

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.

The first half of the course will examine two large federal social programs, both of which are currently facing significant financial crisis: Social Security and Medicare/Medicaid. The second half will examine the social consequences of money manager capitalism both for firms (corporate governance) and for households (investor security).

The course will be run as a lecture-seminar hybrid, with a typical week involving a lecture on Monday and a student presentation on Wednesday, both of which will involve also classroom discussion. Intensive class participation and careful study of the assigned readings are absolutely essential to the success of the course. Grades will therefore be based on class participation (20%), oral presentations (30%), and a final paper (50%).

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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Required Reading: The class will make use of a diverse set of materials and sources, many available online. The books listed below are available for purchase at the Columbia Bookstore, and on reserve in Wollman Library.

Henry J. Aaron and William B. Schwartz, Can We Say No? The Challenge of Rationing Health Care (Brookings Institution 2005) ISBN #0815701217

John C. Bogle, The Battle for the Soul of Capitalism (Yale 2005) ISBN #0-300-10990-3

David M. Cutler, Your Money or Your Life: Strong Medicine for America's Healthcare System (Oxford 2004) ISBN #0-19-518132-8

Peter A. Diamond and Peter R. Orszag, Saving Social Security: A Balanced Approach (Brookings Institution 2004) ISBN #0-8157-1838-1

Laurence J. Kotlikoff and Scott Burns, The Coming Generational Storm, What you need to know about America's Economic Future (MIT Press 2004) ISBN #0-262-61208-9

Robert J. Shiller, The New Financial Order, Risk in the 21st Century (Princeton Press 2003) ISBN #0-691-09172-2

Jeremy J. Siegel, The Future for Investors, Why the Tried and the True Triumph over the Bold and the New (Crown Business 2005) ISBN #1-4000-8198-x

Skeel, David A. Icarus in the Boardroom: The Fundamental Flaws in Corporate America and Where They Came From (Oxford 2005) ISBN #0-19-517471-7

David F. Swenson, Unconventional Success, A Fundamental Approach to Personal Investment (Free Press 2005) ISBN #0-7432-2838-3

Class Meetings:

- Jan 23-25 **Introduction**
Warren and Tyagi “What’s Hurting the Middle Class?” Boston Review
(September/October 2005)
- Jan 30-Feb 1 **Theoretical Perspectives I**
Kotlikoff, The Coming Generational Storm
- Feb 6-8 **Theoretical Perspectives II**
Shiller, The New Financial Order
- Feb 13-15 **Foundation and Endowment Spending Policy**
Paul Jansen and David Katz “For nonprofits, time is money” McKinsey Quarterly 2002 No.1.
Michael Klausner, “When Time Isn’t Money” Stanford Social Innovation Review 41 (September 2003)
Mehrling, “Spending Policies of Foundations: The Case for Increased Grants Payout” (1999)
Mehrling, “Endowment Spending Policy: An Economist’s View” (2003)
Mehrling, “A Robust Spending Rule” (2004)
- Feb 20-22 **Social Security I**
Diamond and Orszag, Saving Social Security
Modigliani, Franco and Arun Muraldihar. Rethinking Pension Reform.
Cambridge, 2005.
- Feb 27-Mar 1 **Social Security II**
Official government site: www.ssa.gov
Century foundation site: www.socsec.org
Cato Institute site: www.socialsecurity.org
President’s Commission site: www.csss.gov
Mehrling site: “The Social Mutual Fund”
- Mar 6-8 **Health Care I**
Aaron and Schwartz, Can We Say No?
Cutler, Your Money or Your Life
- Spring Break
- Mar 20-22 **Health Care II**
Official government site: www.medicare.gov
Century foundation site: www.healthpolicywatch.org
Heritage site: <http://www.heritage.org/research/healthcare/index.cfm>
Theodore Marmor, "Medicare Reform: Fact, Fiction and Foolishness,"
Public Policy and Aging Report, Vol.13, No. 4, 2004

- Mar 27-29 **Theoretical Perspectives III**
Bogle, The Battle for the Soul of Capitalism
- Apr 3-5 **Corporate America**
David Skeel, Icarus in the Boardroom
Fischer Black, “The Magic in Earnings” (1980)
Fischer Black, “Choosing Accounting Rules” (1993)
- Apr 10-12 **Investor America**
Siegel, The Future for Investors
- Apr 17-19 **Mutual Fund America**
Swenson, Unconventional Success
- Apr 24-26 **Student Papers**
- May 1 **Student Papers**