

Release: embargoed: Tuesday 3<sup>rd</sup> April – 09:30

## Finalists for the Wolfson Economics Prize announced



The Wolfson Economics Prize, which challenges the world's brightest economists to prepare a contingency plan for a break-up of the Eurozone, today (3<sup>rd</sup> April, 2012) unveiled a shortlist of five finalists.

The shortlisted entries, though all very different from each other, provide valuable ideas about how best to manage a member state leaving the euro.

The judges have given the finalists the opportunity to address key questions about their entry. Finalists will be given until the 29<sup>th</sup> of May to develop and resubmit their entries. Everyone who has progressed to this stage will be guaranteed a £10,000 share of the prize. The winner(s) of the Wolfson Economics Prize will be announced on the 5<sup>th</sup> of July.

Derek Scott, Chairman of the judges, said:-

*"The question of currency break-up is clearly enormously complex, spanning financial and legal arrangements. We were impressed by a number of the entrants' efforts to grapple with these issues. We felt it was only fair to give finalists the opportunity to refine their thoughts."*

Lord Simon Wolfson said:-

*“Sadly, the risk of a country leaving the Eurozone has not gone away. The ideas contained in these entries are an invaluable contribution to tackling this important issue. I am incredibly grateful to everyone who made a submission and look forward to awarding the prize this summer.”*

The finalists are:-

- Roger Bootle and team, Capital Economics
- Cathy Dobbs, private investor
- Jens Nordvig and Nick Firoozye, Nomura Securities
- Neil Record, Record Currency Management
- Jonathan Tepper, Variant Perception

In addition to the shortlist, the judges have decided to publish papers which they thought were of interest. Those of note, who will each receive a £1,000 prize, include: -

- Arnab Das, Roubini Global Economics
- Charles Dumas, Lombard Street Research
- Julian Le Grand, LSE
- Michael Redican, Investment Banker

Special mention also goes to our youngest entrant, Jurre Hermans, an eleven year old schoolboy from the Netherlands who thinks Greece should leave the euro. Jurre will receive a €100 gift voucher.

The Wolfson Economics Prize is the second-biggest cash prize to be awarded to an economist after the Nobel Prize. The prize seeks to find the best answer to the following question: “If member states leave the Economic and Monetary Union, what is the best way for the economic process to be managed to provide the soundest foundation for the future growth and prosperity of the current membership?”

The prize is sponsored by the Charles Wolfson Charitable Trust, a family charity, and managed by Policy Exchange, the independent London-based think tank.

### Notes to editors

A short summary of the shortlisted entries:-

The essay from Roger Bootle and Capital Economics provides a practical guide to the issues around exiting the euro. Their central focus is how to achieve a fall in real wages and prices with the minimum practical disruption. This essay proposes that government debt and consumer debt be redenominated into euros deploying the ‘lex monetae’ principle – in other words, that each country determines the currency applicable under its laws.

In an original and elegant solution, Catherine Dobbs proposes that the euro disappears, with all holders of euros having their euro claims replaced by claims on the new currencies, according to a set proportion. The key objective is to disincentivise capital flight (and hence bank runs and financial and social crisis), whilst being fair to all holders of euros.

Jens Nordvig and Nick Firoozye argue convincingly that the treatment of foreign law debt contracts is important because there is around €10 trillion outstanding. Their essay proposes that debt contracts falling under national / local law should be redenominated into a new currency. Debt contracts falling under foreign law should be redenominated into a second European Currency Unit (ECU).

Neil Record argues that if any country leaves the euro, the entire euro must be dissolved. He writes that the moment one country leaves the euro, the view that the euro is 'permanent' becomes untenable, giving markets the ammunition to undermine structural weaknesses elsewhere. The essay's focus is administrative, emphasising secrecy for as long as possible and setting out a detailed week-by-week timetable.

Jonathan Tepper contends that currency exits and devaluations are often predicted to lead to "Armageddon" but rarely do. The paper argues that the real issues are not created by the exit process per se, but by the needs that motivate the exit — the need for Eurozone periphery countries to default and devalue.

