Princeton professor wins essay contest

By Brooke Masters
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A Princeton university professor who has served as an adviser to the South Korean president has won the annual essay contest on banking regulation sponsored by the International Centre for Financial Regulation and the Financial Times.

Hyun Song Shin, who taught at Oxford university and the London School of Economics before moving to Princeton, scooped up the prize with an elegant entry on how the Group of 20 leading nations could bolster financial stability with so-called macroprudential tools that lean against the credit cycle.

Drawing on examples from the UK, Korea and the US, Prof Shin’s essay advocated a global tax on non-core banking liabilities as the best way to deflate bubbles.

“When you are an open economy, there is a limit on how much you can affect liquidity with conventional monetary policy. You need something more intrusive,” he says.

Prof Shin adds that the essay grew out of his work last year helping Korea steer the G20 meetings in Seoul. He was on leave from Princeton for most of 2010 to advise Lee Myung-bak, Korean president, on economic policy. He is now back in the US and is teaching a seminar on international banking regulation.

The contest, now in its second year, drew entries from around the world. This year’s topic was “The Future of the G20 and Financial Regulation”. Prof Shin will receive a prize of $7,500.

Two other essays, both on compensation practices at financial firms, receive runner-up prizes of $1,500. One was submitted jointly by Joel Shapiro, a professor at Saïd Business School, Patrick Bolton, a Columbia Business School professor, and Hamid Mehran, an economist at the New York Federal Reserve. The other came from Guido Ferrarini and Maria-Cristina Ungureanu, both of the University of Genoa.

The ICFR sponsored the contest as part of an effort to broaden the debate about the regulation of financial services, which has been dominated largely by industry groups, regulators and politicians. The FT agreed to the partnership as part of its interest in financial services.

“Contributing to the G20 financial regulatory debate is a central objective of the ICFR, and we’re delighted that this year’s winner has raised important issues — especially around non-core liabilities — that are central to the most challenging macroprudential and countercyclical aspects of the G20 agenda,” says Lord Currie, chairman of the ICFR.

“Increasing academic attention is being focused on the liability side of bank balance sheets, and the impact of...
leverage and increasingly short-term borrowing on the depth of the financial crisis. Prof Shin’s paper is a key contribution to this work and will ultimately have significant implications for financial institutions,” Lord Currie adds.

Lionel Barber, editor of the FT, says: “How best to tax financial services is one of the most pressing public policy challenges after the financial crisis. The winning entry offers a stimulating answer, which should attract interest among policymakers worldwide.”

Last year’s winning entry, by Nana Esi Atsem, tackled a topic that has since become a major topic of debate among bankers and regulators.

The former bank compliance officer and University of London student won with an essay about the best way to give creditors a stake in preventing excessive risk-taking. One of the tools she discussed was contingent capital, a form of debt that converts to equity when a bank gets into trouble. Since then, regulators have become increasingly enthusiastic about contingent capital as a way to bolster bank balance sheets.

Switzerland is already proposing a requirement for its biggest banks to issue contingent capital and the Financial Stability Board, made up of central bankers and regulators from around the world, is studying the issue.

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