

Graduate School of Public Policy
The University of Tokyo

Sovereign Debt: Lessons from History and Future Implications II

Course No. 5123432
Summer 2014

COURSE SYLLABUS

Time: 16:40-18:20, Wednesdays (April 9, 2014-July 16, 2014)
Location: Seminar Room No. 3 (Room 710), 7th floor, Administration Bureau Building 2
Instructor: Toshiro NISHIZAWA, Professor (practitioner faculty member)
TA: Esther Fasia GOLAKAI (fgolakai@gmail.com)
Credits: 2 credits
Language: English
Office: Room 605, 6th floor, Administration Bureau Building 2
Office hours: By appointment
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Please feel free to send me e-mails (cc to Ms. Golakai) with any question about the course or if you want to make an appointment. To help me not to miss your incoming e-mails, **please start the subject line with "5123432" (Course No.) when you send e-mails.*

1. Objectives/Overview

Since the global financial crisis of 2008-2009 and following the Eurozone crisis, high levels of government debt in advanced economies have raised renewed market concerns over possible sovereign defaults. A sovereign default is the *failure or refusal* of a government to meet payments on its debt obligations to either domestic or external creditors, or to both. In fact, history gives us many precedents of sovereign default by both developed and developing countries as well as many crisis cases that brought a government to the verge of default (*e.g.*, the Asian Financial Crisis).

Media reports are now increasingly focusing on the impacts of the U.S. Federal Reserve's tapering action on the global economy against the backdrop of a growing optimism about advanced economies' recovery. Optimism and pessimism get intertwined in the financial markets. However, it seems too early to believe that the crisis is over and the recovery is on firm footing because "credit-led growth" is simply a measure to "buy time" and sustained growth is only possible with restored sound economic and financial fundamentals.

As financial journalist Philip Coggan described in his book titled *Paper Promises: Money, Debt and the New World Order*, economic history could be viewed as "a war between creditors and debtors" while borrowing and lending money is essential to make an economy function. As any other players in the economy, a government needs to borrow or assume some

form of liabilities, both direct and indirect (contingent), when it runs deficits, rescues the financial system, guarantees public projects, tries to maintain exchange rates, and so on. Therefore, the government is not necessarily immune from a "battle" with its creditors.

Furthermore, consideration is needed not only for the conflict between creditors and debtors, but also between creditors as evident from inter-creditor equity issues in debt restructuring as observed in the recent Greek case and the ongoing dispute vis-à-vis Argentina. Therefore, dealing with sovereign debt has serious *political* and *legal*, as well as *economic*, consequences, which should require *public policy and legitimacy considerations*.

The aim of the course is to clarify the nature of sovereign debt, to familiarize students with sovereign risk assessment methodologies on the basis of the historical knowledge of sovereign debt crisis, default and debt restructuring (*lessons from history*), and then to provide students with an opportunity to discuss and consider how government liabilities should be managed and sovereign debt crises should be avoided or dealt with (*future implications*). More broadly, we should also keep in mind how we could pull the global economy out of a vicious circle of debt trap and credit addicted growth, which appears to be one of the global economic challenges we are faced with.

2. Schedule (tentative)

Day 1	April 9	Introduction	Nishizawa
Day 2	April 16	Overview of the key concepts	Nishizawa
Day 3	April 23	Debt crises and sovereign defaults	Nishizawa
Day 4	April 30	Sovereign debt and default, followed by brainstorming exercise for research topic	Nishizawa
Day 5	May 7	Mid-term student presentation; mid-term report (research proposal) due by May 9	Nishizawa
Day 6	May 14 [†]	Discussion on specific issues, followed by feedback on students' mid-term reports (research proposals)	Nishizawa
Day 7	May 21	Discussion on specific issues	Nishizawa
Day 8	May 28	Discussion on specific issues	Nishizawa
Day 9	June 4	Discussion on specific issues	Nishizawa
Day 10	June 11	Discussion on specific issues	Nishizawa
Day 11	June 18	Discussion on specific issues	Nishizawa
Day 12	June 25	Discussion with practitioner	Nishizawa

			Guest (TBA)
Day 13	July 2	Discussion with practitioner	Nishizawa Guest (TBA)
Day 14	July 9 [‡]	Final student presentation	Nishizawa
Day 15	July 16 [‡]	Final student presentation	Nishizawa

†: Possibly a make-up class will be offered due to instructor's absence on May 14.

‡: Possibly to be organized on an alternative date as an overnight off-campus retreat with the two slots combined in Hachioji Seminar House (total cost for accommodation, meal, and transportation estimated at ¥8,000)

3. Teaching methods

This course will be organized as a seminar with introductory lecture followed by class discussion. *Active participation in discussion* is expected based on student different backgrounds, life-experiences, knowledge, skills, and reading of assigned materials. The working language is English.

Guest speakers will be invited to discuss specific issues from various perspectives and/or based on different fields of professional expertise.