Press enquiries:-

Please contact Emily Hamilton on +4420 3397 0100, +447828 501 877 or [emily.hamilton@westbournecoms.com](mailto:emily.hamilton@westbournecoms.com) or Jennifer Powers on +4420 3397 0100, +447903 078488 or [jennifer.powers@westbournecoms.com](mailto:jennifer.powers@westbournecoms.com) with media enquiries only.

Prize enquiries:-

To find out more about the prize please visit [www.policyexchange.org.uk](http://www.policyexchange.org.uk) or email Policy Exchange at [wolfson.prize@policyexchange.org.uk](mailto:wolfson.prize@policyexchange.org.uk).

## Summaries and biographies of finalists

### Shortlisted entry from Capital Economics

#### Summary of submission

This essay aims to provide a practical step-through of the issues around euro exit. It is pleasingly clear and methodical, and crisply written.

The central focus is how to achieve a fall in real wages and prices with the minimum practical disruption. This essay proposes that government debt and consumer debt be redenominated into euros deploying the *lex monetae* principle – in other words, that each country determines the currency applicable under its laws. For example, Greek law determines the currency to be used under Greek law contracts, so if Greece changes its currency, the contracts set under Greek law change – and foreign courts will recognise this.

However, it proposes that corporate sector contracts be left to be determined by courts (in a few cases contracts will be interpreted in terms of national currency; in most in terms of the euro). There would then be a large default on debt to reduce the debt to GDP ratio to 60%, and the currency would depreciate or be devalued.

#### Biographies

The team responsible for the Capital Economics' submission to the Wolfson Economics Prize was: Roger Bootle; Julian Jessop; Andrew Kenningham; Jonathan Loynes; Ben May; Jennifer McKeown; and Mark Pragnell.

Roger Bootle is Managing Director of the independent consultancy, Capital Economics, which he founded in 1999. Employing 80 people in London, Toronto and Singapore, it has about 1,400 institutional clients worldwide.

Appointments include: Specialist Adviser to the House of Commons Treasury Committee, Economic Adviser to Deloitte, member of the Chancellor's panel of Independent Economic Advisers, Visiting Professor at Manchester Business School, Group Chief Economist at HSBC and Lecturer in Economics at St Anne's College, Oxford. Roger studied at Oxford University, gaining a B.A. in PPE and a B. Phil in Economics. He has written many articles and five books.

Mark Pragnell is Head of Commissioned Projects with responsibility for bespoke economic research for clients. He was previously in local government and, before that, managing director of economics consultancy, CEBR. He has also held senior strategy roles at Consumers' Association and Railtrack plc. Mark read PPE at Oxford University.

Julian Jessop is the Chief Global Economist and Director. He was previously Senior International Economist at Standard Chartered Bank, held senior economist positions at HSBC and the Japanese bank Nikko, and worked as an Economic Adviser at the UK Treasury. He has two degrees in Economics from Cambridge University.

Andrew Kenningham is Senior Global Economist. He was previously Deputy Chief Economist in the Foreign and Commonwealth Office and before that covered Emerging Europe, Middle East and Africa for Merrill Lynch's fixed income business. He has degrees in Economics and Economic History from Manchester University and the LSE.

Jonathan Loynes is the Chief European Economist and Director, and has responsibility for the euro-zone and the rest of Western Europe. He joined Capital Economics in 2000 from HSBC, where he was Chief UK Economist. Jonathan studied Economics and Finance at Bath and Southampton universities.

Ben May is European Economist with focus on Italy, Spain, Ireland, Greece and Scandinavia. Ben previously worked in the Monetary Analysis area of the Bank of England, where amongst other things he worked on the euro-zone. He has degrees in Economics from the University of Bristol and University College London.

Jennifer McKeown is Senior European Economist with a particular focus on the ECB and the German, French and Swiss economies. She previously worked at the Bank of England where she was a Euro-zone Economist. Jennifer has degrees in Economics from University College London and the University of East Anglia.

