprising if the authors had to exclude some elements or make some modifications from their desired model in order to

²⁷ Kapadia, S. (2005) “The Capital Stock and Equilibrium Unemployment: A New Theoretical Perspective” Department of Economics Discussion Paper No. 181, University of Oxford

Rowthorn, R. E. (1999). “Unemployment, Wage-Bargaining and Capital-Labour Substitution.” *Cambridge Journal of Economics*, 23(4), 413-425.

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ensure stability – so for example the need to exclude profits from the investment function is entirely understandable. It actually seems that these sorts of compromises are very few and far between in this model.

Furthermore, the treatment of the various markets is well done and sophisticated. Proper care has also evidently been taken with technical aspects such as the treatment and explanation of terminal conditions, where sometimes a relatively ad hoc choice is made. Finally, of all of the above points, only point 1 remains potentially applicable to Quest III, and this point is only suggesting a possible departure from standard practice.

Comments on the simulations:

Due to the often laborious nature of building such models, they tend to be few and far between, and the academic credibility of the simulation results tends to depend not mainly on inter-model comparisons, but principally on the theoretical foundations of the model, whether suitable intuitive explanations can be given for the results and whether the results fit in with standard theoretical predictions such as having sensible long run properties, variables moving in the ‘right’ directions and so on. The Quest 2 simulations score well on all these counts. The ability to look at impact of tax distortions on the long run equilibrium of the model is interesting and impressive.

The simulations in the 1997 paper are well motivated and good intuition is given. The fact that the policy spillovers are relatively small fitted in with my prior expectations and other models (see for instance work on the MSG3 models by Warwick McKibbin, e.g. McKibbin and Vines, 2003, ‘Change in Equity Risk Perceptions: Global Consequences and Policy Responses’; also Henry et al. ‘A Model of the G-3’, *Economic Modelling* 2003). The results on the effects of fiscal expansions under alternative tax assumptions were particularly interesting.

The 2002 paper gives a broader range of simulations that illustrate the model further. A good range of simulations is performed, and the results look interesting and sensible. The only suggestion I have here is that it might have been interesting to look at a supply shock that only affected one country rather than the EU area as a whole.

3. “The SGP fiscal rule in the case of sluggish growth: Simulations with the QUEST model” (2005) by Fritz Breuss and Werner Roeger

This paper discusses the impact of the SGP on European performance using the Quest II model. This is a very useful application of the model. The paper seeks to explain the slow growth in Europe in two ways, and considers how the SGP performs in each. I think the paper is very competently done and interesting, but feel that it does make quite a serious omission if it is aiming to discuss the pros and cons of the SGP in a broader context.

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The paper looks at the period of sluggish growth in Europe since 2001, and explores this under two alternative assumptions a) that it was due to a supply shock, a fall in productivity over a period of three years, or b) due to a demand shock, an exogenous fall in private consumption between 2001 and 2003. The paper then looks at impact of the SGP under the two assumptions. This approach of examining both assumptions lends credibility to the exercise. With the important exception of the proviso stressed at length below, the modelling strategy is an appealing one.

1. *Symmetric shocks*: The paper only looks at symmetric shocks, i.e. shocks that hit all the euro area countries. There is a common and well researched point of view (e.g., amongst others, Westaway, P. (2003) “Modelling shocks and adjustment mechanisms in EMU” HM Treasury) that in the face of such symmetric shocks monetary policy can provide the necessary stabilization, and therefore fiscal stabilization is relatively unimportant. The SGP does no harm in these cases, because stabilization still occurs via monetary policy, and the SGP might provide benefits in ensuring prudence and unnecessary fiscal activism. *However*, this is not the case for asymmetric shocks, which cannot be stabilized via monetary policy. Here fiscal policy can potentially provide useful stabilization because it can be different in each country. The SGP then can be harmful, because it may impede this fiscal stabilization. Most macroeconomic models of a monetary union with monetary and fiscal policy, even very simple ones, are likely to produce this sort of distinction.

By only looking at symmetric shocks, the analysis is essentially restricted to situations in which the SGP is unlikely to do significant damage. This is a weakness, and also unnecessary as Quest II, being a multi country model (unlike Quest III), is capable of simulating asymmetric shocks.

2. *Symmetric and Asymmetric Shocks (contd.)*: The authors may argue that the empirically important shocks are in fact symmetric. However, as this question is a critical one to the conduct of European macroeconomic policy as a whole, assumptions ought to be justified here; in fact it does not appear to be really discussed at all. (N.B. This is not to be confused with the discussion of symmetry in the last paragraph of the paper, which uses the word in a different sense.)

While in the analysed period, there are clearly common movements in macroeconomic aggregates there are also differences across the full range of euro member states. It could be worthwhile to tailor the shocks in an attempt to simulate some of these differences. Even so, none of this allows definitive conclusions about the possibility of asymmetric shocks in the future.

Most discussions of the SGP in the academic literature, starting from a theoretical perspective, are likely to include at least some reference to asymmetric shocks. Examples are numerous. An illustrative quotation, taken from the Winter 2005 issue of the Oxford Review of Economic Policy (OxREP), in an article by Benoît Coeuré and Jean Pisani-Ferry

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discussing the SGP is as follows “*The whole European discussion since the start of the EMU negotiations in the late 1980s (or even since the 1970 Werner committee report which blazed the trail of the European monetary union) has thus been about the right balance between two contradictory aims: to ensure that national governments are not deprived of any significant macroeconomic stabilization instrument to offset asymmetric shocks, and to ensure that they do not take advantage of the single currency to free-ride on collective disciplines and build up mutually harmful, unsustainable fiscal positions.*”²⁸

On which type of shocks are empirically important, the literature is much scarcer and I would certainly not claim to be able to give an authoritative view. However, the burden of proof will almost inevitably lie with the claim that asymmetric shocks are unimportant, and given the theoretical context, this cannot be *assumed* in any discussion of the SGP. An example of an empirical paper on this is given by Ide and Moes²⁹ and they do in fact find a substantial role for asymmetric shocks.

3. The 1997 paper on Quest II contains some interesting results on the general effects of fiscal expansions under varying tax assumptions. It could be very interesting to do a similar exercise in this application, in terms of how each might lead to a breach of the SGP.

4. While a big advantage of this type of modelling is the range of rigidities it can incorporate, merely as a counterpoint for discussion it might be worthwhile to note that much simpler New Keynesian frameworks can allow a full theoretical modelling of monetary and fiscal interactions, together with microfounded welfare measures. One example discussing the SGP is CEPR discussion paper 4433, though there may now be others.

The paper is interesting and clearly very competently executed, and inevitably any analysis of this sort must omit potentially relevant factors. As an analysis of a symmetric shock hitting the European region, I would say that results are sensible, and conform with the academic literature. However, as a piece of work analysing the pros and cons of the SGP, in order to fit better with the academic literature it would have to either a) argue that asymmetric shocks are empirically insignificant in Europe, or b) include an analysis of asymmetric shocks. Given that option a) is likely to prove difficult, I would like to see more

²⁸ Another useful OxREP issue is Spring 2003. Driver, R. L. and S.Wren-Lewis (1999), ‘European monetary union and asymmetric shocks in a new keynesian model’, Oxford Economic Papers 51, provides an example of a more technical piece. Kirsanova et al. (2006, ‘Optimal Fiscal Rules in a Monetary Union’ mimeo, University of Exeter) attempt to derive theoretically the welfare consequences of different sorts of fiscal behaviour in the face of asymmetric shocks, and then quantify them. They find that restricting fiscal stabilisation as the SGP might do can be costly.

