

Economics of Transition and beyond

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Notice:

This syllabus is preliminary and the scheduling of classes as well as reading may be updated. We are also trying to organize a visit to the museum of the Czech National Bank and possibly some other extra activities.

Course description: The course deals with main economic issues related to transition from central planning in Soviet bloc, former Yugoslavia, and China to a new economic system (market economy or state capitalism). Compared to other similar courses, this course attempts to be less descriptive and more analytical; we will use economic models and results of econometric studies where appropriate. We will also try to apply an experimental approach in order to provide the students with direct experience with asymmetric information markets and soft-budget constraints. The course is trying to focus on aspects of transition which can be used to shed light on more permanent (indeed even future) problems of economics systems and which can help reduce future exposure to similar errors.

The first part of the course deals with the theory of comparative economics systems reviewing the theory of capitalism, and analyzing functioning of central planning. It also deals with the motivation, design and implementation of non-market systems (central planning and other arrangements such as Yugoslavian self-managed firms, or current Chinese economy). This includes the main theoretical concepts useful for understanding the problems of non-market economies (e.g. soft budget constraints).

The second part of the course explains the design, implementation and logic of reforms and of main transition-related changes. We will also deal with basic theoretical models that attempt to explain the nature of problems experienced by transition economies.

The final part will focus on selected issues related to institutional weaknesses of post-transition economies both at micro level (corporate governance) and macro level (corruption and state capture).

After studying this course, students should be able to:

1. Understand the key differences between economic systems of “non-market” economies and various models of market economies.
2. Explain the logic of main traps and “poison pills” that may cause problems to transition countries (or emerging countries in general) during their attempts to speed up economic growth and normalize their economies.
3. Understand the differences between countries of the former Soviet bloc and China both in 1980s and at present, and learn more about Chinese economic reforms and their internal logic.
4. Understand the logic and importance of motivation and corporate governance, and of the role of efficient financial markets in a market economy.
5. Understand the importance of information asymmetries and deficiencies in institutional design in models analyzing transition economies (and in actual performance of the economies).

Pre-requisites: One intermediate-level economics course (Micro or Macro)

Grading policy

Class participation/attendance:	10 %
Paper:	25%
Mid-term exam:	25 %
Final exam:	40 %

Rules for the paper:

Topics must be selected (and discussed with the lecturers) by November 1st.

Papers must be submitted by December 14th, papers can be submitted by email.

Standard forms of citations are expected, any widely used form of citations is fine.

Any attempts at plagiarism will be (i) announced to your home universities, (ii) “rewarded” by F.

Expected length of the paper: 5-10 pages / 2500-3000 words

Letter Grade	Percentage	Description
A	93-100	Outstanding work
A-	90-92	
B+	87-89	Good work
B	83-86	
B-	80-82	
C+	77-79	Acceptable Work
C	73-76	
C-	70-72	
D+	67-69	Work that is significantly below average
D	63-66	
D-	60-62	
F	0-59	Work that does not meet the minimum standards for passing the course

UPCES Non-Discrimination/Harassment Policy

The UPCES program in Prague promotes a diverse learning environment where the dignity, worth, and differences of each individual are valued and respected. Discrimination and harassment, whether based on a person's race, gender, sexual orientation, color, religion, national origin, age, disability, or other legally protected characteristic, are repugnant and completely inconsistent with our objectives. Retaliation against individuals for raising good faith claims of harassment and/or discrimination is prohibited.

UPCES Diversity Policy

UPCES fully embraces diversity and strives to create a safe and welcoming environment for students from all backgrounds. Prague is a wonderfully diverse community and UPCES is no different. All students should feel at home while studying abroad and UPCES will do its utmost to make sure that becomes a reality. Although unique challenges may arise, we believe that students from all walks of life will encounter wonderful opportunities for enrichment as they explore a new culture while studying abroad.

Schedule of classes

Week 1

UPCES introductory lectures

Week 2

Why is transition still relevant?

Overview of course, data on Czech economy and Central Europe

Outline of the course, brief outline of political and economic history of the region, importance of transition and introduction to comparative economic system.

Rosser & Rosser (2004): chapter 1

Why should we study Transition? Basic transition Strategies. Washington Consensus.

Gregory, Stuart (1999): chapter 2, 3

Roland (2000), chapter 1 and 2

Stiglitz (2018) chapter 11

Week 3

How Do We Compare Economies?

Attributes of an economic system

Rosser & Rosser (2004): chapter 1

Gregory, Stuart (1999): chapter 2

Performance criteria of an economic system. Asymmetric information. Soft budget constraint.