Shortlisted entry by Catherine Dobbs

### Summary of submission

In monetary union all predecessor currencies were fused into the euro. Thus all euros implicitly contain predecessor currencies. An exiting country creating a new currency (or resurrecting a predecessor) creates fission in the euro. The euro disappears, with all holders of euros having their euro claims replaced by claims on the new currencies, according to a set proportion. The author recommends the proportion should be in line with the proportions of the Eurozone money stock (slightly adjusted) held in the new currency areas. For example, if an exiting country (or set of countries) has 30% of the current (adjusted) money stock and its new currency is called NEY whilst the currency of the rest is termed the NEW (these names are explained in the text in terms of the yolk (Y) and white (Y) of an egg), and if the NEY and NEW both had one-for-one parity with the euro on breakup, then every euro would be replaced by 0.3 NEYs and 0.7 NEWs.

The concept can be seen as simply reversing the process whereby the euro was created, and is thus in that sense natural. The key objective is to disincentivise capital flight (and hence bank runs and financial and social crisis), whilst being fair to all holders of euros.

This essay is very well written. It is beautifully clean, clear, concise and directed straight at the Wolfson Prize questions. The solution is original, insightful, elegant and persuasive.

The mechanism, by avoiding automatic losses to lenders through devaluation, presumably reduces the number of defaults. Some borrowers that have defaulting imposed upon them by devaluation would not choose to default under the NEWNEY mechanism; those that default under the NEWNEY plan are those that really cannot pay or that choose to default. So presumably lenders with high credit quality books gain under NEWNEY (because there are fewer defaults) and those with low credit quality books lose (because the defaults that do occur involve larger haircuts). Is this strength or a weakness of the scheme? It depends who you are.

### Biography

Catherine Dobbs received a BA in engineering at Oxford University. She subsequently worked in quantitative research at Natwest Investment Management and Gartmore, developing investing and trading algorithms.

She now divides her time between the UK and Asia, and is an active personal investor.

Shortlisted entry by Jens Nordvig and Dr. Nick Firoozye

### Summary of submission

A key reason euro break-up might be disorderly would be because of legal uncertainty and arbitrariness connected to the status of debt contracts denominated in euros. This is particularly so in respect of debt contracts falling under English law, for English courts would regard any disorderly exit from the euro as contrary to UK public policy (since in violation of a Treaty of which the UK is a signatory), and as such not to be recognised in English law contracts – thus they would remain denominated in euros.

This essay focuses particularly on this aspect of the problem, and the solution proposed is as follows. Debt contracts falling under national / local law should be redenominated into the new currency. Debt contracts falling under foreign law should be redenominated into ECU-2s. The ECU-2 would be a basket currency made up of notional national currency elements of the euro, in a ratio determined (most probably, according to this essay) according to the countries' equity weights in the ECB.

The essay also proposes establishing a hedging market in break-up risk and creating regulatory pressure for financial institutions to hedge their risks through this market.

The essay argues convincingly that the issue of the treatment of foreign law debt contracts is important because there are around €10 trillion of such outstanding, in some countries (in particular Spain and Portugal) more than 10% of sovereign debt is foreign-denominated, and in a number of countries most private debt (both financial and non-financial) falls under foreign law (especially English and German).

### Biographies

Jens Nordvig, Managing Director, is Head of Fixed Income Research, Americas and Global Head of G10 FX Strategy at Nomura, the global investment bank. He is responsible for developing Nomura's Research franchise in the Americas and coordinating the delivery of market-leading content across product lines.

Jens joined Nomura in October 2009, from investment management firm Bridgewater Associates, where he worked as a Senior Currency Strategist. Prior to Bridgewater Associates, Jens worked for eight years at Goldman Sachs London and New York in various senior research positions, most recently as a Managing Director and Co-Head of Global Currency Strategy. Before joining Goldman Sachs, Jens was an Emerging Markets Economist with IDEA Global in London. Jens was ranked #1 in Currency/Foreign Exchange in the 2011 *Institutional Investor* All America Fixed Income Survey.