²⁹ Ide and Moes, March 2003, ‘Scope of asymmetries in the Euro area,’ National Bank of Belgium Working Paper 37

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discussion here of asymmetric shocks, as their omission could well tend to bias the paper in favour of finding support for the SGP.

Quest III Related

4. Comments on: “Fiscal Policy in an estimated open-economy model for the Euro Area” by Ratto, Roeger and in’t Veld.

Comments on the theory

This paper is an impressive and extremely substantial piece of work that uses state of the art procedures in macroeconomic modeling. Clearly a great deal of work has gone into formulating a complex model that effectively incorporates a large number of rigidities that are likely to be of relevance in the euro area. This is considerable task and seems to be done to very high standard. The comments that follow about the paper are all made taking this as given, and all of these points essentially either refer to future work or to amendments to the presentation of the paper.

1. An obvious point is that being a model for the euro area as a whole, the model cannot attempt to capture the stabilization provided by fiscal policy at the level of the individual country. This is particularly relevant because at this level, the common euro area monetary policy is powerless to stabilize the *asymmetric* component of fluctuations (the differences in countries’ cycles) and so fiscal policy may be of particular relevance in a stabilizing role. While I do not imagine this point is lost on the authors in any way, it might be worthwhile bringing it out more in the discussion of the current paper. (Clearly actually addressing the issue would need to be done in further papers as opposed to an extension of this one).³⁰

On the other hand, it is also important to note that the richness of the paper almost surely allows it to better address the stabilization role of fiscal policy regarding the *symmetric* component of fluctuations better than any of the papers above.

2. Related to the point above, fiscal policy in the euro area as a whole is potentially the outcome of strategic interactions between the fiscal policies of the member states, and the

³⁰ Benigno, G. and P. Benigno (2000). Monetary policy rules and the exchange rate. Technical report. Technical Appendix to CEPR Discussion Paper No. 2807.

Beetsma, R. and H. Jensen (2004b). “Monetary and fiscal policy interactions in a microfounded model of a monetary union.” *Journal of International Economics*. Forthcoming.

Kirsanova, Satchi, Vines and Wren-Lewis (2006) “Optimal Fiscal Policy Rules in a Monetary Union”, mimeo, under review *Journal of Money Credit and Banking*

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monetary policy of the ECB. Again, actually analysing these issues is beyond the scope of the current paper which is already very complex, and is also perhaps of secondary importance. However, a little more discussion of the issues might help the reader understand the context of the paper better.

3. It would also be helpful to make it clearer to the reader whether the stabilization provided by fiscal policy could, according to the theory of the model, be (partly) provided by an alternative rule for monetary policy, and to what extent this is so.

4. A previous point regarding the possible use of a CES production in the Quest II model (as opposed to Cobb-Douglass) also potentially applies here, as the true elasticity of substitution between capital and labour is often thought to be significantly different from one, and this has implications for the effects of the capital stock on employment. It is quite possible that this is too cumbersome, however, particularly given the complexity of the model as it is. It might also be more relevant in other applications of the model.

Comments on the estimation of the model:

The estimation of the model follows recent trends in the evaluation of DSGE models that favor a strong interpretation of the econometric estimation of a general equilibrium model. This has several advantages over the weak interpretation based exclusively on calibration as it helps understanding not only data moments but also covariances and autocovariances that give much richer information set for interpreting the time series behavior of macro data. The authors use Bayesian methods where the draws from the posterior distribution are obtained via a Markov Chain Monte Carlo method. This follows closely Schorfheide (2000) and Smets and Wouters (2003) and constitutes the state of the art in estimating DSGE models. The authors have made use of up-to-date and advanced techniques available from the academic literature. In this respect, the paper is very well placed to compete with other alternative methods to analyze the impact of fiscal policy.

I have several comments on the estimation and results. These comments should be taken into account within a general very positive impression about the paper, and may or may not be possible to address within the existing version. Hence, some of them may be considered for further work.

1. The model is very large and contains a huge number of parameters, equations and structural shocks. For the reader, it would be convenient to create a table that can be referred to containing the names and description of the parameters without the necessity of going back to the original model. Another thing that could be done is to write down the linearized version of the model around the steady state to facilitate the interpretation as is done in Smets-Wouters. This will make it more accessible for the reader.

2. The evaluation of the model is done in an informal way by showing the actual data

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and the one-step ahead forecasts. It might be possible to compare its performance with a simple SVAR or Bayesian VAR by using Bayes factors or Posterior Odds. As this is not the primary objective of the paper, this can be left for an appendix or even a footnote. This relates to a more general problem with the paper: it presents a fully fledged DSGE model that is new as it considers a large number of rigidities, shocks and policy functions, but in this paper is only used to analyze fiscal policy. The reader is left with some uncertainty about how much of the effects found are due to the fact that the model is different from those in the previous literature. Comparing the effects of shocks in this model with those of Smets-Wouters could do away with this, but this would diffuse the focus of the paper and make it too long. I guess that there may be need for another paper in which all these comparisons are carried out.

3. The estimation of the fiscal policy rules uses a two steps procedure to first find the dynamic structure by estimating a transfer function using the HP filter to approximate the output gap. Then this estimated function is fed back into the DSGE to get an estimate of the output gap that is then put back into the separate fiscal policy equation to obtain priors for the parameters. One potential problem with this is that the gap is endogenous to fiscal policy, and hence the initial estimate may be subject to endogeneity bias. This is a well known problem of Granger-causal structure in a transfer function. Single equation estimation of this function may thus have disadvantages as compared to multivariate time-series analysis.

4. An issue related to the previous point is that it is not clear why the same procedure is not followed for the monetary policy rule. Although the focus of the paper is on fiscal policy, a careful analysis of the monetary policy rule may also be of relevance. In this case they impose two lags in output gap and one for interest rate smoothing.

Notwithstanding these comments, the general impression of the estimation of the model is that the authors have done a good job at using the appropriate techniques and keeping up with the latest trends in the literature. Both the theory model and its estimation are considerable tasks that require good technical background. The paper will benefit from comments from conference presentations and refereeing process, but as it stands it is already a remarkable piece of work.

EU Economy Review, Reports, etc

5. The EU Economy 2005 Review. Rising international economic integration – opportunities and challenges

This publication begins with a discussion of the extent and drivers of financial globalization which is well organized, thorough, and detailed, but does not purport to offer striking new insight. This is followed by a consideration of the consequences of financial globalization. Here the discussion of the effects of financial globalization on policy is perhaps the most

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important, but also the most difficult. The treatment of the material here is sketchy, much less well organized and lacking in the balanced judgment of earlier parts (and, incidentally, is rather poorly written). Something of the same could be said of the subsequent discussion of policy responses to financial globalization. The long 'Annex' on international efforts to improve the stability of the system as a whole is concerned mainly with recording institutional proposals and developments rather than furthering the economic analysis of the main text. However, as a synthesis of current research, the piece has considerable value and some of the shortcomings from a purely academic point of view are perhaps inevitable given that this was the first time that such an exercise had been attempted and the intention was to have a policy-orientated focus.

Chapter 2 begins by saying that the 'key question' is 'whether the logic behind the international division of labour still holds' when there are new competitors like China and India. I am not sure on what basis that question might be addressed but in any case, the chapter does not in fact focus on this question, but presents a considerable quantity of data on the EU's share of various sorts of trade. There is some interest in that, but there is little analysis offered as to what the implications might be. Parts of the 'Summary' of this chapter on page 57 assert conclusions which are not argued in the content of the chapter itself, and indeed which are hardly mentioned.

