THINK
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Other horizons?
Comparing the governance of Horizon 2020 and the Norwegian Pension Fund

Looking at research funding as a long-term investment opens the way for some interesting comparisons outside the beaten track: Analysing the governance of Horizon 2020 in contrast to the Norwegian Global Pension Fund might look at the outset like "comparing apples and pears" – but in terms of governance such a comparison could lead to some new insights.

European Research Programmes as long term investment

Although the present political mainstream tries almost desperately to present Horizon 2020, the ongoing European Research Programme, as a policy tool to address most of the current social, economic and political problems of the European Union, this is not the only way of looking t this programme. It might actually be closer to reality to look at such a research funding scheme as an outstanding societal long-term investment.

According to this logic, rather than expecting spectacular short-term returns, the rationale for spending roughly 80 Billion Euro on Horizon 2020 from 2014 until 2020 is essentially to lay the foundations for major returns in the more distant future.

This is in itself a remarkable political decision, since in a democratic environment, it is normally very difficult to get sustained public support for a massive long-term investment which is unlikely to generate any major tangible short-term returns. In this respect, Horizon 2020 is rather unique in the European context.

The Norwegian Government Pension Fund Global

Searching for any kind of comparable endeavor could lead to an analysis of another outstanding policy initiative – albeit of a completely different nature: Norway has decided to invest major parts of the income generated from the oil and gas production in the so-called "Government Pension Fund Global". Since one day the oil will run out, the return on the fund should continue to benefit the Norwegian population.

The fund became effective in 1996 and has over almost 20 years accumulated a net market value of some 800 Billion Euro. The Fund owns roughly 1.3% of the value of all company stocks listed in the world. For Europe, this figure is even higher, as the Fund owned by the end of 2014 roughly 2.4% of the European stock market value. Between 1998 and the fund generated a nominal annual return of 5.8 percent. In real terms (after inflation) and after management costs, the return was 3.8 percent[1].

Comparing what is not necessarily comparable

Given the after all rather different nature of the two activities, it would not make sense to push a comparative analysis to the extreme. But without stretching the argument too much, there are three observations which might be interesting for further reflection:

1. **The depth of the public debate**

   Setting aside major amounts of public money for long-term investments instead of consuming these funds immediately requires a strong commitment by all societal actors involved and a clear and shared vision on the importance of future returns. In very simple terms, this boils down to the insight that instead of using all our current wealth for our own needs, there is a common willingness to use major parts of it to improve the life perspectives of future generations.

   The Norwegian Parliament had a number of very serious debates on the basic principles and implementation approach of such a policy. Based on the Annual Reports of the Norwegian Central Bank, there is also a regular debate on the implementation modalities and the relative success or failure of the chosen strategy in terms of returns on the capital market.

   Somewhat surprisingly, there is nothing really comparable to this with regard to the political debate on Horizon 2020. Both the debates in the European Parliament and the European Council were dominated by excessive technical discussions on distribution and funding modalities. On the other hand, there has been no public debate on the long-term vision of Horizon 2020 and its goals and objectives for the decades to come.

   In comparison, it is amazing that Horizon 2020 as the European policy initiative with the highest degree of long-term responsibility and sustainability towards future generations is by no means recognised as such in the political and societal debate. Putting it to the extreme, one might wonder whether the mindset in the Brussels milieus has turned similar to the spirit in major US companies, which allegedly seems more concerned by quarterly results than by long-term development options.

[1] A more complete presentation of the Fund is available on http://www.nbim.no/en/the-fund/

2. **The relevance of implementation**

The agencies responsible for the implementation of the Norwegian Petroleum Fund (the Norwegian Central Bank) and Horizon 2020 (DG RTD, DG INFSO, Executive Agencies) handle very impressive amounts of money – several Billion Euros every year.

This implementation process is in the case of Horizon 2020 organised as a very complex process with numerous interferences between different actors. Every single call and every individual funding decision is handled as if they would represent fundamental strategic choices. Hence the implementation process is perceived as very heavy and relatively "noisy."

In contrast, the investment decisions for the Norwegian Pension Fund are based on internal debates within the Norwegian Central Bank. They are considered as portfolio investments, and as such are normally not subject to any public attention.

In light of this comparison, one might wonder (again, see THINK Piece 4/2014) whether all the "fuzz" regarding the Horizon 2020 implementation is really necessary, and whether a smoother and less agitated implementation approach could have its merits.

3. **The interference of short-term considerations with the long-term objectives**

Keeping aside major chunks of public money for long-term objectives creates almost necessarily the desire to use at least part of these funds for short-term goals.

Such claims have also been made in Norway, for instance, to use some of the money from the Pension Fund to improve the public infrastructure and to invest in the public health system. Remarkably, however, so far these claims did not receive a majority in the Norwegian Parliament. An effective way to block regular attempts for extra funding is the so-called "budgetary rule" which stipulates that over the course of a business cycle, the government may spend only the expected real return on the fund, estimated at 4 percent per annum. This allows using some oil revenue for current policy issues, but limiting this to the real return on the fund means that the capital stock of the fund will not be affected.

In the EU context, the situation seems to be rather different, as the budget of Horizon, which started just in 2014, is likely to be partially diverted from 2015 onwards. Plans to use non-negligible parts of the money initially allocated to Horizon 2020 in order to finance the new European Fund for Strategic Investments (EFSI), are in this perspective a classical move away from pursuing long-term objectives towards typical short-term actionism.

The present developments raise concerns that any kind of serious long term ambition of the Framework Programmes might be at risk. The sometimes painful 18 months of political decision-making process required in 2012 and 2013 for achieving Horizon 2020 look already from today's perspective like a somewhat questionable exercise, knowing that fundamental features of the programme such as the budget are likely to be profoundly altered.

Improved policy making through mutual learning is one of the big achievements of the European Union. Including Norway in this analysis might be helpful from time to time...

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