

ECONOMICS OF TRANSITION**ECON 3808A****Fall 2019**

Instructor: Mykyta Vesselovsky
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Class Time: Thursday, 18:05 – 20:55 pm
Classroom: 202 Tory Building
Office Hours: By appointment and as announced in class
TA: TBA
Email: TBA
Office Hours: TBA

Prerequisite: ECON 1001 or ECON 1000 or FYSM 1003. Students who believe they have taken a similar background course or courses from another university must provide appropriate documentation to the Department of Economics Undergraduate Administrator, Amanda Wright.

DESCRIPTION

The goal of this course is to discuss and understand the recent experiences of a range of countries during the process of transition from a “socialist”, centrally planned economy to a “capitalist”, market-type economy. It explores the fundamentals of both systems and their operation, regional economic background, and the key elements of transition process in countries of Central and Eastern Europe, the former Soviet republics, and Central Asia.

To provide a background for this in-depth study of the economies of transition, we examine the legacy of the Soviet economic system which these countries inherited, the demise of central planning and the debates about best practices in transition economies. We review the progress of transition in various countries concentrating on macroeconomic stabilization, market liberalization, firm privatization, institutional development and the establishment of a social safety net.

The key task of the course is to examine to what extent differences in economic performance in post-communist countries during transition are associated with:

- The level and pattern of economic development;
- The magnitude of initial distortions in industrial structures and trade patterns;
- Chosen reform paths (shock therapy or gradual transition), speed of liberalization;
- Institutional and political constraints of the state;
- Macroeconomic and industrial policies;
- Other factors.

GRADING

Midterm Exam (October 17 , in class)	20%
In-class quizzes (5)	50%
Debate: Presentation	10%
Debate: Paper	20%
Extra marks: Debate Contribution	+5%
TOTAL	100%

Quizzes: The last hour of each class (Weeks 4, 6, 8, 10 and 12) will feature an in-class quiz. The quizzes will focus on the required course readings from the two previous weeks. They will test not just your memory but also your ability to make inferences from the material read. Quiz attendance is mandatory. You are allowed to miss one of the quizzes with prior warning and an acceptable reason, in which case its weight will be transferred to your midterm or paper. Any additional missed quizzes will result in a grade of 0 for that quiz.

Debate: Presentation: In Weeks 9-12 of the course, 1 hr will be devoted to a debate on a key topic. Teams of 3-4 students will prepare and present a case on one side of a particular issue, followed by the other team on the opposite side. These presentations will be marked individually and will account for 10% of your course grade. The topic will then be opened to class discussion. Additional details will be provided by the third week of class. Debate topics are listed in the course syllabus below.

Debate: Contribution: During the class discussion portion of the debate, all students can make their arguments to contribute to the 'pro' or 'con' side of the discussion. An argument that is concise, well-delivered and of clear additional value to the debate may be rewarded with a 1% bonus to course grade, up to a maximum of 5% per student for the course.

Debate: Paper: Following the presentation at the debate, a position paper in essay form will be prepared by each student expanding and writing out their debate case. The position paper should be 1800-2000 words in length, double-spaced, with sources additional to required class readings. Additional details will be provided by the third week of class. The paper will be due one week after the class debate and can be e-mailed.

Please note the following important rules associated with this course:

- Any student who fails to appear for the midterm test, or fails to hand in the debate paper will automatically receive a zero for that assignment, unless the instructor is notified in advance and a written medical or equivalent excuse is provided. With a valid reason a substitute test or an extension for the paper will be scheduled.
- Penalties for late essays are as follows: Two percentage points for each late day (including weekends). Papers will not be accepted more than one week after the due date without a valid (e.g. written medical) excuse.

READINGS

As a discussion course in political economy, this course emphasizes required readings. They replace the theoretical models, graphical analysis and problems of most standard economics courses, and should be

taken just as seriously. Materials on the reading list are required. Readings are available in the bookstore, online or on reserve through the university catalogue. Read the week's materials before coming to class.

RE = on reserve in main library; **ON** = on-line, through ARES or the library catalogue

This outline is tentative and readings may change, especially for the second half of the course.

Main text (bookstore and also on reserve):

Myant M. and Drahokoupil, J. (2011). *Transitions Economies: Political Economy in Russia, Eastern Europe, and Central Asia*, John Wiley and Sons (referred to below as **M&D**).

COURSE OUTLINE

Week 1 (September 5): Outline

The region and its groupings. Historical background. Points of departure. What is success? Understanding capitalism. Custodians and referees of transition. Macroeconomic notions. Links to economic growth and development. Objectives, outcomes and surprises of transition. The triumph of institutionalism?

Readings:

M&D, *Introduction*, pp. xvi-xxiv

Roland, Gérard (2018). *Comparative Economics in Historical Perspective*, *Comparative economic studies*, (60)4, pp. 475-501 (**ON**)

Roland, Gérard (2000). *Transition and Economics: Politics, Markets, and Firms*, MIT Press, Chapter 1 (pp. 1-22) (**RE**)

Week 2 (September 12): Understanding State Socialism

The role of history. Political origin of socialism. Problems that socialism addresses. Problems that socialism creates. Property rights and incentives. Law vs. justice. Consumption vs. survival. A glimpse of transition issues.

Readings:

M&D: Chapter 1, *The System of State Socialism*, pp. 3-10

Hitchens, Christopher, *Marx's Journalism: The Grub Street Years*, in *Arguably: Essays* (2011), New York, pp. 180-191 (**RE**)

Kornai, Janos (1992). *The Socialist System. The Political Economy of Communism*, Princeton University Press: Chapters 2, 3 (pp. 33-36) and 4 (pp. 49-62) (**RE**)

Lavigne, Marie (1999). *The Economics of Transition from Socialist Economy to Market Economy*. St. Martin's Press: Chapter 1, pp. 3-15 **(RE)**

Week 3 (September 19): History and Economics of Soviet Planned Economy

Formation and expansion of the Soviet state. Its command and control structure. The role of the Party. The search for the appropriate economic regime. War Communism. New Economic Policy. Collectivization. Industrialization. The primacy of the military-industrial complex. Post-war expansion and loosening of control. Idealism of the 60s. Disillusionment of the 70s. The road to dissolution.