Chapter 3 suggests that the phenomenon of 'relocation' is not as widespread as is sometimes implied. If the point of the chapter is merely to respond to popular fears associated with words like 'outsourcing', the its treatment is effective, although perhaps overblown. A curiosity is, however, that the concept of 'relocation' seems to be limited to the *decision of firms* to relocate activities (either under their own ownership or that of others), and does not include the case of a domestic firm being put out of business by a low-cost foreign rival. Either of these, of course, can perfectly well be presented as a source of the gains from trade, but equally they both pose a certain kind of transitional problem. I am not sure what the motive in this document for focusing on only one of them is. In any case, some of the discussion might give the impression that it is more encompassing than in fact it is. For example, page 102 says 'fears that relocation may trigger a process of deindustrialisation also seem to be exaggerated.' Those fears arise from the existence of low-cost foreign competition generally, not from the narrow conception of 'relocation' under consideration. (The contrast drawn between a 'broad' and 'stricto sensu' definition of relocation on page 92 does nothing to reveal that both accounts are much more narrow than the relevant concept in popular fears).

Chapter 4 on the economics of immigration presents a sound, but fairly standard account, drawing particularly on detailed work on the American economy.

In part II, the analysis of 'Macroeconomic analysis and scenarios for the EU' obviously depends very powerfully on the very specific assumptions made, and for this reason on

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great faith can be placed in the results. The paper does not pretend otherwise, and the assumptions made are reasonable. It is noticeable that the conclusions end up with the view that it is an important matter to adapt 'policies and institutions' to avoid a 'globalisation-induced "race to the bottom"'. What is striking about this is that the emphasis put on it clearly suggests that those changes are costly. Logic then dictates that they should be counted as costs when assessing the impact of globalisation. (Similarly the danger of becoming stuck in a 'race to the bottom' must be a cost of globalisation as well.) The failure to treat them as a cost is therefore a gap in the argument.

'The adjustment challenge in the labour market' offers a generally very impressive distillation of the literature suggesting that the effects of trade are on the whole pretty benign. Some attention is given to those few authors who have suggested the opposite, but since the weight of the literature is clearly against them, this paper can hardly be faulted for giving them only limited attention. It is a pity that the first bullet point at the top of page 172 is wrong. (It should be ... 'less than 10% suffer *as much as* a 30% fall in their income'.) I notice that the problem of the 'race to the bottom' is minimized, so there is a mild dissonance between this discussion and the previous one which invoked that danger as promoting the case for policy reform.

The five contributions in Part III are a mixed bunch. 'International outsourcing in the service sector' and 'European banking integration', are broadly reasonable discussions, but not pieces which offer anything very new. The first of these could also have been better coordinated with other discussions of the same thing elsewhere in the volume. 'The location of multinational across EU regions' contains some interesting material, but again I do not think it adds very much to the existing literature. The econometrics is very rough and ready and in my view more likely to be a distraction than it is to add real insight. The text on 'The internationalization of R&D: trends and drivers' could have been better drafted. The discussion of the Irish case is generally reasonable, but it is very brief and perhaps over-emphasizes the 'globalisation' aspects of the story. The special circumstances of Ireland and the development of Irish policy are noted, but they are not treated in any depth, which makes it impossible to form a real judgment as to what mattered.

Taking the volume as a whole, the conception of it and the various angles on the issue which are treated are imaginative and effective. All contributions display an impressive knowledge of the literature. The various parts could be better edited together, and substantial portions of the drafting could be much better. There is little that is really new, but for the most part, nor is there intended to be. Indeed, the attempts to offer new insight are not generally the most successful parts. There is a slight hint of propagandizing about it: it is never really in doubt that opportunities are going to be found to outweigh challenges; the doubts are often identified by reference to 'popular fears' or some such thing, which rather suggests the objective is persuasive; and the 'challenges' are frequently found to relate to labour market reform, even when no real argument to that effect has

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been made. Nevertheless, it is a worthwhile publication which puts much of its case effectively.

The work is up-to-date and takes into account a wide range of recent developments in economics; and the papers might well generate interest and further debate. With the exception of some rather ordinary econometrics, the 'methodology' could be rated as appropriate, but as noted above, the argumentative and logical cohesion of the paper suffers some significant limitations. At the same time it needs to be recognized that the paper provides a useful summary of current research.

6. Labour market and wage developments in 2004, with special focus on risk of jobless growth. Directorate-General for Economic and Financial Affairs – online version from http://ec.europa.eu/economy_finance/publications/eespecialreports_en.htm

Much of the bulk of the paper consists of descriptive statistics relating employment, productivity growth, labour market participation and output country by country. This analysis is of limited, but clear and discernable interest, and certainly might be useful to other researchers in the area and thereby stimulate further discussion.

The analysis following from these descriptions is much less valuable. Although the paper notes perfectly clearly at various points that the quantities mainly under consideration are in a strict mathematical relation, the consequences of this observation are often not recognized. In particular, the whole discussion of 'jobless growth' is coloured by the feeling (which is admittedly present in much of the American discussion as well) that it is a kind of growth. First and foremost, jobless growth is merely what happens when output grows at the same speed as productivity. There are no doubt factors which determine the speed of growth, and there are factors that determine the rate of change of productivity. But there are not factors which determine what kind of growth we have. So the question which recurs through the paper as to whether there is a 'danger' of jobless growth amounts to asking whether there is a 'danger' of output and productivity changes falling into this particular relation. Recognizing that generally speaking, faster (sustainable) output growth and faster productivity growth are both desirable, it becomes hard to become excited by the 'danger' of their happening to be equal.

Since this point is so central to the paper, it is also perhaps worth noting that the theoretical explanations offered – all of which seem to be derived from discussion of the American case – add very little. They are all explanations of temporary deviations in the expected relation of output and productivity. In one case – that taken from Lillien (1982) – at least as it is put in this paper, it is not even an explanation of that. It is just an explanation of one factor that might temporarily promote unemployment at a given inflation rate.

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Similarly there are presumptions underlying parts of the analysis which do not appear to be well founded. For example, p19 claims that in the period 1997-2000 growth was job-rich because of 'structural factors' such as labour market reform, etc. Such factors might well increase output and reduce unemployment. But it is not at all clear why they would explain the relationship between growth and employment

The discussion on page 33 around graph 12, for example, is a further case of description posing as explanation.

A second theme is apparently intended to pick up the issue of achievement of the Lisbon agenda. There is again some interesting data, but the value of the conclusions is again limited by the fact that arithmetic relations seem to be presumed to tell the whole story. Page 68 explains that a uniform employment-growth rate sufficient to achieve Lisbon targets would lead to implausibly high employment rates in some countries and infers – correctly, but hardly incisively – that 'some of the laggard countries should try to contribute substantially more'.

Finally, I note that the quality of the presentation is poor. There are numerous minor mistakes of English, but more importantly much of the prose is so infelicitous as to be very hard to read – and there are parts which, after several re-readings, still seem ambiguous. At the end of the day, it is, I suspect, most unlikely that the intrinsic interest of this paper will induce many people to struggle through it. For this reason, if no other, its impact must be limited. Similarly, the 'methodology' is hard to praise in the light of the comments above. The paper does, however, take account of a range of existing and new literature.