Rosser & Rosser (2004): chapter 3

Gregory, Stuart (1999): chapter 6

Week 4

The Theory of Market Capitalism

Invisible hand, perfectly competitive market and market failures

Rosser & Rosser (2004): chapter 2

Gregory, Stuart (1999): chapter 2 and 5

Solimano (2014): Part 2

Macroeconomic instability and income distribution

Rosser & Rosser (2004): chapter 2

Gregory, Stuart (1999): chapter 2 and 5

Solimano (2014): Part 1 and 2

Week 5

Marxism, Socialism and motivation for central planning.

Intellectual background of the non-market economic models

Rosser & Rosser (2004): chapter 3

Gregory, Stuart (1999): chapter 6

How was central planning supposed to work?

Gregory, Stuart (1999): chapter 6

Ellman: Rise and Fall of Central Planning – chapter 1 in S. Estrin, G.W. Kolodko, M. Uvalic (eds., 2007):

Transition and Beyond. Palgrave, 2007

Week 6

Central planning: design of the system

State capitalism

Input-output model – and its modern use (Vilém)

Timmer, M. P., Dietzenbacher, E., Los, B., Stehrer, R. and de Vries, G. J. (2015), "An Illustrated User Guide to the World Input–Output Database: the Case of Global Automotive Production", *Review of International Economics*, 23: 575–605

Week 7

Midterm week

Command and control, efficiency and motivation in different systems

Additional reading: Yuen Yuen Ang: *Autocracy with Chinese Characteristics – Beijing's Behind-the-Scenes Reforms*. Foreign Affairs 2018

Midterm Exam.

Week 8

Design of reforms, policy constraints

Transition Strategies: Components and Policy Choices. Washington Consensus. Ex ante and ex post policy constraints: models

Roland (2000) – chapter 2

Aslund (2013) – chapter 2

Deregulation and Liberalization.

Macroeconomic development in early transition. Trade, Exchange Rates during early transition.

Roland (2000) – chapter 6

Week 9

Real Transition: macroeconomic issues

Economics of transformation recessions.

O. Blanchard, M. Kremer (1997): *Disorganization*. MIT Working Paper 96-30, 1997

Roland (2000) – chapter 7

GDR as a special case of transition with idiosyncratic macroeconomic shock

Lessons for North Korea?

J. von Hagen, R.R. Strauch, G. Wolff (2002): *East Germany: Transition with Unification, Experiment and Experiences*. ZEI working paper B19/2002

Aslund (2013), chapters 3-4

Week 10

Economics and Politics of Privatization

Privatization – role, logic and methods. State-owned enterprises in the current world.

J.C. Brada (1996): *Privatization is Transition – Or is it?* *The Journal of Economic Perspectives*, Vol. 10, No. 2 (Spring, 1996), pp. 67-86

Aslund (2013), chapter 6

Mass privatizations – methods and problems.

The special Case of Czech Voucher Privatization.

Week 11

Privatization, Financial markets, Phishers and Phools

Empirical studies of effects of privatization on performance.

S. Estrin, J. Hanousek, E. Kocenda, J. Svejnar (2009): Effects of Privatization and Ownership

D. Ellerman (2001): Lessons from Eastern Europe's Voucher Privatization. *Challenge*, Vol. 44, No. 4, July/August 2001, pp. 14

Financial markets. Banking crises in transition economies

E. Berglof, P. Bolton (2001): *The Great Divide and Beyond: Financial Architecture in Transition*, 2001

S. Fries, D. Neven, P. Seabright (2002): *Bank Performance in Transition Economies*. William Davidson Institute Working Paper 505

Week 12

Corruption, State Capture, Oligarchs

Corruption and "unofficial economy". Political constraints to the efficiency and stability of the new economic models.

M. Tomass (1998): How Did Mob Entrepreneurs Infiltrate and Dominate the Russian Economy? *Journal of Economic Issues*. Vol 32, No. 2, (Jun., 1998), pp. 565-574

A. Aslund: *Comparative Oligarchy: Russia, Ukraine and the United States*, 2005

Chinese economy: specific financial features of Chinese state capitalism

Hahm Chaibong: *China's Future is South Korea's Present – Why Liberalization Will Follow Stagnation*. *Foreign Affairs*, September 2018

Week 13

Final Exam Week

Consultations for final exam and/or final papers: December 10th

Final exam: Thursday, December 13th

Reading

Books:

G. Roland, (2000): *Transition and Economics: Politics, Markets, and Firms*. Cambridge, Mass.: MIT Press – selected chapters

A. Aslund (2013): *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia*. Cambridge University Press; 2 edition

P.R. Gregory, R.C. Stuart (1999): *Comparative Economic Systems* (6th edition). Houghton-Mifflin Company, 1999, ISBN 0 395 90815 9

Books – alternative options:

A. Aslund (2002): *Building Capitalism: The Transformation of the Former Soviet Bloc*. Cambridge University Press, 2002, ISBN 0 521 80139 7 or 0 521 80525 2

D. Gros and A. Steinherr (2004): *Economic Transition in Central and Eastern Europe – Planting the Seeds*. Cambridge University Press, 2004, ISBN 0 521 82638 1 or 0 521 53379 1

D. Gros and A. Steinherr (1995): *Winds of Change: Economic Transition in Central and Eastern Europe*. Longman Group, 1995, ISBN 0 582 102715 or 0 582 102707

Additional reading (not compulsory for the exam).

