

The Politics of Debt
University of Michigan, Fall 2016

MW 10-11:30

5521 HH
Fall 2016

Professor: Andrew Kerner

amkerner@umich.edu

Office hours: M 1:00-2:00 or by appointment in 4481 Institute For Social
Research

Debt has been a part of commercial and political life for over 5000 years. Providing governments, firms and consumers access to debt is all but essential to economic growth. At the same time, debt can be dangerous, and politically controversial. This course will explore the politics of debt. We will ask and answer questions relating to the creation and maintenance of well functioning debt markets, and debt's role in shaping national political economies and interstate relations, and the often-controversial role of debt in everyday life. Some of these questions include: Why are some governments able to borrow, but others not? Why are some governments able to establish well-functioning corporate and consumer debt markets, but others not? Why do debt crises happen, and what are the political implications? What are the consequences of growth in consumer debt (including payday loans, and student loans), and what sort of ethical questions does that growth pose? When can debt be legally/ethically repudiated? The readings for this course will draw primarily from works in political science, economics and history.

Requirements

25% class participation

10% debate 1

10% debate2

25%midterm paper

30% final paper

Class Participation: This seminar will rely heavily on class discussions. I expect that all students will participate in class discussions and you will be graded on the quality and quantity of this participation. Unexcused absences will impact your participation grade. For that reason, it is imperative that you contact me as soon as possible if and when you are unable to attend class. Showing up to class prepared and having done the reading in advance is a prerequisite for effective class participation. I reserve the right to “cold call”.

Debates: We will have two “Oxford Style” debates, one after the “Government Debt” section and another after the “Corporate/Consumer Debt” section.

The debates will be organized as follows. The class will be divided randomly into 2 debate teams. Each debate will center on a statement. One team will defend the statement and the other will attack it. I will flip a coin at the beginning of the debate to determine who defends and who attacks. As such, the teams will have to meet to prepare a defense and an attack in advance.

The format for each debates will be as follows.

Defender: opening statement – 5 min

Attacker: opening statement -5 min

10 minute team conference

Each team asks the other team 3 questions, followed by answers, rebuttals and, optionally, rebuttals of the rebuttals – 30 minutes

10 minute team conference

Defender: Closing Statement - 3 min

Attacker: Closing Statement - 3 min

Each debate will last slightly more than an hour, and we will spend the remaining class time discussing the merits of the statement in a non-competitive setting.

The statements for the debates are:

Midterm Debate: Cross-border government borrowing provides more opportunities than risks.

Final Debate: Debt is good.

Midterm paper: The midterm paper will be a short (5-7 pages, double spaced) paper in which you will respond to the midterm debate prompt. In responding you will have to reference the assigned articles and the argument made in them. It doesn't matter whether you choose to agree with the statement or not. This paper will be due through the course ctools site by the beginning of class on **October 26** .

Final Paper: The final paper will be a longer (12-15 pages, double spaced) research paper. This assignment requires you go further into one of the topic on the syllabus, in order to explore a debt-politics related question that has not been explicitly asked and answered in the course readings. Students will have the option of writing an essay that expands on a theme and topic covered in the course, or to write a more traditional “research paper” that asks a novel questions

and brings data to bear on its answer. More details about the final paper will be provided during the course.

Readings: The readings for this course are primarily drawn from academic journals in political science, economics and history. All of the reading is required, unless otherwise indicated, and must be done prior to the seminar. All of these readings can be found through jstor or google scholar. Working papers that can't be found online will be posted on ctools.

I also use readings from three books, which are available (cheaply, used) on Amazon.

Niall Ferguson. 2009. "The Ascent of Money: A Financial History of The World" Penguin

Chinn, M.D. and Frieden, J.A., 2011. "Lost Decades: The Making of America's Debt Crisis and the Long Recovery". WW Norton & Company.