7. The Spanish Housing market: are we in for a soft landing? Ecfm Country Focus, Volume 3, issue 1. by Javier Yaniz Igal. Directorate-General for Economic and Financial Affairs

It is far from clear even what the objectives of this paper are, since the question in the title is never addressed. In any case, the analysis seems to be poorly considered and incomplete. It begins by noting that there has been a large rise in Spanish house-prices despite fairly rapid construction of new dwellings. It suggests that 'annual financial effort' rather than house prices might be the primary explanation of demand for housing. This is a perfectly reasonable suggestion which has been made in previous work. The paper then appears to suggest that annual financial effort is also a key explanatory variable determining housing construction. Since annual financial effort is not in any sense a measure of the returns to construction, this is a very puzzling suggestion, for which no rationale is given. There is a hint that this view is supported by econometric analysis, but the presentation is extremely casual and one cannot have any faith in the value of the work.

Even the use of annual financial effort to 'explain' house prices is limited in virtue of the fact that it gives no useable measure of the equilibrium conditions for the housing market,

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and hence no basis on which to judge whether house prices are unsustainably high. This is the basic reason that the analysis of the paper cannot lead to an answer to the question of whether there will be a soft landing.

It is then suggested that a danger to the Spanish economy arises from an increase in annual financial effort leading to a fall in new construction and hence a contraction of the construction sector. That is indeed a logical continuation of what has gone before, but it is a very partial – and seriously limited – treatment of the danger to the Spanish economy from a housing slow-down. The paper shows no awareness of the dangers to consumption arising from a fall in household wealth as house prices fall, or of any dangers to mortgage-lenders' solvency. These should be at the centre of any consideration of the possible adverse outcome of the housing boom.

In my view this paper is misconceived. It shows knowledge of a limited range of existing work, but I am unable to see the methodology as being adequate to support anything like the conclusions being drawn. I doubt that it would be of any interest to other researchers interested in the substantive issues in question.

8. Quarterly Report on the euro area economies, Volume 4 No 4 (2005). Directorate-General for Economic and Financial Affairs

The discussion of the economic situation in the euro area, which occupies almost half the report considers all the usual subject areas for these kinds of things and offers reasoned and balanced accounts of developments and a judicious assessment of prospects for the immediate future.

There are two 'focus' chapters in the report. The first concerns the economic effects of population ageing. It draws attention to an important point in that problems about pensions are not the only issues raised by population ageing. One should also consider the effects on economic growth. The content of the focus however depends on numerous projections and estimates which it reports (and sources) but does not describe in any detail. Whilst the general thrust of what is said is perfectly sensible, the fact that the details of the analysis are not presented and that some of the conclusions do not follow from what is presented limit its interest. On the latter point, for example, the focus concludes (p26) 'The analysis shows that policy reforms [like Lisbon] work'.

The most it shows is that *if they raise employment or productivity* then the increase in employment or productivity helps deal with the ageing population problem. But surely no one doubts that. The issue which appears to be settled by the quoted comment but which is in fact not considered in the focus is that of *whether* any particular policy reform does raise employment or productivity. Similarly it is said in a couple of places that the trends of the immediate future create a 'window of opportunity' for structural reform, apparently on the basis that such reform is easier in growing economies. That strikes me as quite possibly

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false, and in any case it is not argued, so it gives the focus the ring of inauthenticity, but it can hardly be said that there is anything clearly foolish in its viewpoint.

The other focus (on the inflationary consequences of the oil price increase) addresses all the important issues in a sensible and balanced way, again drawing on a variety of pertinent sources. It would not be inappropriate to consider the effects of oil prices on policy (particularly the policy of the ECB) and economic activity as well as on prices, but that does not appear to be the objective of the piece. The issue also contains a substantial discussion of the low level of long bond yields. It offers a sensible survey of suggestions that have been made, with no attempt at quantifying the significance of each, but refreshingly draws attention to the fact that a realistically pessimistic assessment of the economic outlook for the euro area may well be part of the explanation.

Although one or two of the conclusions do not properly follow from the argument, the argument itself is methodologically sound, and reflects current concerns and thinking. A report of this kind is not likely to stimulate much research, but it does serve a useful purpose in presenting material and might well be of use.

9. Price and Competitiveness Report, 4th Quarter 2005.

This publication produces descriptive statistics of price and cost developments in the EU member states and the euro area as a whole. The presentation is for the most part clear and such verbal discussion of the data as is offered is pertinent. One might quibble with the appearance of some of the graphics – daily exchange rate data needs a much finer graph-line, but since the value of the daily data is rather limited in any case, nothing is lost if it is hard to discern. Perhaps it would be helpful to longer time series of the intra-euro developments, rather than giving so much prominence to historic average levels of various competitiveness measures.

The acronyms used in the tables should be properly defined, although there are unlikely to be many readers who cannot guess what they mean. The papers appears to be sound methodologically and to reflect current issues and might well be of use to other researchers.

10. Public Finance in EMU – 2005. A report by the Commission services SEC (2005) 723, http://ec.europa.eu/economy_finance/publications/european_economy/public_finances2005_en.htm

The arbitrary 3% annual deficit ceiling without theoretical underpinning remained the key measure of fiscal discipline in the Pact. There were a number of episodes from the early 2000s when cutting the deficit below 3% would have resulted in procyclical policy. Furthermore, it might provoke gimmickry. It became target instead of being a rational binding constraint. An OECD study on EU-15 government deficit and debt indicators for the 1993-2003 period found a positive correlation between the size of deficit and

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gimmickry and the 3% deficit ceiling did act as a trigger point above which countries resort more frequently to gimmickry.

Breaching the 3% ceiling did not result in negative spillover neither between fiscal and monetary, nor between MCs. No much attention has been paid on testing whether a negative spillover effect of the excessive deficits, the main argument for fiscal coordination in the EU, could be verified by the recent developments in the early 2000s. The general argument is that countries running deficits should borrow which implies rising interest rate in the monetary union and this has negative spillover effects on the other countries in terms of growth and deficits. If the excessive deficit was unjustified in a given country it would result in inflationary pressure and loss of competitiveness. But if this is not the case an abrupt fiscal consolidation would increase output loss and it would have very unfavourable side – spillover – effects on the other countries as well. Thus, the evaluation of excessive deficits needs more careful and less mechanical analysis of the underlying developments and consequences.

From the perspective of debt sustainability, the lower debt and the prospect of faster growth implies that the New Member States could be given a longer period to reach the ‘close to balance or in surplus’ position once they have joined Euro-zone. This would be also justified because the NMS need more infrastructural development and EU accession will put additional burden on the budgets in the initial years of membership. Tightness of monetary stance is assessed by short term real interest rate. An explanation is needed why exchange rate was excluded.

It is noteworthy that the report seems rather inward-looking as there is no comparison with US, Japan, etc.

The Council addressed the long-term sustainability of public finance and approved a compromise with no economic background: the costs of mandatory fully-funded pension system can be accounted for. The new agreement explicitly permits countries undertaking pension reform to exclude some pension reform costs from the deficit measure used in the excessive deficit procedure, in a regressive way, for a period of five years after the reform is launched, or from 2005 if the reform has already occurred.

The budgetary assessment in the framework of the EDP “will give due consideration to these corrected measures”. The definition is rather unclear and the current accounting rules increase the inconsistency between the EDP deficit and debt figures as no changes were adopted by the Council regarding the debt, while the Eurostat has already adopted earlier transitory accounting rules for the pension reforms up to 2007 and on a 100% basis regarding both debt and deficit. All in all the incentives for reforming the pension system remain unsettled.

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11. SZCZUREK, M: EMU ACCESSION STRATEGIES, "Economic Assessment of the Euro Area: Forecasts and Policy Analysis" The EUROFRAME - EFN Spring 2006 Report, [http:// www.euroframe.org/fileadmin/ user_upload/ euroframe/ efn/ spring2006/ EFN_Spring06_App_Szczurek.pdf](http://www.euroframe.org/fileadmin/user_upload/euroframe/efn/spring2006/EFN_Spring06_App_Szczurek.pdf)

The paper discusses policy issues around entering euro which is very relevant for NMS. The context combines macroeconomic theory with currency crisis considerations.

