

The Politics of Debt, PubPol 495

Ford School of Public Policy, University of Michigan, Fall 2018

MW 8:30-9:50

210 Weill Hall

Professor: Andrew Kerner

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Office hours: Tuesday 10:10-12:00 in 3236 Weill Hall, or by appointment

**Course Description:** Debt has been a part of commercial and political life for over 5000 years. Access to it is all but essential to governments, firms and consumers. At the same time, debt can be controversial and the subject of non-trivial and non-obvious policy challenges. This course will explore some of those politics and some of those challenges. We will explore politics' role in the creation and maintenance of debt markets, and debt's role in shaping national political economies and interstate relations. The narrower questions addressed in this course include: What determines governments' capacity to borrow? Why do some governments establish well-functioning corporate and consumer debt markets, but others not? Why do debt crises happen, and what are the political implications? How do governments regulate consumer debt markets and what political questions are posed by its more controversial aspects (i.e. payday loans).

**Course Objectives:** This section of PubPol 495 aims to increase students' knowledge and understanding of debt, debt markets and their various intersections with politics and policy making. This course also aims to help develop writing and critical thinking skills in the context of policy analysis. It does so by requiring you to a) produce analytically rigorous, evidence-based arguments in both oral and written form; and b) develop your writing skills in this area by responding meaningfully to critical feedback through the paper-writing revision process.

**Grading:**

15% class participation

35% policy presentation 1, of which

- 10% Backgrounder Memo
- 10% Policy Options Memo
- 10% Policy Presentation
- 5% peer review

35% policy presentation 2, of which

- 10% Backgrounder Memo
- 10% Policy Options Memo
- 10% Policy Presentation
- 5% peer review

## 15% Final Policy Memo

**Attendance:** This is a small, discussion-based course. You need to attend all of the classes. You may miss two classes for any reason, and without any need to state a reason. Additional unexcused absences will affect your grade. Absences beyond those two classes may be excused with written documentation of UM-related activities, job interviews, or illness.

**Class Participation:** This seminar will rely heavily on class discussions. I expect that all students will have done the reading and will be ready to participate. I reserve the right to “cold call.”

**Laptops & Cell Phones:** Cell phones stay in backpacks/purses with ringer turned off. No exceptions.

Note taking on a laptop or tablets is allowed. That said, class discussions will typically begin with a review of the reading to clarify matters that might not have been clear, which will be followed by a more free-wheeling discussion. Note taking during the first part makes a lot of sense and is encouraged; excessive note taking during the second part can be counter-productive. I will cold call on people who seem to me to be habitually lost in their laptops. *Even if all you are doing is taking notes, if taking those notes draws you too far out of the conversation for too long I want you to take fewer notes.*

### **Assignments**

#### ***Policy Presentations and Policy Memos***

The major portion (70%) of the course’s graded material will come as a part of a series of two “policy presentations.” These meta-assignments will feature 2 short memos, a peer-review process on those memos, and a public presentation, all of which will relate to a policy problem (and proposed solution).

The meta-assignments blend group and individual assignments. Students will be organized into four groups that will be formed by the professor semi-randomly, according to alphabetical order of the students’ last names. Students will decide on the topic and give the public presentations as a group, and will be given a group grade. The memos, however, are to be written individually and will be graded as such. Memos should be written on the same topic as the group presentation.

The short memos associated with this assignment—a “backgrounder” memo and a “policy options” memo—will be subject to (and benefit from) a round of peer and professor review. The assignments and the peer review process is discussed in more detail in the assignment guide.

## ***Final Paper***

The final paper will be a medium length (10-12 pages, 12-point double spaced) policy memo that expands on the policy memos written for the policy presentations. See the associated assignment guide for more details.

**Handing in Assignments:** Initial drafts of the policy memos (“backgrounder” and “policy options”) should be brought to class in hard copy and in triplicate, one for me, one each for two peer reviewers, on the day it is due, and also submitted via Canvas in the appropriate folder. Final policy memos and the final paper should be submitted in Canvas by the start of class on the day they are due.

**Readings:** The readings for this course are primarily drawn from academic journals in political science, economics and history, as well as journalistic sources. 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 Canvas.

Note that many of the reading only refer to *excerpts* of the assigned articles. Read the syllabus carefully before you do the week's assigned readings.

