Q&A...

with Lukasz Drozd, an economic advisor and economist here at the Philadelphia Fed.

Lukasz Drozd

Lukasz Drozd grew up in Poland. After graduating from the Warsaw School of Economics in 2001, he moved to the United States to attend graduate school at the University of Minnesota. He's taught economics at the University of Minnesota, the University of Wisconsin, and the Wharton School of the University of Pennsylvania. Since 2015 he's been a member of the Philadelphia Fed Research Department, where he specializes in many topics, including the macroeconomic implications of consumer finance. In this issue of *Economic Insights*, he writes about the role zero-APR credit cards played in the Great Recession.

How did you become interested in economics?

After communism ended in Poland, economics was a new thing. Before, you had socialist economics, so even professors were not trained in what you would call economics. It was more how to do central planning. The Ford Foundation was bringing top U.S. economists to Poland to retrain professors, and then they were teaching college students too. That was my first time studying economics. I became hooked.

Did that play a role in your decision to attend the University of Minnesota?

Definitely. Doctorate-level education in economics at the time was not very good in Poland. Going abroad seemed like the only way to get good training, and Minnesota was renowned for studying macroeconomics. Doctorate-level education in Poland is much better now, but that was the reality at the time.

Have you ever accepted a zero-APR offer on a credit card?

Of course! (laughs) How do you think I survived graduate school? Many graduate students used zero-APR credit cards. What was amazing was that we were foreigners with no credit history and yet we were getting flooded with offers. I was puzzled back then and I am puzzled now. I was reluctant to use these offers, but it was me and my wife on a single stipend. At some point it was really difficult to make ends meet, and zero-APR credit cards came in handy.

Do you feel like you were clear-eyed about the risks?

I tried to be responsible, or at least that is how I like to think about it. (laughs) The biggest increase in my debt was when I already had a job offer and knew I would be able to pay it back. We paid off a lot by the time Lehman Brothers collapsed, but there was still some debt left, and I wanted to transfer it to another zero-APR card, but there were no offers anymore. I squeezed my budget as much as possible to quickly pay that down, but I thought about other people who were not as lucky to have a job. That inspired my research on this topic.

Some people reading your article may think that when researchers start off with a concept of a free market and then study market frictions, they miss other issues, such as somebody wanting a product that isn't good for them.

I did not mean it this way. At some point, we call people adults and they should be allowed to be as free as possible, even if they make a "wrong" decision for themselves. If people roll over their debt, this is not such a huge deal. Maybe some of them get caught by fees, and they suffer, but they brought that upon themselves. Maybe they will learn a lesson. What is dangerous here is that the market may dry up—as the Great Recession episode illustrates—and all zero-APR customers at the same time get hammered. This can result in a major recession, which then affects everyone. It is also more difficult for people to foresee such risks. The art of regulating the markets is balancing these risks, and what I am saying in the article is that policymakers should take it into consideration.

So, it might not be a problem if an individual makes the "wrong" decision for themselves, but if too many people act the same way, it could bring the whole market down.

That's right. And in this case that is a stronger case for a policy intervention, because now we are less paternalistic. (laughs) We are just saying, don't create problems for the rest of us, and that is fair. Some people may lose their freedom to get free and easy credit, but you stabilize the market and create less vulnerability. There is an inherent trade-off in macroprudential regulation of financial markets, and policymakers have to carefully balance the pros and cons.

What else are you working on?

I like to combine theory with data to uncover something that is not easy to see. I'm looking right now at how automation affects the division of income between capital and labor. It is a very exciting topic and quite timely. I hope we will have an opportunity to discuss it next time. EI