However, the models and the papers have not relied on the recent notions and results. There is no reference to models of third-generation currency crisis. Spontaneous euroisation and its policy consequences are not really mentioned, while liability euroisation for both the households and the public budget is relevant for exchange rate exposure and vulnerability. The whole literature on equilibrium exchange rate is disregarded because of the large range of values without discussing its relevance for NMS and the special conditions of monetary integration. The paper highlights as a third channel of inflation pressure the high demand for non-tradables in NMS. Later on it is mentioned that the practical irrelevance of Harrod-Balassa-Samuelson effect is due to high productivity increases in non-traded sector. These two statements are not related to each other. It is quite unusual to refer to a CASE Report only on the assessment of Harrod-Balassa-Samuelson for NMS.

12. Fic, T, R Barrell and D Holland: Entry rates and the risks of misalignment in the EU8, "Economic Assessment of the Euro Area: Forecasts and Policy Analysis" The EUROFRAME - EFN Spring 2006 Report, [http://www.euroframe.org/fileadmin/ user_upload/ euroframe/ efn/spring2006/ EFN _Spring06 __App_Fic_et_al.pdf](http://www.euroframe.org/fileadmin/user_upload/euroframe/efn/spring2006/EFN_Spring06_App_Fic_et_al.pdf)

The paper presents very practical computations on the extent of misalignment of eight currencies of NMS. The assumptions are in line with the latest empirical and theoretical results. The trade off between growth and inflation is larger the smaller the country is. This result sheds some new light on the required output loss of smaller countries with hard peg while satisfying the nominal convergence conditions of the monetary union.

Analytical Papers

13. The stacked leading indicators dynamic factor model: a sensitivity analysis of forecast accuracy using bootstrapping. By Daniel Grenouilleau

This paper makes use of an approximate dynamic factor model to produce short term forecasts of Euro-area GDP. The author uses a cross-sectional bootstrap methodology to

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analyze the sensitivity of the model to factor selection and indicator uncertainty.

This paper makes a very useful contribution to dynamic factor models for forecasting. The main contribution is the use of the bootstrap methodology, as the use of the EM algorithm to compute forecasts was put forward by the author in Grenouilleau (2004). The paper has been written with the highest academic standards. The work produced is on top of the existing literature on the area and it is potentially publishable in a top forecasting/econometrics journal. Academically the paper makes progress on the existing state of knowledge and it is very relevant to inform policy making as it results in forecasts of GDP with very reasonable properties. The author should be congratulated for the careful and painstaking analysis of the issue, which is not a trivial enterprise.

The use of bootstrapping in academic literature has met with varying degrees of acceptance. It is now believed that it is superior to the use of asymptotic theory in many applications. However, some authors still prefer the analytical niceties of obtaining clear-cut asymptotic distributions in econometric work. However, in very practical contexts like this one in which the objective is clearly to obtain an accurate forecast for informing both policy makers and the public, I believe that bootstrapping is the way to go. This is more so in data-rich environments in which data availability, frequency and even quality varies substantially in different applications. In this sense the author makes two important contributions: Firstly, showing how the bootstrap can be used effectively to evaluate model sensitivity to uncertainty in the indicator variables; and, secondly, showing how the bootstrap can be used as a method to evaluate the best method for selecting the number of factors in dynamic factor models. In this sense, the work could derive in two distinct papers. I believe that the literature will welcome this empirical approach especially in the controversial issue of selecting the appropriate number of factors.

I have only a few suggestions, none of which are relevant in deciding the quality of the paper. Rather they are suggestions that the author may want to follow from a more academic-oriented perspective. Firstly, as mentioned before, the paper has more than one core contribution, and it may be useful to treat them separately in different articles. At some points the paper becomes very heavy as it contains several ideas and many results. Maybe the paper can also benefit from a bit more clarity since the very beginning about the main core points that the paper is making. Some parts of the paper offer explanations of issues that had been developed earlier in Grenouilleau (2004) and that could have possibly been minimized given the size of the manuscript. In this sense, the emphasis should be shifted more towards the core advantages of using the bootstrap in section 2.2.

Secondly, the comparison of forecast accuracy with other models may include other methods more familiar to those coming from an econometric background. DSGE models are arising as an important (structural) alternative to database models, although most probably they will do relatively badly in short-term forecasting. Other approaches could be

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model-selection and reduction algorithms such as PC-Gets of Hendry and Krolzig or RETINA of Perez-Amaral, Gallo and White (2005), *Econometric Theory* (vol. 21, pp. 262-277). These algorithms allow for a reduction of the dimension of the econometric problem by using different algorithms for variable selection. Recent developments also allow the researcher to have a larger number of explanatory variables than observations [see Hendry and Krolzig (2006) “Resolving three “intractable” problems using a GETS approach”, mimeo].

Finally, and again as a question of form rather than content, the author may want to devote more time to explicitly describe the bootstrapping procedure used. A clear explanation of the steps taken in the process helps the reader to grasp the essence of the implementation.

14. How much has labour taxation contributed to European structural unemployment? by C. Planas, W. Roeger and A. Rossi

This paper carries out an econometric estimation of the European NAIRU and the impact that labour taxation has had on it. The authors use an unobserved components model based on a theoretical model similar to Blanchard and Katz (1999). Their findings show that the impact of taxation on structural unemployment has an elasticity of between 0.3 and 0.23. This appears to be in contrast to previous estimates that found no impact of taxation as in Blanchard and Wolfers (2000).

This paper makes an important contribution to the literature and is academically very valuable. It is not only important for policy making, but also takes a step forward the debate on the impact of taxes on European unemployment. Technically, the paper is well crafted and uses up-to-date econometric models. This is a sound and credible piece of research. I have two main concerns about the paper that the authors may want to consider:

1. The estimated impact of taxes when no instrumental variables are used is 0.3, but only significant at the 10% level. When estimated using IV, the elasticity falls to 0.23. Given that IV estimators *necessarily* produce higher standard errors, if 0.3 was only significant at the 10% level, 0.23 is likely not to be significant at conventional significance levels. This could be a worrying aspect, as the paper claims a large impact of labour taxation when it may not really be statistically significant.
2. The authors find that long-term movements in U are best represented by an I(2) variable. This is highly unlikely. To start with, U is found to be I(0) when powerful and well specified tests for unit roots are used (there are indeed many recent references pointing towards this). The fact that U rate is I(1) is difficult to accept given that it is a bounded variable. In any case, one can accept that the best description of the small sample behavior of U is a unit root process. However, an I(2) process is simply too difficult to swallow from a theoretical viewpoint. How can an “equilibrium” variable be I(2)? The dynamics of an I(2) variable are not compatible with the possible ranges of values of the NAIRU. This is

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likely to raise some eyebrows during a peer evaluation exercise of the paper.

These two issues may be of key relevance. Nevertheless, the paper has the standards of both policy relevant and technically competent academic research and will contribute to the wider literature on unemployment dynamics in Europe. The open availability of data and codes is another reason to congratulate the authors.

15. International oil price changes: impact of oil prices on growth and inflation in the EU/OECD by W. Roeger

This paper assesses the likely impact of a permanent oil price shock on output and inflation in the Euro Area making use of a simulation exercise using the EC's QUEST model and comparing it with the results from other macro models.

