

## **Financing Democracy: Problems and Proposals**

This course investigates a selection of current social problems, chosen in order to illuminate the current state of the ever-uneasy relationship between finance and democracy, between the money interest and the public interest. As always, developments in finance offer both opportunity and challenge for democratic political forms. As always, the challenge is much more immediately apparent than the opportunity, which requires more digging.

**Format:** The course will be run as a lecture-seminar hybrid, with a typical week involving a lecture on Monday and student presentations on Wednesday, both of which will involve also classroom discussion.

**Grading:** Two presentations will each be worth 25% of the final grade. The remaining 50% will come from a 10-15 page paper on an approved topic.

**Prerequisites:** Intermediate Microeconomics and Intermediate Macroeconomics. It will be helpful, but not essential, if students also have some background in either money or finance, with practical experience (such as an internship) or coursework (such as Economics of Money and Banking, or Economics of Finance).

**Limited Enrollment:** To facilitate discussion, enrollment will be limited to 25.

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## Class Outline

### **Jan 23          Introduction**

### **Jan 28-30      Political Economy**

\*Kuttner, Robert. The Squandering of America, How the Failure of Our Politics undermines our prosperity (Knopf 2007)

Hacker, Jacob. The Great Risk Shift: the Assault on American Jobs, Families, Health Care, and Retirement (Oxford 2006)

### **Feb 4-6          Finance**

Shiller, Robert J. The New Financial Order: Risk in the 21<sup>st</sup> Century (Princeton 2003)

\*Shiller, Robert J. Macro Markets, Creating Institutions for Managing Society's Largest Economic Risks (Oxford 1993)

Mehrling, Perry. "What Would Fischer Say?" Financial Engineering News (Nov/Dec 2005)

### **Feb 11-13      Education I**

\*Zemsky, Robert, Gregory R. Wegner and William F. Massy. Remaking the American University, Market-Smart and Mission-Centered (Rutgers 2005)

Bok, Derek. Universities in the Marketplace, The Commercialization of Higher Education (Princeton 2003)

Ruch, Richard S. Higher Ed, Inc.; The Rise of the For-Profit University (Johns Hopkins 2001)

ASHE and John Yeager. Finance in Higher Education (Pearson 2001)

Paulsen, Michael and John Smart, eds. The Finance of Higher Education: Theory, Research, Policy and Practice.

[www.finance.columbia.edu/controller/resources/2007\\_Financial\\_Statements.pdf](http://www.finance.columbia.edu/controller/resources/2007_Financial_Statements.pdf)

[www.barnard.edu/opir/pdf/finances.pdf](http://www.barnard.edu/opir/pdf/finances.pdf)

**Feb 18-20 Education II**

McPherson, Michael and Morton O. Shapiro. The Student Aid Game. (Princeton 1998)

Kane, Thomas. The Price of Admission: Rethinking How Americans Pay for College (Brookings 1999)

Ehrenberg, Ronald. Tuition Rising: Why College Costs so Much. (Harvard 2002)

\*Palacios, Miguel. Investing in Human Capital, A Capital Markets Approach to Student Funding (Cambridge 2004)

Mehrling, Perry. "Endowment Spending Policy: An Economist's Perspective" (2003)

Mehrling, Perry. "A Robust Spending Rule: The  $\alpha$ - $\beta$  Approach" (2004)

**Feb 25-27 Social Security: Origins**

\*Nyce, Steven A. and Sylvester J. Schieber. The Economic Implications of Aging Societies, The Costs of Living Happily Ever After (Cambridge 2005)

Altman, Nancy J. The Battle for Social Security: From FDR's Vision to Bush's Gamble (Wiley 2005)

Witte, Edwin E. The Development of the Social Security Act (University of Wisconsin 1962)

Berkowitz, Edward D. Robert Ball and the Politics of Social Security (University of Wisconsin 2003)

Trustees Report 2006: [www.ssa.gov/OACT/TR/TR06/tr06.pdf](http://www.ssa.gov/OACT/TR/TR06/tr06.pdf)

**Mar 3-5 Social Security I**

\*Samuelson, Paul A. "An Exact Consumption-Loan Model of Interest with or without the social contrivance of money" Journal of Political Economy (1958)

Merton, Robert C. "On Consumption-Indexed Public Pension Plans." Ch. 18 in Continuous Time Finance (1990)

\*Feldstein, Martin and Andrew Samwick. "The Economics of Prefunding Social

Security and Medicare Benefits” NBER Macroeconomics Annual 12 (1997): 115-148.