- J.B. Rosser, M.V. Rosser (2004): *Comparative Economics in a Transforming World Economy* (2nd edition). MIT Press, 2004, ISBN 0 262 18234 3
- Zhao Ziyang et al. (2009): *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang*. Simon & Schuster; First Simon & Schuster Hardcover Edition
- S. Estrin, G.W. Kolodko, M. Uvalic (eds., 2007): *Transition and Beyond*. Palgrave, 2007
- L. Lízal, L. Dušek (eds.) (2011): *CERGE-EI Tackles Transition*. CERGE-EI Prague, 2011
- A. Solimano (2014): *Economic Elites, Crises, and Democracy: Alternatives Beyond Neoliberal Capitalism*, Oxford University Press.
- J. Stiglitz (2018): *Globalization and its Discontents Revisited*, W.W. Norton&Company

A Chinese magazine **Caixin** provides lots of interesting information on Chinese economy, it often attempts to be as open as the situation allows: <http://english.caixin.com/> It may serve both as a source of insight on Chinese economy as well as the source of inspiration for case studies/papers and further research.

Papers and articles:

- A. Aslund: *Comparative Oligarchy: Russia, Ukraine and the United States*, 2005
- E. Berglof, P. Bolton (2001): *The Great Divide and Beyond: Financial Architecture in Transition*, 2001
- J.C. Brada (1996): Privatization is Transition – Or is it? *The Journal of Economic Perspectives*, Vol. 10, No. 2 (Spring, 1996), pp. 67-86
- Z. Brixiova & A. Bulir (2001): Growth Slowdown in Bureaucratic Systems: An Issue Revisited. IMF Working Paper 06/2001
- Dabrowski, Gomulka, Rostowski: *Whence Reform? Critique of the Stiglitz Perspective*
- S. Fries, D. Neven, P. Seabright (2002): *Bank Performance in Transition Economies*. William Davidson Institute Working Paper 505
- D. Ellerman (2001): Lessons from Eastern Europe's Voucher Privatization. *Challenge*, Vol. 44, No. 4, July/August 2001, pp. 14-37
- R.E. Ericson: The classical Soviet-type economy: nature of the system and implications for reform. *Journal of Economic Perspectives*, Volume 5, Number 4, Fall 1991, pp. 11
- S. Estrin (1991): Yugoslavia: The Case of Self-Managing Market Socialism. *The Journal of Economic Perspectives*, Vol. 5, No. 4 (Autumn 1991), pp. 187-194
- S. Estrin, J. Hanousek, E. Kocenda, J. Svejnar (2009): Effects of Privatization and Ownership in Transition Economies. World Bank Policy Research Paper 4811
- J. von Hagen, R.R. Strauch, G. Wolff (2002): East Germany: Transition with Unification, Experiment and Experiences. ZEI working paper B19/2002
- B. Hofman, J. Wu (2009): Explaining China's Development and Reforms. The International Bank for Reconstruction and Development / The World Bank, Working paper No. 50, 2009
- J. Kornai (2000): Ten Years After "The Road to a Free Economy": The Author's Self-Evaluation. World Bank ABCDE Conference, 2000
- J. Kornai (2006): The Great Transformation of Central and Eastern Europe – Success and Disappointment. *Economics of Transition*, Volume 14 (2) 2006, 207-244
- S. L. Richman (1981): War Communism to NEP: The Road to Serfdom. *The Journal of Libertarian Studies*. Vol. V., No. 1 (Winter 1981)
- Sabirianova, Svejnar, Terrell (2005): Foreign Investment, Corporate Ownership, and Development: Are Firms in Emerging Markets Catching Up to the World Standard? William Davidson Institute Working Paper No. 734, January 2005
- J. Stiglitz (1999): Whither Reform. Ten Years of Transition. World Bank ABCDE Conference
- P. Temin (1991): Soviet and Nazi economic planning in the 1930s. *Economic History Review*, XLIV, 4 (1991), pp. 573-593
- Wei Li, D. T. Yang (2005): The Great Leap Forward: Anatomy of Central Planning Disaster. *Journal of Political Economy*, 2005, Vol. 113, No. 4

Selected topical articles from the Economist/FT/other periodicals will be recommended during the term.