The paper presents a useful modeling exercise that is undoubtedly informative for policy makers. The paper makes use of a well developed macro model in the DSGE tradition that has several advantages over traditional macro models as it is micro-founded and introduces rigidities in the NK tradition. There is little evidence on oil shocks from this side of the literature and this paper makes a sound contribution.

Academically, the research would benefit from further input from econometric models of the impact of oil prices. Many models attempt to model the (potentially nonlinear) impact of oil prices using data-determined models. Although these do not use deep parameters of the economy, they can perform well in and out of sample. Maybe a discussion of this literature would help inserting the paper in the more academic tradition and make it more stimulating as an alternative way of modeling.³¹

³¹ Some references can be found in the Barsky and Kilian (2004) paper mentioned in the references. Important ones are:

Leduc, Sylvain and Keith Sill (2004), "A Quantitative Analysis of Oil-Price Shocks, Systematic Monetary Policy, and Economic Downturns," *Journal of Monetary Economics*, 51, pp. 781-808.

Kilian, Lutz (2005). "Exogenous Oil Supply Shocks: How Big Are They and How Much Do They Matter for the U.S. Economy?" Working paper, University of Michigan.

Hamilton, James D (2003), "What is an Oil Shock?" *Journal of Econometrics*, 113, pp. 363-398.

Hamilton, James D and Ana Maria Herrera (2004), "Oil Shocks and Aggregate Macroeconomic Behavior: The Role of Monetary Policy," *Journal of Money, Credit, and Banking*, 36, pp. 265-286.

Carruth, Alan A., Mark A. Hooker, and Andrew J. Oswald (1998), "Unemployment Equilibria and Input Prices: Theory and Evidence from the United States," *Review of Economics and Statistics*, 80, pp. 621-628.

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Although the aim of the paper is primarily to inform policy makers, I believe that making use of this literature and inserting these results into a wider discussion would benefit the attractiveness of the approach. I believe also that especial consideration of the treatment of oil in the QUEST model would be a plus. Assumptions such as the substitutability between oil and production factors may be controversial. Different specifications of this part of the model could be attempted in light of the literature and compared with each other.

In all, this is a sound piece of evidence that makes an interesting academic contribution but that could be made more attractive if due consideration is given to a wider literature.

16. Pension reforms: an illustrated basic analysis by Heikki Oksanen. European Economy Economic Papers No 201, April 2004. Directorate-General for Economic and Financial Affairs

The core of this paper is a presentation of the issues surrounding the problem of organizing state pension systems to deal with population ageing. It describes various bases on which this might be done and presents relatively simple arithmetic illustrations of the consequences of various assumptions and considers with some care the problems posed by considerations of 'fairness' between generations and the extra difficulties they raise in system-reform.

On these questions the analysis appears to be sound and is commendably lucid, well-judged, illuminating, and persuasive. Although it is in a sense a limited paper in that the full mathematical complexities are suppressed, it is also a modest one in that there is no pretense that it has achieved more than in fact it has. It is intended to be an exposition of the issues, and it is a very good one.

On the wider questions of the inter-relation of a pension system and the public finances generally, the paper is somewhat less successful. Whilst the question of the intergenerational fairness of the pension system is a reasonably clear one and reasonably susceptible to analysis like that in this paper, when one considers the intergenerational fairness of all government activities considered together, the matter is much more complicated. The proper consideration of that matter requires a far more substantial analysis of the idea of fairness, of the exogenous factors bearing on intergenerational equity, and of the form and manner of government's impact on them. Hence, the paper's comments on these issues, whilst having a superficial logic and appeal, cannot be considered as getting to the heart of the matter. This, however, does not detract from the value of the paper in achieving its primary goal of elucidating the central problems around pensions themselves, in relation to which it is admirable.

This is certainly a valuable stimulus to discussion, and clearly reflects the recent literature. The methodology of the treatment of the simple pensions problem is admirable for the clarity it brings in exchange for only slight simplification; the conceptualization of the wider

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problem of intergenerational fairness is just about sound as a starting place, but too simple to bear much load.

17. The Lisbon strategy and the EU's structural productivity problem by C Denis, K McMorrow, W Röger, and R Veugelers. European Economy Economic Papers No 221, February 2005. Directorate-General for Economic and Financial Affairs

It may not be perfectly clear from the title of this paper that it is concerned with the role of technology in promoting economic growth. Nevertheless, on that subject it is a very useful contribution. It notes the EU's slow productivity growth in comparison with the United States and starts off with a very useful decomposition of the problem into (a) concentration in slow growing manufacturing, (b) a growth in low productivity-growth service sectors, and (c) slow productivity growth even in the sectors which in the United States are growing very rapidly. Drawing attention to the third of these as an identifiable aspect of the problem is in itself very useful.

The paper goes on to consider a wide range of issues that need attention if the problems are to be overcome and correctly – again, very pertinently – notes that a similar problem could emerge in relation to distinct future technological advance. The paper is lucid, balanced, well-informed, and insightful. On all its central points it is persuasive and valuable. Some of the details might be controversial, but if so, then the paper certainly serves to stimulate further research. The paper is very effective in drawing attention to the range of issues raised in an area which is widely understood to be a European weakness, but where understanding of the sources and remedies of the problem is much more limited. It is an excellent example of useful public-sector economic research. It reflects up-to-date material, is methodologically sound, and contributes to debate and discussion.

18. Stabilizing output and inflation: Policy conflicts and co-operation under a Stability Pact, Marco Buti, Werner Roeger, and Jan in't Veld. Journal of Common Market Studies, 2001

This paper is a competent and worthwhile contribution to the academic literature in its field. Its basic approach of setting 'reaction functions' of two actors against each other is an old one, and even in its application to fiscal and monetary policy the literature review could have gone some way further back in time. But the specifics of the implementation of this approach are what the paper is about and they raise new points which deserve a place in the literature.

The paper is limited by the modeling choices the authors make. For example, the presumption that the central bank has no interest in stabilizing output is justified by the observation that its legal mandate requires it to pursue only price stability. On the other hand, it is presumed the central bank does care about smoothing interest rate adjustments because it is felt there is evidence that central banks generally do smooth interest rate

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changes. But central banks probably do care about stabilizing output, and the legal requirement to pursue only price stability ought to amount to a ban on interest rate smoothing. Secondly, the existence of the Stability and Growth Pact rules is treated as raising the costs of deficits generally rather than as creating a cost at the level of the Pact limit. (It is not clear that this is the right way to do it because there are no sanctions for failure to adhere to the 'close to balance' rule). Nevertheless, one has to make some sort of choice about these kinds of things and the authors' choices are within reason.

Events have, of course, rather overtaken this paper since it is far from clear that attitudes to the Stability Pact will ever be the same again, and in any case, I suspect academic interest is moving on to the problems arising from the existence of many separate fiscal policymakers. At the time it was published, however, it was a useful contribution reflecting current debate and issues, using a sound approach and contributing to debate.

19. Deroose, S and S Langedijk: Improving the Stability and Growth Pact: the Commission's three pillar approach, EUROPEAN ECONOMY. OCCASIONAL PAPERS. No.15. February 2005. European Commission. Brussels. 84pp, http://ec.europa.eu/economy_finance/publications/occasional_papers/occasional_papers15_en.htm

Some academic authors suggest that the fiscal surveillance should focus exclusively on debt and sustainability, rather than monitoring deficit developments. The answer of this paper to the criticism is quite unsatisfactory as it claims that the Commission enhances the role of debt levels and developments and increases surveillance, it still considers that the deficit remains a key instrument for fiscal surveillance because it has a closer link to fiscal policy and is more under the control of the government.

