

Dear IDEI and TSE friends,

The year 2011 was full of exciting challenges and successes for our community. Strengthened by the close collaboration of our new scientific & administrative management teams, TSE and the IDEI continued to flourish. To name but a few highlights: we launched the "École TSE", bringing a fresh innovative approach to our reputable academic programmes; we were joined by over 10 new outstanding colleagues, recruited from the top Institutes worldwide; and our existing colleagues were incredibly active, recognition of which came in many shapes and forms - from numerous prizes awarded, to successful EU project coordination bids, and various prestigious nominations.

2012 has begun with a flying start, with many exciting events lined up for this year. This month we celebrated the "Jean-Jacques Laffont" annual prize, awarded to Robert M. Townsend of the MIT during the 18th annual IDEI lecture. The 2012 Job Market campaign is well underway, with 550 applications received compared to 350 in 2011. The TSE & IDEI conferences, lectures, workshops & seminars continue to grow in number & scope, with a notable increase in the corporate seminars we provide for our industrial partners. We are pleased to announce that in 2013 we will be hosting the EAERE⁽¹⁾ annual conference, and in 2014 the joint EEA-ESEM⁽²⁾ annual congress, both with over 700 expected participants.

Whilst the prospects are bright, we must continue to reinforce our structure and financing, focusing seriously on our partnerships, current & future. We eagerly await the results of the recent LABEX⁽³⁾, IDEFI⁽⁴⁾ and IDEX⁽⁵⁾ funding applications, the success of which will determine the extent to which we can deploy the ambitious programme we have planned for 2012.

So we take this opportunity to thank you all sincerely for your ongoing support in 2011, and we wish you the very best for a 2012 filled with successful adventures!

Christian GOLLIER and Hervé OSSARD

1) EAERE: European Association of Environmental and Resource Economists - 2) EEA-ESEM: European Economic Association and the Econometric Society European meeting - 3) LABEX: Laboratoires d'excellence 4) IDEFI: Initiatives d'excellence en formations innovantes - 5) IDEX: Initiatives d'Excellence

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Press articles

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- **"Énergies : une bataille de chiffres stérile"**
Norbert Ladoux, *L'Expansion*, n°770, January 2012.
- **"L'assurance-vie, un produit d'épargne à repenser"**
Christian Gollier, *Les Echos*, 29 December 2011.
- **"Le "Sarko trade" en débat"**
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Bruno Biais, *La Croix*, 19 December 2011.
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Paul Seabright, *Le Monde*, 12 December 2011.
- **"Restaurer la crédibilité de l'euro"**
Frédéric Cherbonnier and François Salanié, *Les Echos*, 7 December 2011.
- **"Eurobills, not Eurobonds"**
Christian Hellwig and Thomas Philippon, *voxeu.org*, 2 December 2011.
- **"Elections : quand les minorités l'emportent"**
Paul Seabright, *L'Expansion*, n°769, December 2011.
- **"Débat : faut-il baisser les salaires des fonctionnaires en France"**
Gilles Saint-Paul, *Liaisons sociales*, December 2011.
- **"Crédit, parole et crise"**
Bruno Biais, *Revue Banque*, n°742, December 2011.
- **"Verbatim : la révolution de l'open data"**
Augustin Landier, *La lettre du secteur public*, 18 November 2011.
- **"Pas d'Europe sans le peuple"**
Augustin Landier and David Thesmar, *Les Echos*, 16 November 2011.
- **"Haro sur l'évasion fiscale !"**
Emmanuelle Auriol, *Le Monde*, 14 November 2011.
- **"La science économique : une discipline intellectuelle modeste"**
Gilles Saint-Paul, *La documentation française*, 9 November 2011.
- **"Et si les brevets étaient nuisibles..."**
Frédéric Cherbonnier and François Salanié, *Les Echos*, 2 November 2011.
- **"Finance: Attention, transactions éclairs"**
Sophie Moinas, *L'Expansion*, n°768, November 2011.
- **"Réglementation des paiements par cartes : une application de l'analyse économique à la politique de concurrence"**
Jean Tirole, *Revue Banque*, November 2011.

FOCUS ON TSE RESEARCHERS

Discover the new weekly series of interviews with TSE researchers - a quick glimpse of their profiles and current work, via 5 short questions. Here are a few highlights of the first interviews - find out more via the full interviews on the TSE website: www.tse-fr.eu

Question to Ingela ALGER, CNRS Research Director and member of the TSE-LERNA research group:

Why did you choose to work at TSE?

First of all, TSE offers an outstanding research environment. Secondly, my new position has a quite particular flavour to it - I am meant to promote dialogue between different fields of research, with a special focus on biologists and economists. Finally, being here brings me closer to family in Europe.



Question to Farid GASMI, Professor of Economics at UT1 and member of the TSE-ARQADE research group:

How does your research impact on society?

My research can give guidance to international financial institutions such as the World Bank in providing funds for the development of infrastructure sectors in third-world countries. More concretely, it can help to identify the areas of these countries' economies (both in the infrastructure industries themselves and in the institutions that support them) that aid should focus on in order to generate the highest gains in terms of development for the countries in question.