He has taught several courses in macroeconomics and econometrics, and written a book on mathematics and economics in 2001. Jens received both a Bachelor's and Master's degrees in Economics from the University of Aarhus in Denmark, where he also did post-graduate research on new financial crises models.

Dr Nick Firoozye joined the Fixed Income division in 2009 as Senior Strategist and Head of EMEA Rates Strategy and has been focussing on the Eurozone crisis, bailouts, sovereign restructuring and the future of the Eurozone. He came from Citadel Investment Group where he was head of Fixed Income Quantitative Research from 2007-09. Prior to Citadel, Nick was at

Goldman Sachs from 2006 as head of European RV Strategy and at Deutsche Bank, where he was the Chief European Rates Strategist and head of Quantitative and Structured Product Strategy from 2002. Nick was an Assistant Professor at UIUC, having received a doctorate in Mathematics from Courant Institute-NYU.

Shortlisted entry by Neil Record

### Summary of submission

The essay argues that if any country leaves the euro, the entire euro must be dissolved, because the moment one country leaves the Euro, then the view that the Euro is 'unbreakable' or 'permanent' becomes untenable. This, it argues, would give markets the evidence and the ammunition to continue to turn their fire on Euro structural weaknesses elsewhere.

In this essay the focus is administrative, involving an emphasis on maintaining secrecy for as long as possible and setting out a detailed week-by-week timetable.

The essay argues that policy makers should aim to plan in secret and take markets by surprise. This process would need to be managed by a special task force established by France and Germany.

The essay explores the management of total euro dissolution, proposing that ECU parities be used to divide up euro obligations. Physical euro notes and coin would be allocated according to the country letter — so, for example, a euro marked "Y" would become a denomination of the new Drachma.

### Biography

Neil Record graduated with an MA degree from Balliol College, Oxford University, and with an MSc degree (with distinction) from University College, London University. He spent the early part of his career as an economist at the Bank of England, where he was a member of the economic forecasting team. He then spent five years working for Mars Inc in their UK subsidiary, where he was initially responsible for commodity price forecasting, and then for their currency risk management.

Neil left Mars in 1983 to establish Record Currency Management. He has been principal shareholder and Chairman of Record Currency Management, and its holding company, Record plc, ever since. In 2003, Neil completed a book on Currency Overlay, the first on this specialist topic. He has also authored numerous articles on currency and investment topics, and has also published several papers on public sector pensions. He is a frequent speaker at industry conferences and seminars in the UK, US and Europe, and is acknowledged as one of the leading figures in the currency management industry. He is a Visiting Fellow and Investment Committee member of Nuffield College, Oxford, and a Trustee of the Institute of Economic Affairs.

Shortlisted entry by Jonathan Tepper

### Summary of submission

This sparky essay contends that the process of euro break-up is not especially challenging. Large numbers of countries have exited currency unions in the past, typically without significant macroeconomic volatility associated with the exit, and we can learn from what they did — exit by surprise, probably over a weekend, with perhaps a couple of extra bank holidays; stamp notes and coins pending the printing of new currency. It argues that the real issues are not created by the exit process per se, but, rather, by the needs that motivate the exit — the need for Eurozone periphery countries to default and devalue.

The paper argues from historical cases and to see that the Eurozone crisis should be regarded as akin to an emerging markets crisis. Next there are some specific issues relating to the Eurozone, such as the status of the ECB. Then there is the position of states after exit — the essay contends that currency exits and devaluations are often predicted to lead to “Armageddon” but rarely do.

### Biography

Jonathan Tepper is the co-author of the NY Times bestseller *Endgame: The End of the Debt Supercycle*, a book on the sovereign debt crisis. Jonathan is the Chief Editor of *Variant Perception*, a macroeconomic research group that caters to asset managers. He is also the portfolio manager of an equity long/short hedge fund at Hinde Capital. Jonathan is an American Rhodes Scholar. Since leaving Oxford, Jonathan has worked as an equity analyst at SAC Capital and as a Vice President in proprietary trading at Bank of America. He earned a BA with Highest Honors in Economics and History from the University of North Carolina at Chapel Hill, and a M.Litt in Modern History from Oxford University.