Also note that some of the readings include empirical and theoretical analyses that will be likely beyond

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**

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

**Frieden, J. A. (2007). Global capitalism: Its fall and rise in the twentieth century. WW Norton & Company.**

## **FORD SCHOOL OF PUBLIC POLICY INCLUSIVITY STATEMENT**

Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity. While working together to build this community we ask all members to:

- share their unique experiences, values and beliefs
- be open to the views of others
- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another's opinions and communicate in a respectful manner
- keep confidential discussions that the community has of a personal (or professional) nature

- use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community

**Accommodations for Students with Disabilities:**

If you believe you need an accommodation for a disability, please let your instructor know at your earliest convenience. Some aspects of courses may be modified to facilitate your participation and progress. As soon as you make your instructor aware of your needs, they can work with the Services for Students with Disabilities (SSD) office to help determine appropriate academic accommodations. Any information you provide will be treated as private and confidential.

Student Mental Health and Well-Being Resources: The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impacts students' academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) and/or University Health Service (UHS). For a listing of other mental health resources available on and off campus, visit: <http://umich.edu/~mhealth/>

Please review additional information and policies regarding academic expectations and resources at the Ford School of Public Policy at this link:

<http://fordschool.umich.edu/academics/expectations>

## Section 0: Overview

### September 5 - No Reading – Introductions, Group Assignments

### September 10 —What are Banks?/Financial Development, Growth & Politics (Rosh Hashanah, to be rescheduled)

- Ferguson Ascent of Money Chs 1-2 – pg 17-118

### September 12 - Financial Development, Growth & Politics /Shylock

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

## Section 1: Government Debt

### September 17- 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). 803-832
- Stasavage, D., 2007. Cities, constitutions, and sovereign borrowing in Europe, 1274–1785. *International Organization*, 61(03), pp.489-505; 517-522

### September 19- Exchange Rates and The Rise and Fall of Bretton Woods (Yom Kippur, to be rescheduled)

- Oatley 214 – 224 (primer on exchange rates)
- Jeffry A. Frieden, *Global Capitalism* (Norton, 2006)
  - a. On the Gold Standard: 13-27, 28-33, 54-55, 174-194,
  - b. On Bretton Woods: 254-60, 278-279, 287-300. 342-346
- **Topic 1 Selection Due**

### September 24 - Sovereign Debt Crises

- Eichengreen, B., & Hausmann, R. (1999). *Exchange rates and financial fragility* (No. w7418). National bureau of economic research 1-17
- Leblang, D., & Satyanath, S. (2006). Institutions, expectations, and currency crises. *International Organization*, 60(1), 245-250
- Acemoglu, D., Johnson, S., Robinson, J., & Thaicharoen, Y. (2003). Institutional causes, macroeconomic symptoms: volatility, crises and growth. *Journal of monetary economics*, 50(1), 49-57.

### September 26 - Latin American debt Crises

- Chapter 5 The LDC Debt Crisis - FDIC - [www.fdic.gov/bank/historical/history/191\\_210.pdf](http://www.fdic.gov/bank/historical/history/191_210.pdf)

- Francois J. Gurtner, "Why Did Argentina's Currency Board Collapse?", *World Economy* (2004), 679-697.
- **Draft Backgrounder Memo 1 Due**

## **October 1 – Sovereignty, Democracy and Turkish Debt Politics**

- Turkey's corporate debt burden sparks jitters on economy, Laura Pitel in Istanbul APRIL 24, 2018 *Financial Times*
  - <https://www.ft.com/content/c9ad507c-4712-11e8-8ee8-cae73aab7ccb>
- Fitch warns Turkey credit profile at risk after June elections *Financial Times* Cat Rutter Pooley MAY 22, 2018
  - <https://www.ft.com/content/6ccac2b6-5d9e-11e8-9334-2218e7146b04>
- Erdogan starts presidential rule, names son-in-law Turkish finance minister David Dolan, Daren Butler JULY 10, 2018
  - <https://www.reuters.com/article/us-turkey-politics/erdogan-starts-presidential-rule-names-son-in-law-turkish-finance-minister-idUSKBN1K00FT>
- Turkey Unexpectedly Refrains From Rate Increase; Markets Tumble *By Onur Ant* July 24, 2018
  - <https://www.bloomberg.com/news/articles/2018-07-24/turkey-defies-market-expectations-for-rate-rise-under-albayrak>