James Vreeland., 2007. The International Monetary Fund: Politics of Conditional Lending. Routledge

September 7 - No Reading – Introductions, Debate team assignments

Section 1: Government Debt

September 12 – What are Banks?/History of Banks

Ferguson *Ascent of Money* Chs1-2 – pg 17-118

September 14 - Financial development and economic growth/Shylock

Ross Levine *Financial Development and Economic Growth: Views and Agenda* *Journal of Economic Literature* Vol. 35, No. 2, Jun., 1997

Watch: *The Merchant of Venice* (2004) Director: Michael Radford, Starring: Al Pacino as Shylock

September 19- Credit markets & Property rights

Douglas North and Barry Weingast. (1989). *Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England.* *Journal of Economic History.* 49(4).

September 21 - A Democratic Advantage?

Stasavage, D., 2007. Cities, constitutions, and sovereign borrowing in Europe, 1274–1785. *International Organization*, 61(03), pp.489-525.

Schultz, K. A., & Weingast, B. R. (2003). The democratic advantage: institutional foundations of financial power in international competition. *International Organization*, 3-42.

September 26 - Getting into Sovereign debt crises

Oatley 214 – 224 (primer on exchange rates)

Leblang, D., & Satyanath, S. (2006). Institutions, expectations, and currency crises. *International Organization*, 60(1), 245.

Acemoglu, D., Johnson, S., Robinson, J., & Thaicharoen, Y. (2003). Institutional causes, macroeconomic symptoms: volatility, crises and growth. *Journal of monetary economics*, 50(1), 49-123.

September 28 - Latin American debt Crises

Chapter 5 The LDC Debt Crisis - FDIC - www.fdic.gov/bank/historical/history/191_210.pdf

Francois J. Gurtner, "Why Did Argentina's Currency Board Collapse?", *World Economy* (2004), 679-697.

October 3 - North American debt crises (reschedule TBD)

Chinn, M.D. and Frieden, J.A., 2011. *Lost Decades: The Making of America's Debt Crisis and the Long Recovery*. WW Norton & Company, chapters 1-5

October 5 - IMF

James, Vreeland. "The International Monetary Fund: Politics of Conditional Lending." (2007). Routledge, chapter 1-3

October 10 - IMF critiques (reschedule TBD)

James, Vreeland. "The International Monetary Fund: Politics of Conditional Lending." (2007). Routledge , chapters 4-6

Schadler, S. (2013). *Unsustainable Debt and the Political Economy of Lending: Constraining the IMF's Role in Sovereign Debt Crises*. Canadian Electronic Library. <https://www.cigionline.org/sites/default/files/no19.pdf>

October 12 – Odious Debt

Graeber, D. (2012). *Debt: the first 5000 years*. Penguin UK. Ch. 1

Thomas Pogge *Achieving Democracy Ethics & International Affairs* Volume 15, Issue 1, pages 3–23, March 2001

October 17 - Fall Break

October 19 - Debt Relief

William Easterly *How Did Heavily Indebted Poor Countries Become Heavily Indebted? Reviewing Two Decades of Debt Relief* *World Development* Vol. 30, No. 10, pp. 1677–1696, 2002

Reinhart, C.M. and Trebesch, C., 2016. Sovereign debt relief and its aftermath. *Journal of the European Economic Association*, 14(1), pp.215-251

October 24 - Debt and national security

Drezner, D.W., 2009. Bad debts: assessing China's financial influence in great power politics. *International Security*, 34(2), pp.7-45.

Gartzke, E., Li, Q. and Boehmer, C., 2001. Investing in the peace: Economic interdependence and international conflict. *International organization*, 55(02), pp.391-438.

October 26 – Debate 1

Section II: Corporate/Consumer Debt

October 31 - Varieties of capitalism

Peter Hall and David Soskice 2001 “An Introduction to the Varieties of Capitalism” in Hall and Soskice eds *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press

November 2 – Bank vs equity control

Perotti, Enrico. C. and Eric von Thadden (2006). "The Political Economy of Corporate Control and Labor Rents." *Journal of Political Economy* **114**(1): 145-175.