## Papers of interest

Arnab Das

### Summary of submission

This paper makes an interesting proposal for a slow, controlled devaluation of the exiting countries. However, this would lead to the rest of the Eurozone financing the adjustment process. Even with a wish to have an "amicable divorce" as the paper puts it, this would require a huge amount of political goodwill towards the exiting countries.

### Biography

Arnab Das is Managing Director of Market Research and Strategy at Roubini Global Economics. Previously, Arnab was Co-head of Global Economics and Strategy, Head of FX Strategy, and Head of Emerging Markets Research at Dresdner Kleinwort in London; and Head of EEMEA Strategy and Latin-America Strategist at JP Morgan in London and New York. He has achieved or led research teams to repeated No. 1 rankings by Euromoney, Credit Magazine, Global Investor and FX Weekly. He has a strong following among asset managers, hedge funds and sovereign wealth funds. Arnab studied at Princeton University and the London School of Economics.

Charles Dumas

### Summary of submission

This paper presents the evolution of the problems of the Eurozone and their underlying causes brilliantly, but the proposed solutions are sketched only in shorter form, compared to some other entries.

### Biography

Charles Dumas is Chairman & Chief Economist at Lombard Street Research. He is also the Secretary, Political Economy Club at BA Cantab. An internationally recognised macroeconomic and financial forecaster, before LSR he worked in JP Morgan in economics, capital markets, as London Head of Research, and as a New York Managing Director of Mergers & Acquisitions. His career began in the Conservative Research Department, followed by The Economist and then General Motors.

He is author of four books forecasting and charting the causes and development of the financial crisis that have drawn critical praise from, amongst others, Paul Volcker, Sir Mervyn King and Sir Samuel Brittan.

Julian Le Grand

### Summary of submission

This paper provides an interesting suggestion that member states might quit, and instantly re-join. Though this kind of idea has been discussed in the media, this is the best worked up version of this idea which we saw. However, this might only provide a short term fix, as the same forces leading to divergences within the euro would still be in effect, so the same problems could simply re-emerge later.

### Biography

Since 1993 Julian Le Grand has been Professor at the London School of Economics in the Department of Social Policy. He is an economist, with a Ph. D. in economics from the University of Pennsylvania (1972); he was a member of the economics departments of the University of Sussex (1971-78) and the LSE (1978-1987). From 1987-1993, he was Professor of Public Policy at the University of Bristol. He has acted as a senior policy adviser to the UK Prime Minister at No 10 Downing St (2003-2005); he has also advised HM Treasury, the European Commission, the World Bank, the World Health Organisation and the OECD. He has authored, co-authored or edited more than twenty books, and has published over 100 articles in leading economics, political science, philosophy and public policy journals.

Michael Redican

### Summary of submission

The main problem of devaluation, whether internal or by leaving the euro-zone and devaluing, is that the burden of euro-denominated debt is increased. This contains an original and well-presented idea for a new hedging mechanism for such debt. However, this might be politically challenging as it would place all the immediate burden of loss on the ECB (and remaining member states).

### Biography

Michael Anthony Redican is a First Class BA Business Studies graduate, University of Huddersfield, and has worked in the City since 1981, with Citibank before joining Deutsche Bank in 1986. Michael is Managing Director, Global Structured Finance and is responsible for the origination and execution of complex transactions in infrastructure and energy. He was heavily involved in the UK's PPP programme and structured some of the largest PPP/PFI deals in the bank and bond markets. Michael was a commissioner for London First's 2012 Transport Connectivity report.

Jurre Hermans

### Summary of submission

This paper, complete with diagram, proposes that Greece should leave the euro. Greek citizens would exchange their euros for drachmas and anyone caught moving euros abroad would be penalised financially.

### Biography

Jurre Hermans is 11 years old and lives in Breedenbroek, the Netherlands. He has a dog and a bird and loves animals. He lives with his mother, father and two sisters and has five friends with whom he plays all day, mostly outside.

ENDS