

Syllabus for The Fall 2003 Workshop on Debt and
Development
Woodrow Wilson 591I

September 10, 2003

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Class Meeting: Wednesday 7:00 to 10:00 P.M.
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The overarching aim of this course is to examine the interaction of political and economic considerations involved in making loans to developing sovereigns (e.g. countries), and the complementary considerations involved in repaying them. Operating within the format of a policy workshop means choosing a specific policy problem, and a particular client. In our preliminary discussions last Spring, the problem of whether and how Argentina should go about paying its crushing public debt emerged as a topic of interest, with the Argentine government appearing as the obvious “client”. A closely related question is whether the IMF should offer conditional credit to the Argentines, and on what terms, with the IMF as the “client”.

Because loans are made in the anticipation of repayment, while they are very frequently repaid in the interests of being able to continue to take out more loans, the decisions to repay and to lend are closely interwoven. Potential lenders need to think about the debtors subsequent interests in repayment or default (sovereigns are hard to take to court!) while governments that repay debts must consider not only the domestic political climate, but also the disposition of lenders towards subsequent requests for credit. Thus to analyze the decisions of whether to lend, and whether to repay, we need to consider matters from “both sides”, just as the governments, banks, and individual bond holders we are analyzing do.

Grading

This is a fundamentally collaborative undertaking, and I will not follow the practice that is customary in other settings of “grading on a curve”. Instead, your grade depends heavily on the success or failure of the group enterprise. At the same time, you will be involved in several special subgroups, for one of which you will be designated the leader. Your grade will reflect your performance on these assignments as well as for the overall group project.

References

- Bulow, Jeremy and Kenneth Rogoff. 1989. “Sovereign Debt: Is to Forgive to Forget?” *American Economic Review* 79:43–50. <http://links.jstor.org/sici?sici=0002-8282%28198903%2979%3A1%3C43%3ASDITFT%3E2.0.CO%3B2-U>.
- Bulow, Jeremy and Kenneth Rogoff. 1990. “Cleaning Up World Debt Without Getting Taken to the Cleaners.” *Journal of Economic Perspectives* 4:31–42. <http://links.jstor.org/sici?sici=0895-3309%28199024%294%3A1%3C31%3ACUTWDW%3E2.0.CO%3B2-P>.

- Dixit, Avinash and John Londregan. 2000. "Political Power and the Credibility of Government Debt." *Journal of Economic Theory* 94:80–105. To be distributed in class.
- Galiani, Sebastián, Daniel Heymann and Mariano Tommasi. 2003. "Great Expectations and Hard Times: The Argentine Convertibility Plan." *Economia* 3. <http://muse.jhu.edu/journals/economia/v003/3.2galiani.html>.
- International Monetary Fund. 2003. "Crisis Resolution in the Context of Sovereign Debt Restructuring: A Summary of Considerations." <http://www.imf.org/external/np/pdr/sdrm/2003/012803.htm>.
- Kydland, Finn and Edward Prescott. 1977. "Rules Rather than Discretion: The Inconsistency of Optimal Plans." *Journal of Political Economy* 85:473–492. <http://links.jstor.org/sici?sici=0022-3808%28197706%2985%3A3%3C473%3ARRTDTI%3E2.0.CO%3B2-A>.
- North, Douglass and Barry Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England." *Journal of Economic History* 49:803–32. <http://links.jstor.org/sici?sici=0022-0507%28198912%2949%3A4%3C803%3ACACTEO%3E2.0.CO%3B2-9>.
- Sachs, Jeffrey, Jeremy Bulow and Kenneth Rogoff. 1988. "Comprehensive Debt Retirement: The Bolivian Example." *Brooking Papers on Economic Activity* 1988:705–715. <http://links.jstor.org/sici?sici=0007-2303%281988%291988%3A2%3C705%3ACDRTBE%3E2.0.CO%3B2-U>.

Tentative Schedule

First Meeting: Wednesday September 17, 2003

This will be an organizational meeting. We will need to make concrete plans regarding our trip to Argentina and Chile at the end of October, and we will

need agree on the identity of our client, (*e.g.* the Argentine government) and the nature of the problem we will be working on (for example, the relative merits of default *vs.* an IMF workout). We will use Chile to formulate comparisons with Argentina to help clarify how Argentina got into its current crisis, and to test our thoughts about how it might extricate itself.

I want to present some analytical background material on the politics of debt. People should read North and Weingast (1989), which is fairly discursive, and is now a standard citation on the use of political institutions to guarantee debt repayment. I will also talk about the general problem of “time consistency” discussed in Kydland and Prescott (1977). This is a basic building block for discussions about commitment, both in economics and in politics. Finally, and time permitting, I will discuss the classic article on sovereign debt by Bulow and Rogoff (1989) (see also (Sachs, Bulow and Rogoff, 1988) (Bulow and Rogoff, 1989) (Bulow and Rogoff, 1990)).

Second Meeting: Wednesday September 24, 2003

At this meeting we will put the final touches on our travel plans, formalize our budget, and begin to formulate subtopics (*e.g.* the domestic political economy of debt repayment, the reaction of the financial community to IMF consent agreements, and to potential default, the potential “spillovers” from the government to the private sector of different options for dealing with the debt.).

I will continue to present background material, including Dixit and Londregan (2000), which is a general theoretical model of the politics debt repayment, and International Monetary Fund (2003).

Third Meeting: Wednesday October 1, 2003

At this meeting I will present background material specifically related to the Argentine case, including Galiani, Heymann and Tommasi (2003), plus

additional readings to be announced. The different research subgroups will begin meeting, and the class meeting will be shortened to allow the groups time to meet.

Fourth Meeting: Wednesday October 8, 2003

We will try to schedule our first guest lecturer to speak and to with us over dinner.

Fifth Meeting: Wednesday October 15, 2003

This meeting will be held open for possible guest visits, and for possible interim group reports and for trouble shooting if groups encounter unexpected complications.

Sixth Meeting: Wednesday October 22, 2003

At this meeting we will coordinate our research plans for the research trip to Argentina and Chile.

Field Research: October 25 to November 2, 2003

During this period we shall take a short trip to Buenos Aires Argentina and Santiago Chile, meeting with local economists, political scientists, and political actors.

Seventh Meeting: Wednesday November 5, 2003

We will review our findings from the trip to South America, and allocate the work of consolidating our research and drafting sections of the report.

Optional Meetings: November 12, and 19, 2003

During these weeks the subgroups will be finishing their research and beginning to write and circulate segments of our report. We will remain in

contact meeting frequently in small groups and circulating drafts and preliminary findings. We will reserve the regular Wednesday meeting times in case we need to meet as a group. In addition, these dates are available for possible speakers and guests we might decide we need to hear from earlier in the Semester.

Tenth Week Meeting: Wednesday November 26, 2003

We will meet briefly to review our progress, to circulate preliminary drafts of various sections of the report, and to discuss the form that the final report will take. This will be the crucial meeting in forming a possible consensus over our findings, and for selecting the writers of the an overall draft of our report.

Eleventh Week Meeting: Wednesday December 3, 2003

We will circulate a draft report in advance of this meeting. The meeting will be devoted to discussing the draft report and to suggesting potential changes. At this point if some students have significant dissenting views this will be an opportunity to express these, and to coordinate the writing of dissenting opinions to be included with the final report. Subcommittees will be appointed to address specific concerns with the redaction of the report.

Twelfth Week Meeting: Wednesday December 10, 2003

This is our final meeting, and any unfinished business will need to be resolved. We will finalize our report, and any dissenting opinions before the meeting adjourns.