

The Politics of Debt, PubPol 495

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

MW 8:30-9:50

210 Weill Hall

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Office hours: Tuesday 9:30-11:00 in 1210 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)
- Jeffrey 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
- 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
- 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
- **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

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

Policy Prescriptions

The centerpiece of this course's graded content is two policy prescription projects. These are "meta-projects" consisting of several pieces of graded material, some of which will be completed as group and some of which will be completed individually. One policy prescription project corresponds with the first half of the semester and will accordingly relate to debt as tool for public finance. The other occurs in the second half of the semester and will relate to consumer or corporate debt.

In both projects you will be split into 4 teams. Working as a team, you will then identify a relevant-to the-topic policy problem about which one might reasonably have a policy prescription. Working as individuals you will develop two policy-memo-like "deliverables" on that topic, peer review each others' memos and revise accordingly. Finally, working as a group you will conduct a 40-minute presentation during which you present the topic, identify the interests of the various concerned parties, and recommend a policy prescription to a relevant-to-the-topic politician.

The components of the policy prescription projects are listed below in more detail.

1. **Topic choice.** Once you are assigned a group, you should make arrangements to pick a topic. You can pick whatever topic you would like, subject to my agreement that it hews substantially closely to the course material and that it will lend itself to the assignment. In general, the closer your topic relates to the assigned readings the easier your life will be, though the project will require substantial outside research regardless. The major obstacle to picking a topic is that you will have to do so *before* beginning the relevant section of the course. So to some extent you will have to take a best guess about what it is you and your group find interesting about the topic. All the more reason to consult with me if you are unsure.
2. **Backgrounder Memo:** Your first assignment is to write a "backgrounder" memo describing the problem in ostensible need of a policy solution to a relevant to the policy-official. If yours is a problem typically addressed in congress, a congressperson is your most likely audience; if your policy area is typically addressed at the municipal level you might address your memo to a mayor, if it's an issue to be addressed within a firm you can consider the board your audience, etc.

This should start with a short (~400 word), non-technical, overview of the topic. Assume your audience is intelligent, but has little to no preexisting knowledge of the issue, and no plans to obtain such knowledge beyond what you provide through your memo. Avoid jargon and write simply. The second part should identify the major features of the political landscape around the topic. What are controversial issues? What values are at stake? Who will be affected? The third and final part should identify the relevant experts and stakeholders (political interests). What are their positions? What is their

interest/expertise? What kind of involvement have they had? Parts two and three should be about 400 words each.

3. Policy Options & Argument Memo: This memo, written to the same policymaker, should describe and evaluate the various policy options that have been suggested by scholars (or used in other policy contexts) to address your policy question. You must identify 2-4 options, and for each, evaluate its benefits, drawbacks, and appropriateness for the context you are focused on (including who and what stands to win and lose most with each one).

You should then make a case for your preferred course of action, i.e. unlike the backgrounder, this memo *is* an opportunity to be argumentative.

You will want to balance your role as a technocrat with your role as a political advisor. In other words, do not focus on technical feasibility to the exclusion of what is politically possible. What are the key dilemmas at the heart of the matter? Whose cooperation/opposition is essential?

This memo should not exceed 1000 words.

4. Peer Review: Both memos will be handed in first as drafts and subject to peer and professor review. Each student will be assigned (randomly, by me) another student as peer reviewer. The peer reviewer will play two roles. First, they will act the part of the politician-audience for the memo and let the writer know what information was lacking, which parts were more or less convincing, etc. This role as critic is the primary reason this exercise exists, and it is the primary measure on which the peer reviewer will be graded. They will also play the role of copyeditor, helping the writer produce a more succinctly written and convincing product. The writer will apply those revisions to the final version, which is due on the date of the policy presentation. We will allot time in class for peer-reviewer/author collaboration.

Every student will play the role of writer and peer reviewer. From the writer's perspective, the review processes will unfold in four steps.

1. Submit the draft backgrounder memo on the due date to the professor (via Canvas) and I will respond with brief notes within a week (also via Canvas).
2. When the draft policy option memo is due submit a revised version of the backgrounder memo and a draft version of the policy options memo. Submit those to me and to your peer reviewer.
3. The following week we will set aside part of the class for you to meet with your peer reviewer to discuss their comments on both memos.
4. Those peer review notes can then be incorporated into a final version of both memos, which will be submitted together on the day of the presentation.

From the reviewer's standpoint the process looks like this:

1. Your assigned writer will submit to you their revised backgrounder and their unrevised policy options memo. Read and respond to them in accordance with the Peer Review guide located on Canvas site.
2. By the day of the peer review session you will have submitted to me a copy of your peer review via Canvas. This will be graded on the standard 0-100 scale.
3. On the day of peer review you will sit down with your assigned writer and describe your notes and the rationale behind them.
5. Policy Presentation: The final act of the project is the public presentation of your arguments. You have a lot of creative control over this. The most straightforward thing to do is simply to run a 40 minute panel discussion in which your group acts as the experts you are, giving a presentation on the topic and soliciting questions and feedback from the audience. That is completely fine. You may also choose to be in character as any of the affected parties, or some combination of the two. Or something else entirely. There is no “right” way to do this, as long as you have cleared it by me first. The point of the presentations (and the primary dimension on which you will be graded) is to educate your classmates on a topic and convince them of the wisdom of your policy prescription. The policy presentations will take place over the course of two class sections, with two groups presenting in each session.

The non-presenting 75% of the class will be in the audience and will ask questions of their choosing to help further debate on the topic.

While the memos are individually done projects (albeit with topic coordination among group members) the presentation is a fully group project. You will have to decide as a group which policy prescription will be advocated for, and all members' contribution in the presentations should be made towards that end.

The individual memos and the group presentations need not make the same policy prescriptions, though they will have to be on the same topic.

Final Paper

The final paper is an elongation of either of the memos written for the policy prescriptions into a longer (10-12 page) policy report. Students may, if they like, choose an entirely new topic for the final paper. As with those memos, the final paper should follow a certain formula, given below

- 1) Executive summary
- 2) Background
- 3) Analysis
- 4) Options
- 5) Recommendations / strategy
- 6) Conclusion

The 2nd 3rd, 4th and 5th sections may be direct extensions of the previously written work, albeit lengthened and imbued with more granular detail. The “Options” section in particular should be more substantial in the final paper than it was in the memo. I expect the final papers to consider more seriously how these policy areas have been addressed in real world settings, and the actually existing political dynamics around them.

The Ford School has a variety of resources to aid in this sort of writing, including written guides, such as the following.

<http://fordschool.umich.edu/files/policy-writing.pdf>

<http://fordschool.umich.edu/files/memo-writing.pdf>

Beyond that, I encourage you to seek out help from the writing center and to bring any specific questions you might have to me.