Modigliani, Franco and Arun Muraldihar. Rethinking Pension Reform (Cambridge 2005)

Diamond, Peter and Peter Orszag. Saving Social Security: A Balanced Approach (Brookings 2005)

Mehrling, Perry. “The Social Mutual Fund: A Proposal for Social Security Reform” (1998)

### **Mar 10-12                    Social Security II**

Tanner, Michael. Social Security and its Discontents: Perspectives on Choice (Cato 2004)

Hiltzik, Michael A. The Plot Against Social Security: How the Bush Plan is endangering our financial future (Harper Collins 2005)

“The Future of Life-Cycle Saving and Investing”:  
<http://smg.bu.edu/exec/elc/lifecycle/agenda.shtml>

\*Mackenzie, George A. Annuity Markets and Pension Reform (Cambridge 2007)

Clark, Gordon L., Alicia H. Munnell and J. Michael Orszag The Oxford Handbook of Pensions and Retirement Income (Oxford 2006)

Gale, William G., John B. Shoven, and Mark J. Warshawsky. Private Pensions and Public Policies (Brookings 2004)

Gale, William G., John B. Shoven, and Mark J. Warshawsky. The Evolving Pension System: Trends, Effects, and Proposals for Reform (Brookings 2005)

### **Spring Break**

### **Mar 24-26    Health Care: Origins**

Arrow, Kenneth. “Uncertainty and the Welfare Economics of Medical Care” American Economic Review (1963)

\*Relman, Arnold S. A Second Opinion, Rescuing America’s Health Care (Century Foundation 2007)

Derickson, Alan. Health Security for all: Dreams of Universal Health Care in America

(Johns Hopkins 2005)

Richmond, Julius and Rashi Fein. The Health Care Mess: How we got into it and what it will take to get out (Harvard 2005)

Quadagno, Jill. One Nation Uninsured: Why the U.S. Has no National Health Insurance (Oxford 2005)

Trustees Report 2006:

[www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2006.pdf](http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2006.pdf)

LeBow, Robert H. Health Care Meltdown: Confronting the Myths and Fixing our Failing System (Hood 2002)

Clinton, Bill. Health Security: The President's Health Care Plan (GPO 1993)

## **Mar 31-Apr 2          Health Care II**

\*Regina Herzlinger. Who Killed Health Care? America's \$2 Trillion Medical Problem and the Consumer-Driven Cure (McGraw Hill 2007)

Kotlikoff, Laurence. The Healthcare Fix, Universal Insurance for all Americans (MIT 2007)

Cogan, John F., R. Glenn Hubbard, and Daniel P. Kessler. Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System (AEI 2005)

Porter, Michael E. and Elizabeth Olmsted Teisberg. Redefining Health Care: Creating Value-Based Competition on Results (Harvard Business School 2006)

## **Apr 7-9          Corporate Governance: Origins**

Berle, Adolf and Gardiner Means. The Modern Corporation and Private Property (Macmillan 1932)

\*Roe, Mark. Strong Managers, Weak Owners (Princeton 1994)

Skeel, David A. Icarus in the Boardroom: The fundamental flaws in corporate America and where they came from (Oxford 2005)

MacAvoy, Paul W. and Ira Millstein. The Recurrent Crisis in Corporate Governance (Stanford 2004)

Seligman, Joel. The Transformation of Wall Street: A History of the Securities and

Exchange Commission and Modern Corporate Finance (Aspen 2003)

**Apr 14-16     Executive Compensation**

Jensen, Michael and William Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." Journal of Financial Economics 3 (1976): 305-360.

\*Bebchuk, Lucian and Jesse Fried. Pay Without Performance: the Unfulfilled Promise of Executive Compensation (Harvard 2004)

**Apr 21-23     The US as a Model**

\*Rodrik, Dani. One Economics, Many Recipes; Globalization, Institutions, and Economic Growth (Princeton 2007)

Rajan, Raghuram and Luigi Zingales. Saving Capitalism from the Capitalists: Unleashing the power of capital markets to create wealth and spread opportunity (Princeton 2004)

Mishkin, Frederic S. The Next Great Globalization: How disadvantaged nations can harness their financial systems to get rich (Princeton 2006)

De Soto, Hernando. The Mystery of Capital; Why Capitalism Triumphs in the West and Fails Everywhere Else (Basic 2000)

**Apr 28-30     Student Papers**

**May 5           Student Papers**