## **October 3 - IMF I**

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

## **October 8 - IMF II**

- James, Vreeland. "The International Monetary Fund: Politics of Conditional Lending." (2007). Routledge, chapters 4-6
- Pakistan's Imran Khan set to seek £9bn bailout from IMF
  - <https://www.telegraph.co.uk/business/2018/07/30/pakistans-imran-khan-set-seek-9bn-bailout-imf/>
- Optional: 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 10– 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
- **Draft Policy Options Memo 1 Due**

## **October 15 - Fall Break**

## **October 17 - Debt Relief, Peer Review**

- Reinhart, C.M. and Trebesch, C., 2016. Sovereign debt relief and its aftermath. *Journal of the European Economic Association*, 14(1), pp.215-251
- Optional: 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
- ***Peer Review for Policy Options Memo 1 Due***

## **October 22 - Debt Relief II: Puerto Rico**

- Watch the Frontline Documentary *Blackout in Puerto Rico*, aired May 1 2018 on PBS
  - <https://www.pbs.org/wgbh/frontline/film/blackout-in-puerto-rico/>
- Senate liberals seek new Puerto Rico debt relief JULY 25, 2018 Richard Cowan
  - <https://www.reuters.com/article/us-usa-puertorico-debt-relief/u-s-senate-liberals-seek-new-puerto-rico-debt-relief-idUSKBN1KF2EZ>

## **October 24 – Policy Presentations 1.1**

### ***Final version of memos due for groups 1 and 2***

## **October 29 – Policy Presentations 1.2**

### ***Final version of memos due for groups 3 and 4***

## **Section II: Corporate/Consumer Debt**

### **October 31 – 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.
- ***Topic 2 Selection Due***

### **November 5 - 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
- Trump gets something right: Apprenticeships and social mobility
  - <https://www.brookings.edu/blog/social-mobility-memos/2017/08/28/trump-gets-something-right-apprenticeships-and-social-mobility/>

### **November 7 – International banking regulation**

- 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.
- Trump Team Keeps Approach to Global Financial Rules, for Now. *Gabriel T. Rubin* Jan. 22, 2018

- <https://www.wsj.com/articles/trump-team-keeps-approach-to-global-financial-rules-for-now-1516642352>

- **Draft Backgrounder Memo 2 Due**

## November 12 - 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, Atif, Amir Sufi, and Francesco Trebbi. "The Political Economy of the Subprime Mortgage Credit Expansion." *Quarterly Journal of Political Science* 8, no. 4 (2013): 373-408

## November 19 – Bankruptcy

- 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 21 - 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](http://mobile.nytimes.com/2015/06/07/opinion/sunday/why-i-defaulted-on-my-student-loans.html?referrer=&_r=0)
- DeVos Halts Partial Debt Relief Policy After Judge Slams Procedures , New York Times June 6, 2018
  - <https://www.nytimes.com/2018/06/06/us/politics/betsy-devos-student-debt-relief.html>
- Optional: 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](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)
- **Draft Policy Options Memo 2 Due**

## November 26– 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](http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1124&context=peri_workingpapers)

## **November 28 – Financialization II, Peer Review**

- Kerner, Andrew 2018 “The Ownership Society: Financial Returns and Popular Support for Markets in Post-Pension Reform Latin America” *British Journal of Political Science*
- Optional: Kaustia, M., Knüpfer, S. and Torstila, S., 2015. Stock ownership and political behavior: evidence from demutualizations. *Management Science*, 62(4), pp.945-963.
- ***Peer Review for Policy Options Memo 2 Due***

## **December 3 - Microfinance**

- 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.
- Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. "The miracle of microfinance? Evidence from a randomized evaluation." *American Economic Journal: Applied Economics* 7, no. 1 (2015): 22-53.

## **December 5 – Policy Presentations 2.1**

***Final version of memos due for groups 1 and 2***

## **December 10 - Policy Presentations 2.2**

***Final version of memos due for groups 3 and 4***

**Final Paper due: Tuesday, December 15, 10:30 AM**