4. Course requirements and grading

Students are required to make presentations twice in the middle and at the end of the course *either (a) on a topic of his/her interest in the context of the course objective as described above or (b) on one of her/his choice from the subjects given by the instructor*. Each student is also required to submit reports based on his/her presentations in the middle and at the end of the course.

Furthermore, students are required *from time to time to write a short note (up to 400 or 600 words) about one of the readings assigned for a particular class* and to submit the note by e-mail in principle at least twenty four (24) hours before the beginning of the class. Unless otherwise instructed, the note should cover: (a) your understanding of key ideas and questions raised by the author, (b) terms and concepts that you need clarification, and (c) issues identified for further discussion.

The course grade will be based on:

Presentations 35% (10% for mid-term and 25% for final)
Individual reports 35% (10% for mid-term and 25% for final)
Class attendance and participation 30%

5. Required readings

Required readings, mainly excerpts taken *selectively* from the following reference books and

other materials, will be either made available via e-mail or handed out in class. While students are not required to purchase any materials listed below, the two books marked with a "#" sign (Coggan 2011, and Reinhart and Rogoff 2009) are easily available in paperback and may be a useful source of information and ideas to help students work on issues of sovereign debt.

Coggan, Philip. 2011. *Paper Promises: Money, Debt and the New World Order*. New York: Penguin.

Duncan, Richard. 2012. *The New Depression: The Breakdown of the Paper Money Economy*. Singapore: John Wiley&Sons.

Eichengreen, Barry. 2011. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. New York: Oxford University Press.

Gelpern, Anna. 2013. *Sovereign Damage Control*. Policy Brief, Number PB13-12 (May 2013). Washington, DC: Peter G. Peterson Institute for International Economics. Accessed April 7, 2014.

<http://www.iie.com/publications/pb/pb13-12.pdf>

Institute of International Finance, Inc. (IIF). 2012. *Report of the Joint Committee on Strengthening the Framework for Sovereign Debt Crisis Prevention and Resolution*. Washington, DC: Institute of International Finance, Inc. Accessed April 7, 2014.

<http://www.iif.com/press/press+393.php>

Institute of International Finance, Inc. (IIF). 2013a. *August 2013 Policy Letter*. Washington, DC: Institute of International Finance, Inc. Accessed April 7, 2014.

<http://www.iif.com/emp/policyltrs/article+1261.php>

Institute of International Finance, Inc. (IIF). 2013b. *Report on Implementation by the Principles Consultative Group*. Washington, DC: Institute of International Finance, Inc. Accessed April 7, 2014.

<http://www.iif.com/emp/article+1309.php>

International Monetary Fund (IMF). 1998. *External Debt Histories of Ten Low-Income Developing Countries: Lessons from Their Experience*. IMF Working Paper, WP/98/72, Corrected: 5/26/98. Washington, DC: IMF. Accessed April 7, 2014.

<http://www.imf.org/external/pubs/ft/wp/wp9872.pdf>

International Monetary Fund (IMF). 2003. *Guidelines for Public Debt Management*. Washington, DC: IMF. Accessed April 7, 2014.

<http://www.imf.org/external/np/mfd/pdebt/2003/eng/am/120903.pdf>

International Monetary Fund (IMF). 2013a. *Sovereign Debt Restructuring--Recent Development and Implications for the Fund's Legal and Policy Framework*. Washington, DC: IMF. Accessed April 7, 2014.

<http://www.imf.org/external/np/pp/eng/2013/042613.pdf>

International Monetary Fund (IMF). 2013b. *Staff Guidance Note for Public Debt*

Sustainability Analysis in Market-Access Countries. Washington DC: IMF. Accessed April 7, 2014.

<http://www.imf.org/external/np/pp/eng/2013/050913.pdf>

International Monetary Fund (IMF). 2013c. *Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative*. IMF Factsheet. Washington, DC: IMF. Accessed April 7, 2014. <http://www.imf.org/external/np/exr/facts/hipc.htm>

International Monetary Fund (IMF). 2013. *The Multilateral Debt Relief Initiative*. IMF Factsheet. Washington, DC: IMF. Accessed April 7, 2014. <http://www.imf.org/external/np/exr/facts/mdri.htm>

Kindleberger, Charles P., and Robert Z. Aliber. 2005. *Manias, Panics, and Crashes: A History of Financial Crises*. 5th ed. Hoboken, NJ: John Wiley&Sons.

Kirkegaard, Jacob Funk. 2010. *How Europe Can Muddle Through Its Crisis*. Policy Brief, Number PB10-27 (December 2010). Washington, DC: Peter G. Peterson Institute for International Economics. Accessed April 7, 2014. <http://www.iie.com/publications/pb/pb10-27.pdf>

Kolb, Robert W., ed. 2011. *Sovereign Debt: From Safety to Default*. Hoboken, NJ: John Wiley&Sons.

Lastra, Rosa M., and Lee Buchheit, eds. 2014. *Sovereign Debt Management*. Oxford: Oxford University Press.

Lewis, Michael. 2011. *Boomerang: Travels in the New Third World*. New York: W.W. Norton&Company.