Question to Pascal LAVERGNE, Professor of Econometrics at the University of Toulouse 1 Capitole (UT1), and member of the TSE-GREMAQ research group:

You worked for 5 years in Canada. How was that experience?

Professionally, I very much appreciated the organisation, simplicity and efficiency of the Canadian University system and infrastructures. The governance is transparent and very collegial. It was difficult to adapt back to the typically French rather bureaucratic and hierarchical system, although it is improving in the right direction! In Canada I enjoyed the beauty of the nature, but in Vancouver one feels a little isolated due to the insular landscape and the long distances to other cities.



Question to Anne RUIZ-GAZEN, Professor of Statistics at UT1 and member of the TSE-GREMAQ research group:

How do you feel about the current TSE education reforms?

As you know, the "Ecole TSE" was launched this academic year. As a member of the teaching staff, I feel that it's a real challenge, this creation of a structure that is completely revamping the economics educational scene in France. It's an opportunity for positive change, and I hope to implement active learning in order to further involve the students in the process. It's an exciting adventure that I'm really pleased to be actively involved in!



Question to Jérôme BOLTE, Professor of Mathematics at UT1 and member of the TSE-GREMAQ research group:

How would you describe your research to the general public?

I look at dynamic processes which can help to optimise decision-making. Imagine an ant on top of a mountain that must reach the valley by its own means. The ant needs to decrease its altitude, but faces the barrier of not knowing the exact geographical configuration of the mountain, and hence is not sure which path to take. I can therefore use algorithms to help the ant to make optimal local choices in order to find the best direction towards the valley, rather than having to reply purely on its own intuition. Applied to the industry, this optimisation process could help reduce costs, in the same manner that the ant was able to reduce its altitude, via optimal local choices.



Question to Christoph RHEINBERGER, INRA postdoctoral research fellow within the TSE-LERNA research group:

A current or upcoming highlight in your work?

I am currently working on a stated preference survey, designing a choice experiment in order to simulate how French consumers perceive the general health risks linked to fish consumption. Would consumers be prepared to pay a premium in order to have better control of fish at the point of sale, such as an on-the-spot freshness test or mercury test?



Question to Alexander GUEMBEL, Professor of Finance at the UT1 (IAE) and member of the TSE-GREMAQ research group:

How does your research impact on society?

In the wake of the financial crisis many regulators banned short sales, because they arguably drive down stock prices and lead to negative feedback effects. At the time, the regulators were faced with a situation requiring quick decisions, and little guidance was available from research at the time. My current research provides a clear argument for when banning short sales might be desirable. Regulators could hence use the findings of my research to help them come to decisions.



IDEI "Jean-Jacques Laffont" Prize awarded to Robert M. Townsend

The 2011 Jean-Jacques Laffont prize was awarded by the Mayor of Toulouse on Thursday 12 January 2012 to the economist Robert M. Townsend, professor at MIT. The ceremony was followed by the 18th annual IDEI lecture.

Robert M. Townsend commented: *"It's a great honour to be awarded this prize, I am flattered. I am pleased to be thought of in the context of Jean-Jacques Laffont, because his work was very much based on theory, data and development, and I'd like to think I'm doing some of that, so the fit seems very good with his tradition."*

The Jean-Jacques Laffont Prize is awarded annually to a senior economist of international renown whose research combines theoretical and empirical aspects, in the spirit of the late Professor Laffont.

The award ceremony took place at the Salle des Illustres of the Toulouse City Hall. **Professor Townsend** received his prize from **Pierre Cohen**, the Mayor of Toulouse, in collaboration with **Hervé Ossard**, the IDEI Director, and **Jean Tirole**, President of the Jean-Jacques Laffont Foundation.



Hervé OSSARD, Colette LAFFONT, Robert TOWNSEND, Pierre COHEN, Jean TIROLE, Bruno SIRE

Banque de France - TSE Prize in Monetary Economics and Finance

In 2011, the Banque de France and TSE jointly launched two prizes to distinguish leading economists in the fields of Monetary Economics and Finance: an annual Junior Prize, and a biennial Senior Prize.

The 2011 Senior Prize has been awarded to Professor Bengt Holmström



- The Senior prize carries a cash award of €30,000.
- The award ceremony will be held at the Banque de France, Paris, on 16 March 2012.
- The winner of the 2011 Junior Prize is to be announced shortly.
- For more information, visit the website of the BdF-TSE partnership: www.tse-fr.eu/bdf

Recent conferences

- Conference in honour of Michel Moreaux, Toulouse, 18 November 2011
- Stochastic Control and Optimal Stopping in Finance, Toulouse, 8-9 December 2011
- Quality Labels in Agrofood Industry, Toulouse, 15-16 December 2011
- Workshop on Health and Pharmaceutical Economics, Toulouse, 15 December 2011
- BdF-TSE Conférence sur la dette souveraine, Paris, 19 December 2011
- Workshop in honour of Robert Townsend winner of Jean-Jacques Laffont Prize 2011, Toulouse, 13 January 2012
- Financial Econometrics Conference, Toulouse, 24 January 2012