It is claimed that qualitative judgment would ensure economic rationale in the procedures, avoiding any mechanistic application of the Treaty. According to the authors the rules already leave sufficient room for economic judgment. Better implementation of the existing rules is called for, requiring at most a clearer specification of such rules. This position calls for increasing the economic rationale while relying on the rules-based character of the fiscal framework. Once again further analysis would have been necessary to explore the trade offs.

20. Progress towards meeting the economic criteria for accession: 2005 Country assessment EUROPEAN ECONOMY. ENLARGEMENT PAPERS. No. 26. November 2005. European Commission. Brussels. 111pp, http://ec.europa.eu/economy_finance/publications/enlargement_papers/elp26_en.htm

The external vulnerability of these countries deserves an in-depth analysis of their current account balance and its sustainability. The usual argument that the long term commitment in the form of foreign direct investment ensures viable finance needs careful examination.

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It needs further support like the trade flows should enhance the operation of firms created by foreign direct investment. When it is obvious that the current account deficit is unsustainable then the macroeconomic adjustment – fiscal rigour, wage containment, etc – is called for.

The labour market should have been analysed in close relation with the informal economy. In transition economies the border between formal and informal economies is rather wide and sometimes blurred. Institutional arrangements may explain a lot as unemployment entitlement and benefit rules have been changed quite often which makes rather difficult to arrive to clear policy conclusions. The extent of the market economy and the ability to withstand market pressure can be assessed by the depth and width of economic links with developed market economies and with the role of regional cooperation. It should go beyond the usual trade shares as they may conceal highly concentrated trade. Countries in question and analysts may learn a lot if the actual presentation could make a trial to pinpoint at the most important successful policy steps, best practices and provide examples of policy mistakes by giving a rough assessment how the country was able to capture its potential for development and growth.

21. Jonung, L: EMU and the euro – the first 10 years. Challenges to the sustainability and price stability of the euro area – what does history tell us? ECONOMIC PAPERS. No. 165. February 2002. European Commission. Brussels. 45pp. http://ec.europa.eu/economy_finance/publications/economic_papers/economicpapers165_en.htm

The paper presents some aspects of monetary integration in historical perspective. Two important policy dilemmas - unemployment versus inflation or slow growth and stagnation – may exert pressure on the present arrangement of EU institutions. The major parameters of the EMU were designed mostly by the early 1990s reflecting the economic and political environment of that period. This is a source of strain, namely, how the EU and ECB will be able to react to the changing internal and external conditions. The paper misses the importance of this point.

Deeper analysis should have highlighted the internal structure of the decision making within ECB, its relation with other EU bodies, the role of large countries and their coalitions. These are sensitive issues obviously, but it could have added more to understand the internal structural problems of EU institutions. It would have been also interesting to present the available papers and documents on the pros and cons of European monetary integration of UK.

22. Wälde, K and C Wood: The empirics of trade and growth: where are the policy recommendations? EUROPEAN ECONOMY. ECONOMIC PAPERS. No. 204. May 2004. European Commission. Brussels. 19pp. <http://ec.europa.eu/>

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[economy_finance/publications/economic_papers/economicpapers204_en.htm](http://ec.europa.eu/economy_finance/publications/economic_papers/economicpapers204_en.htm)

The direction of causality between growth and trade and the role of trade policies in the growth-trade link are very relevant. Policy analysts and policy makers and politicians rely extensively on the supposed positive relation between growth and trade; they tend to believe in the link from trade to growth and in the significant effect of removing trade barriers by their suggested and introduced policy measures. The authors are absolutely right to challenge the theoretical and empirical support for these claims. However, the authors when discussing the requirement to confront empirics with different theories do not take into the possibility of the so-called observational equivalence mentioned in relation with macro economics, that is, different theories may lead to the same policy conclusion.

Trade economists have already tried to reconcile static trade theoretical concept with empirical policy conclusions. (See e.g. the whole literature on the Leontief-paradox.) The serious flaws and abuses while using econometric techniques could have been demonstrated with the consensus view taught at MA level in economics, that time series should be checked for the properties before running any regression. If these rules are not respected then the theoretical relations and policy advices are based on results obtained from spurious regressions. It is very important to pinpoint at the endogeneity issues of import taxes. Trade theory and empirical research have already gone further down this road by incorporating the analysis of multinational firms who are importing, exporting and allocating resources across borders causing lot of puzzles to applied research. It would have deserved mentioning.

23. Jonung, L: To be or not to be in the euro? Benefits and costs of monetary unification as perceived by voters in the Swedish euro referendum 2003, EUROPEAN ECONOMY. ECONOMIC PAPERS. No. 205. June 2004. European Commission. Brussels. 32pp. http://ec.europa.eu/economy_finance/publications/economic_papers/economicpapers205_en.htm

Why people in tradable sector were in favour of the monetary integration while people from non-traded sectors were against? The usual competition-preference arguments do not apply. The whole approach is centred on the welfare benefits. This may be a simplification as value judgments are not necessarily closely related to the expected welfare benefits based on OCA arguments.

More generally, the link between OCA and individual preference towards euro requires a wider interdisciplinary approach, than the applied one. Approaches and concepts taken from economics and political science are not enough; social psychology, sociology and perhaps cultural anthropology would have offered deeper insights. On practical grounds if there was access to the individual data a much richer analysis based on multivariate econometric methods should have been used. This approach could have assessed the

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relative importance of different explanatory variables and the linkages among them.

24. Buti, M: Will, The New Stability and Growth Pact Succeed? An Economic and Political Perspective, EUROPEAN ECONOMY. ECONOMIC PAPERS. No. 241. February 2006. European Commission. Brussels. 25pp. http://ec.europa.eu/economy_finance/publications/economic_papers/2006/economicpapers241_en.htm

That is an exceptional paper. It is written in a clean style by using very frank and clear ideas about the problems and chances of the reformed SGP. It is not exactly clear who the target audience was. The paper should have included some of the supporting or criticising arguments of the reformed SGP. That could have enlarged the circle of potential readers. It is interesting to see that the author refers only to the views of economics professors affiliated to European institutions. It would be interesting to see the assessment from outside EU and perhaps from non-academia, like business and policy makers or experts from international organisations.

25. Watson, M: ‘Adopting the Euro: An Introduction to Four Country Studies’, *Comparative Economic Studies* 2004 46 94-103

The four country studies approached the expected costs and benefits of monetary integration within the optimum currency area framework. The introduction rightly underlines that the usual similarity measures and the shock synchronisation do not necessarily provide enough evidence for the welfare balance. Different monetary regimes offer interesting comparison for the expectations in this respect. It would have been perhaps fruitful to infer from the past experience of Estonia with currency board regime to the future adjustment burden of labour market of Hungary and Poland. A more general question remained unanswered; is there any relation between the adjustment cost of the past and cost expected to incur in the future.

26. Watson, M: ‘A toolkit for financial stability’, *Quarterly Journal of Central Banking* May 2004 14(4) 70-78

Financial stability is a crucial issue for New Member States. The traditional approach is based on macro, as the vulnerability is explained by macroeconomic variables. The article adds that the balance sheet approach contributes significantly to the traditional one as the shocks can work through balance sheets of companies and households. The financial system should be prepared for it and should require properly valued collateral and the regulator – central bank included – is responsible for the appropriate incentive and controlling system. The paper could have analysed in more details the valuation effect for highly euroised countries with flexible exchange rate regime.

27. Salvador Barrios and Eric Strobl, *The dynamics of regional inequalities*

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This paper analyzes the relationship between economic growth and the level of regional disparities amongst European regions. In accordance with theoretical arguments in the literature on growth and inequality, the authors find robust evidence of a bell-shaped relationship. That is, inequality first rises and then falls with economic growth.