November 7 – International banking regulation

Singer, D.A., 2004. Capital rules: The domestic politics of international regulatory harmonization. *International Organization*, 58(03), pp.531-565.

Young, K., 2016. Tying hands and cutting ties: Explaining the divergence between the EU and the US in global banking reform since the crisis. *Journal of Banking Regulation*, 17(1-2), pp.46-59.

November 9 - Domestic banking regulation/payday lending

Benmelech, E., & Moskowitz, T. J. (2010). The political economy of financial regulation: evidence from US state usury laws in the 19th century. *The Journal of Finance*, 65(3), 1029-1073.

Payday Lending: Will Anything Better Replace It? Bethany Maclean *Atlantic* MMay 2016 <http://www.theatlantic.com/magazine/archive/2016/05/payday-lending/476403/>

November 14 - Getting credit

Trumbull, G. (2012). Credit Access and Social Welfare The Rise of Consumer Lending in the United States and France. *Politics & Society*, 40(1), 9-34.

Mian, A., Sufi, A., & Trebbi, F. (2010). *The political economy of the subprime mortgage credit expansion* (No. w16107). National Bureau of Economic Research.

November 16 - Getting credit II – Student loans

Avery, C. and Turner, S., 2012. Student loans: Do college students borrow too much—or not enough?. *The Journal of Economic Perspectives*, 26(1), pp.165-192.

Lee Siegal. 6/6/2015. Why I defaulted on my student loans. http://mobile.nytimes.com/2015/06/07/opinion/sunday/why-i-defaulted-on-my-student-loans.html?referrer=&_r=0

Jordan Weissmann 6/8/2015 The *New York Times* Should Apologize for the Awful Op-Ed It Just Ran on Student Loans. Slate. http://www.slate.com/blogs/moneybox/2015/06/08/lee_siegel_new_york_times_op_ed_is_this_the_worst_op_ed_ever_written_about.html

November 21 – Defaulting on Debt

Djankov, Simeon, Oliver Hart, Caralee McLiesh, and Andrei Shleifer. "Debt Enforcement around the World." *Journal of Political Economy* 116, no. 6 (2008): 1105-1149.

Dobbie, W. and Song, J., 2015. Debt relief and debtor outcomes: Measuring the effects of consumer bankruptcy protection. *The American Economic Review*, 105(3), pp.1272-1311.

November 23 – Thanksgiving

November 28 – Financialization I

Epstein, Gerald (2005) Introduction: Financialization and the World Economy <http://www.peri.umass.edu/fileadmin/pdf/programs/globalization/financialization/chapter1.pdf>

Palley, T.I., 2013. Financialization: what it is and why it matters. In *Financialization* (pp. 17-40). Palgrave Macmillan UK. http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1124&context=peri_workingpapers

November 30 - Financialization II

Kaustia, M., Knüpfer, S. and Torstila, S., 2015. Stock ownership and political behavior: evidence from demutualizations. *Management Science*, 62(4), pp.945-963.

Kerner, Andrew "The Ownership Society: Financial Returns and Popular Support for Markets in Post-Pension Reform Latin America" *British Journal of Political Science*

December 5 - Microfinance I

Rajdeep Sengupta and Craig P. Aubuchon The Microfinance Revolution: An Overview Federal Reserve Bank of St. Louis Review, January/February 2008, 90(1), pp. 9-30.

Cull, Robert, Asli Demirgüç-Kunt, and Jonathan Morduch. 2009. "Microfinance Meets the Market." *Journal of Economic Perspectives*, 23(1): 167-92.

December 7 - Microfinance II

Abhijit Banerjee Esther Duflo Rachel Glennester Cynthia Kinnan "The miracle of microfinance? Evidence from a randomized evaluation " Massachusetts Institute of Technology Department of Economics Working Paper Series Working Paper 13-09 April 10, 2013

December 12 - Debate 2

Final Paper due: Tuesday, December 20, 10:30 AM