Awards

- Bruno Biais, ERC Advanced grant 2011
- Thierry Magnac, ERC Advanced grant 2011
- Marc Ivaldi, Member of Economics committee, French National Rail Forum, September-December 2011
- Claude Crampes, Carole Haritchabalet, Bruno Jullien, JIE best article award

Upcoming events

- 7th bi-annual conference on the Economics of the Postal Sector in the Digital World, organised by Helmuth Cremer, Philippe De Donder et Jean-Pierre Florens, Toulouse, 22-23 March 2012
- CSIO/IDEI "11th Joint Workshop on Industrial Organization", organised by Doh-Shin Jeon, Northwestern University (USA), 3-4 May 2012
- Financial Econometrics Conference, organised by Nour Meddahi, Toulouse, 10-12 May 2012

Europe needs Eurobills

Fiscal union is now officially on the European agenda, but the issue of Eurobonds remains controversial. The Eurozone needs Eurobills, a mechanism for sharing short-term maturity debt. Issuing Eurobills – up to 10% of Eurozone GDP – would help with crisis management as well as financial regulation, and monetary policy, while minimising the risks of moral hazard.

Recent events have highlighted the need for stronger coordination of liquidity provision and financial regulation in the Eurozone. Some go further and argue that the crisis demonstrates the need for deeper integration including perhaps fiscal integration and Eurobonds.

Fiscal integration remains controversial because the risks involved are difficult to assess by taxpayers and politicians. Stronger countries are understandably reluctant to accept open-ended commitments that could threaten their own financial stability. Without proper oversight, jointly issued Eurobonds would expose member countries to potentially high moral hazard.

Proponents of Eurobonds, on the other hand, emphasise that common bonds could alleviate the current sovereign debt crisis and reinforce financial stability in the Eurozone. The two sides remain far from agreeing on a course of action.

Yet a cold look at the problem through the lens of economic theory suggests a compromise solution. The introduction of Eurobills - shared debt with maturity of less than a year - could provide a large part of the benefits while allowing for significant checks on the risks, both in terms of magnitude, and in terms of effective control.

How our proposal would work

The Eurobills would be issued by an independent European agency that would replace national equivalents for short-term maturity debts (under one year). Eurozone countries would continue issuing their own debt for maturities of two years and more.

No country could have more than 10% of its GDP in outstanding Eurobills at any point in time. Eurobills would be joint and several liability of the Eurozone members, and countries would only be eligible to participate if they met strict criteria of economic governance and budgetary discipline. Bank regulations would be adjusted to induce banks to hold Eurobills to fulfill the new Basel III liquidity requirements.

Strengthening the Eurozone fiscal and monetary policy

Eurobills do not aim to substitute improved economic governance and fiscal discipline, but would be complementary to these measures. Indeed, by making sound long-term fiscal policy a pre-requisite for entering the Eurobills scheme, our proposal strengthens the existing framework. The joint guarantee by all Eurozone countries would make Eurobills as safe as the short-term debt of the best borrowers in the Eurozone, and even more liquid. If a country fails to pay its Eurobills, other countries are liable.

Secure short-term government funding

Eurobills would have an immediate impact on the financial stability of the Eurozone governments, giving countries easier access to credit markets through lower, less volatile short-term interest rates. Take the example of Italy, who today borrows at a one-year rate of around 4%. This rate has even been known to rise to as high as 7%. Eurobills would allow Italy to directly save 5 billion € per year, by lowering the short-term interest rates. We estimate that this would also indirectly reduce and stabilise the long-term rate.

Improved liquidity regulation

Eurobills are justified on the grounds of financial stability regulation. The Basel III framework imposes new liquidity ratios on banks, creating a large new demand for liquid assets. Eurobills represent a single highly liquid asset that can meet the Basel III liquidity ratios with ease and security, risk-free. By adjusting European bank regulations, Eurobills can be used to insulate banks' liquidity reserves from negative financial feedback if the bank or a sovereign runs into trouble.

Less moral hazard, more transparency

Joint debt needs to be credibly senior to any other debt, in order to limit moral hazard and ensure effective market discipline. Eurobills are de facto senior to other sovereign debt by virtue of their short maturity, and the continued monitoring and renewal of guarantees. Moreover, Eurobills increase the transparency of existing cross-border exposures by transferring them from bank balance sheets to the public domain, and by replacing implicit bank bailout guarantees with explicit joint liability. Short-term Eurobills hence offer a natural compromise solution to Eurobonds; they are simple and transparent, facilitating monitoring and therefore mitigating moral hazard.

Conclusion

European integration is always easier when it can be done in small steps, especially in the midst of a crisis. If joint-and-several liability debt is to be part of the solution, then our argument is that Eurobills are the instrument that minimise moral hazard and therefore should be considered first. Eurobills can help to improve financial stability and banking regulation, and provide much needed liquidity to solvent countries. In all these respects, Eurobills fit the bill.

*Christian Hellwig (TSE)
and Thomas Philippon (New York University)*