The hypothesis under test is clearly presented, well motivated and of high relevance for policy making in the EU. Much political and economic debate in Europe pertains the pace and dynamics of regional inequalities with little evidence to back the debate. This paper has managed to fill a gap and initiate what could be an interesting debate in the literature. The academic standards of the paper are high and comparable with some similar research published in good academic journals. Methodologically the paper is sound and uses appropriate non-parametric methods better designed for estimating nonlinear relationships. This is an example of good academic research with immediate policy debate impacts. The authors should be congratulated on this basis.

My more specific comments may be of relevance for future research on this issue. Firstly, there's a growing literature that discusses the issue of inequality and growth purely from an aggregation perspective. See for instance, Albuquerque (2003) and Forbes (2000). The authors should mention this literature and argue if of how this may (not) be relevant for their application. Secondly, the use of country-specific dummies should be discussed further. Although it is clear that countries may be heterogeneous in terms of their regional inequalities, a good model should be able to explain why. Is it national policies that make counties behave specifically? Thirdly, the use of these particular control variables may be controversial. From the discussion of the authors it seems that openness and similarity would determine the speed of technology transfer. This is what most of the spillovers literature would agree with. However, the way they enter the equation is simply as separate variables rather than as interaction variables with GDPpc. If, say, openness increases the speed of spillovers, it would affect β in the theory model. This means that the shape of the relationship between disparities and GDPpc would be affected by openness. In the specification of the authors openness enters as a “shift” variable that can affect the position of the curve only. I think that this part deserves further motivation and discussion of the results as it is important for policy analysis.

References:

Albuquerque, P. (2003) “A practical log-linear aggregation method with examples: heterogeneous income growth in the USA” *Journal of Applied Econometrics*, 18(6).

Forbes, K. (2000) “A reassessment of the relation between inequality and growth” *American Economic Review*, 70(1).

28. Pilar Bengoechea and Gabriel Perez Quiros, ‘A useful tool to identify recessions

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in the Euro-area³

The paper uses a Markov-switching model to characterize the Euro-area business cycle. This is an advanced and appropriate technique, and is used effectively in this paper. The work seems to be carried out to high standards and would have credibility in the context of the academic literature. Given that there is not a definitive view on dating the Euro-area business cycle, the results are also in conformity with the literature.

As well as being an up-to-date application of modern techniques, the paper claims to make contributions to the literature including the following.³² The authors argue, successfully in my view, that using the Industrial Confidence Indicator in addition to the Industrial Production Index, gives useful information about the current state. This is perhaps the most useful contribution of the paper. The problems with using these methods for forecasting are illustrated in figure 10, where the forecast of tomorrow's state is essentially the best guess about what the state is today since probability of switching is relatively low. Hence additional information about the current state is in some ways the best that can be hoped for. The arguments against using a moving average to smooth the Industrial Production Index seem sensible and are in line with concerns in the literature about this procedure, though these arguments are often not clear cut.

Another contribution is in the analysis of the states of the two series, here the ICI and the IPI, and the extent to which these are independent. It is worthwhile to note that from a methodological point of view, work on this issue has been done by Kerk Phillips ('A Two-Country Model of Stochastic Output with changes in regime' *Journal of International Economics*, 1991, pages 121-142), which the authors may well have been unaware of. This work follows a not dissimilar approach to the one of this paper, and perhaps in fact discusses the issue in more detail. The application given in the two papers are different though.

Overall the work is carried out to high standards, and this is a useful paper on an important issue, which is entirely credible in the context of the academic literature.

29. Carlos Martinez-Mongay and Khalid Sekkat, 'Progressive Taxation, Macroeconomic Stabilization and efficiency in Europe'

This paper looks at the effect of progressive taxation on macroeconomic stabilization. The standard argument is that progressive taxes cause fiscal surpluses in booms when incomes

³² It is probably worth noting that the article by Artis, Krolzig, and Toro, 'The European Business Cycle,' which is one of the main reference points of the paper and is cited in working paper form, was published in an updated form in *Oxford Economic Papers* also in the year that this paper came out, 2004.

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(and so tax revenues) are high, and conversely deficits in recessions. Since fiscal surpluses are contractionary, and deficits are expansionary this aids stabilization, and these mechanisms are referred to as automatic stabilizers. High progressive tax rates are then thought to create stronger automatic stabilizers, aiding stabilization, but also create distortions and inefficiency with economies.

The paper argues that this conventional view may be incorrect: high taxation though strengthening automatic stabilizers may impede stabilization by changing the slope of the Phillips curve (the relationship between inflation, inflation expectations and the difference between actual output and its trend value). In this case lower taxation may bring about efficiency *and* stabilization gains.

The authors provide both theoretical and empirical work. This is certainly an important and interesting issue as the authors argue. Overall, however, I think the authors fail to make the case that decreasing taxes would aid stabilization in a way that would be convincing in the context of the wider academic literature. The support for this in the empirical section is limited and inconclusive, and arguably the process of making the case detracts from the presentation of the empirical work somewhat. The theoretical section is coherent in parts, but does contain some weaknesses.

Theory

I feel the most serious weakness in the theory section is in making the central argument that the slope of the Phillips curve is changed by the level of taxation, which is done in the appendix. The analysis here is much too sketchy to be able to justify this – a well specified labour market based model of the Phillips curve should need at least some treatment of both the supply and demand sides of the labour market, and a proper treatment of firm behaviour. Furthermore, an assumption is made that the *level* of *unemployment* is linearly related to the *rate of growth* of *employment*. From a simple mathematical point of view, it is clearly the *level* of employment that determines the level of unemployment. Making this assumption allows the transformation of what is essentially a labour supply type relationship into a Phillips curve, but this seems really little more than an algebraic contrivance.

Given this, the remainder of the theory section shows that the changing slope of the Phillips curve can mean in some instances that despite strengthening automatic stabilizers increasing taxation can be destabilizing to output in the case of supply shocks, and also to inflation. However, another potential problem here is that normally we would expect a change in the structural parameters of the economy (here the Phillips curve) to cause a

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corresponding change in the monetary policy rule. Here monetary policy rule is essentially taken as exogenous, which could lead to very different implications.³³ Note that taking monetary policy as exogenous can be a reasonable simplification in the case of monetary union, where monetary policy will be less sensitive to the structural parameters of individual countries. However, that the empirical analysis is here applied to many countries which are not in a monetary union.

Empirics

The empirical analysis seems interesting and well done. However, the support for the hypothesis of the negative effects of taxation on stabilization is limited. Tables 3, 4 and 5 in fact support the opposite conclusion that high tax revenues are positively related with the stability of both output and inflation. The support for the theoretical model is argued in table 7. The authors argue that the model predicts that stabilization will depend on the interaction between government size and the effective labour tax rate. They find that it does, but this is only significant at the 10% level. Moreover this interpretation of the theory is not from obvious; the equations given in the appendix seems to suggest that it is in fact the interaction of labour taxes and the progressivity of taxation (or real wage resistance) that influence stabilization. At any rate, labour taxes should appear in the empirical model on their own as well as in their interaction with government size. I feel that while the empirical analysis is well worthwhile in its own right, its support for the theoretical model is quite overstated.

³³ In fact, with optimizing monetary policy the most coherent approach would be to examine the effect of changing structural parameters on the *policy frontier* which gives outcomes of inflation and output volatility under varying objectives for monetary policy. See, amongst others, Bean, 1998, 'The new UK monetary arrangements, a view from the literature.'