Lienau, Odette. 2014. *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance*. Cambridge, MA: Harvard University Press.

Manolopoulos, Jason. 2011. *Greece's 'Odious' Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community*. New York: Anthem Press.

Polackova Brix, Hana, and Allen Schick, ed. 2002. *Government at Risk: Contingent Liabilities and Fiscal Risk*. Washington, DC: The World Bank.

Rajan, Raghuram G. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*. Princeton: Princeton University Press.

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press.

Sturzenegger, Federico, and Jeromin Zettelmeyer. 2006. *Debt Defaults and Lessons from a Decade of Crises*. Cambridge, MA: The MIT Press.

Tomz, Michael. 2007. *Reputation and International Cooperation: Sovereign Debt across*

Three Centuries. Princeton: Princeton University Press.

Waibel, Michael. 2011. *Sovereign Defaults before International Courts and Tribunals*. New York: Cambridge University Press.

I would like to suggest that you read chapters (particularly, Chapters 1, 2, 5, and 6) of the following reference book. This is one of the widely-known classic reference books to help students or professionals to do research and to write a good research paper. You can easily purchase one from amazon.com (¥1,835) or borrow one from Nishizawa.

Turabian, Kate L. Revised by Booth, Wayne C., Gregory G. Colomb, Joseph M. Williams, and the University of Chicago Press Editorial Staff. 2013. *A Manual for Writers of Research Papers, Theses, and Dissertations*. 8th ed. Chicago: University of Chicago Press.

6. Course outline

Day 1, April 9: Introduction

As an introduction to the subject, students learn a couple of recent cases of financial crisis and sovereign defaults by watching videos taken from various sources. Then, the instructor will present the aim of this course as well as the teaching methods and approaches to follow. Students are asked to share with others in class their motivation to work on the subject and their backgrounds, life-experiences, knowledge, skills and so on.

Video clips

Michael Lewis' 'Boomerang': 'Money Thrown Out in Hope, Coming Back in Anger' (PBS News Hour, October 21, 2011; 8:48 minutes)

Accessed April 7, 2014.

"What caused the economic troubles in Iceland, Greece, Ireland, Germany and elsewhere? Author Michael Lewis has some controversial theories involving sweeping character assessments of each nation. Lewis—known for 'Money Ball' and 'The Blind Side'—discusses his new book, 'Boomerang,' with economics correspondent Paul Solman."

<https://www.youtube.com/watch?v=jjDEjCvaac8>

The Eurozone Crisis Explained (Investment Capital Management, June 4, 2013; 4:47 minutes)

Accessed April 7, 2014.

"WHAT IS THIS EUROZONE CRISIS? Put simply, the European sovereign debt crisis (Eurozone Crisis) is a financial struggle that has seen countries of Europe unable to repay government debt. But do you understand how it all happened? Who are the biggest influencers? How will this be resolved?"

<http://www.youtube.com/watch?v=8r-luijMS8A>

Argentina debt: what is the pari passu saga? (Financial Times, April 3, 2013; 3:35 minutes)

Accessed April 7, 2014.

"Cardiff Garcia and Joseph Cotterill of FT Alphaville talk about Argentina becoming embroiled in the sovereign debt 'trial of the century' and what it means for markets generally."

<http://video.ft.com/2289450034001/Argentina-debt-what-is-the-pari-passu-saga-/Markets>

Assignment

Students are required to write a short note (up to 400 words) about their motivation to work on issues related to sovereign debt and to submit it by e-mail at least twenty four (24) hours before the beginning of class on Day 2, April 16 (addressed to Nishizawa, tnishizawa@pp.u-tokyo.ac.jp; and cc to Golakai, fgolakai@gmail.com).

Day 2, April 16: Overview of the key concepts

The instructor will discuss the nature of debt and credit and then explain the concept of balance sheet.

Reading

Lecture note and power point slides.

Assignment

Students are required to read Reinhart and Rogoff (2009, pages xxxix-xlv, 3-20 and 51-67) in order to be ready for class discussion on Day 3, April 23.

Day 3, April 23: Debt crises and sovereign defaults

Reading

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press: pages xxxix-xlv, 3-20 and 51-67.

Day 4, April 30: Sovereign debt and default, followed by brainstorming exercise for research topic (TBA)

Day 5, May 7: Mid-term student presentation; mid-term report (research proposal) due by May 9) (TBA)

Day 6, May 14: Discussion on specific issues, followed by feedback on students' mid-term reports (research proposals)

Day 7, May 21: Discussion on specific issues (TBA)

Day 8, May 28: Discussion on specific issues (TBA)

Day 9, June 4: Discussion on specific issues (TBA)

Day 10, June 11: Discussion on specific issues (TBA)

Day 11, June 18: Discussion on specific issues (TBA)

Day 12, June 25: Discussion with practitioner (TBA)

Day 13, July 2: Discussion with practitioner (TBA)

Day 14, July 9: Final student presentation

Day 15, July 16: Final student presentation