Readings:

Harrison, Mark (2017), *"The Soviet Economy, 1917-1991: Its Life and Afterlife"*, *The Independent Review* 22(2): 199-206 **(ON)**

Allen, Robert C. (2001), *"The Rise and Decline of the Soviet economy"*, 35th Innis Lecture, UBC & University of Utah **(ON)**

Gregory, Paul and Stuart, Robert (1998). *Russian and Soviet Performance and Structure*. Prentice Hall (6th edition): Chapter 3 ("War Communism and the New Economic Policy: 1918-1928", pp. 43-61) and Chapter 5 ("Creating the Administrative Command Economy: 1929-1940", pp. 73-95) **(RE)**

Week 4 (September 26): Industrial Organization and Structural Inefficiencies

Post-war economic performance. Causes of stagnation and decline. Under the hood: prices, incentives and shortages. The role of trade, technology and ideas. Social welfare and inequality. Early economic reform attempts. Starting positions for transition.

Readings:

M&D, Chapter 2, *The Successes and Failures of Central Planning*, pp. 11-31.

M&D, Chapter 3, *From Reform to Breakdown*, pp. 33-45

Lavigne, Marie (1999). *The Economics of Transition from Socialist Economy to Market Economy*. St. Martin's Press: Chapter 5, pp. 65-78 **(RE)**

Gregory, Paul and Stuart, Robert (1998). *Comparative Economic Systems*. Houghton Mifflin Company. 6th edition: Chapter 7 ("The Administrative Command Economy: Management, Labor, and Pricing", pp. 121-141) **(RE)**

Week 5 (October 3): How to Transition? Strategies and Performance

Shock therapy. Gradualism. Real options. Initial depression. Geographic groupings and their different trajectories. What can econometrics tell us? Lack of theory. CEEC experience. Soviet republics' experience. Washington and Brussels. Neoliberals. Shock therapy in Poland, Russia, and elsewhere.

Readings:

M&D, Chapter 4, *The Courses of Transition*, pp. 49-62

M&D, Chapter 5, *A Strategy for Transition*, pp. 83-104

Popov, V. (2007), “*Shock Therapy versus Gradualism Reconsidered: Lessons from Transition Economies after 15 Years of Reforms*”, *Comparative Economic Studies* (49), pp. 1-31 **(ON)**

Week 6 (October 10): Macroeconomics of Transition

Global economic linkages. International trade. Financial flows. Investment, remittances and aid. Integration and restructuring. Regional differences. The role of the state. Public spending and taxation. Education. Health care. R&D. Infrastructure.

Readings:

M&D, Chapter 4, *The Courses of Transition*, pp. 62-79

M&D, Chapter 9, *Economic Role of the State*, pp. 159-183

Week 7 (October 17): Review Class. Midterm exam (2 hours)

October 24 - fall break, no classes.

Week 8 (October 31): Privatization/Industrial Restructuring and Financial Sector

The theory of corporate governance. Methods of privatization. Vouchers. Czech vs. Russian experience. Capitalism or corruption? Enterprise performance. The financial system. Banking during transition.

Readings:

M&D, Chapter 13, *Privatization*, pp. 237-257

M&D, Chapter 14, *A New Banking System*, pp. 259-275

Lavigne, Marie (1999). *The Economics of Transition from Socialist Economy to Market Economy*.

St. Martin's Press: Chapter 8, pp. 162-192 **(RE)**

Week 9 (November 7): Labor Market and Social Consequences of Transition. Government Reform

The welfare state under socialism. The social contract. Short-term effects. Consequences of transition. Pensions, employment, equality.

Readings:

M&D, Chapter 10, *Welfare States and Regimes*, pp. 185-212

Gevorkyan, Aleksandr V. (2018). *Transition Economies. Transformation, Development, and Society in Eastern Europe and the Former Soviet Union*. New York: Routledge: Chapter 8 (“Poverty, income inequality, labor migration, and diaspora potential”), pp. 161-186 **(ON)**

Iwasaki, I. (2003). “Evolution of government-business relationship and economic performance in the Former Soviet States – order state, rescue state, punish state”. *Economics of Planning*, Vol. 36(3), pp. 223-257 (ON)

Debate: Resource (oil and gas) abundant economies in post-Soviet space grow more slowly than other economies (“resource curse”) (2 groups, 6 students)

Debate: Shock therapy reforms resulted in better economic and social outcomes compared to gradual reforms (2 groups, 8 students)

Week 10 (November 14): Disintegration. COMECON, Warsaw Pact and multinational states collapse.**The post-Soviet space**

Political developments of the 90s. The end of the Cold War. Alternatives for the West. Self-determination in Eastern Europe. Economics or politics? Remaining foundations of Soviet power. Post-Soviet space control structures.

Readings:

Lavigne, M. (1999). *The Economics of Transition from Socialist Economy to Market Economy*, (Palgrave, second edition), Chapter 6 (“The End of the System”) (pp. 102-112) **(RE)**

Hartwell, C.A. (2013). “A Eurasian (or a Soviet) Union? Consequences of further economic integration in the Common Wealth of Independent States”, *Business Horizons* Vol. 56(4), pp. 411-420 **(ON)**

Dragneva, R. and Wolczuk, K. (2012), “Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?”, *Chatham House Briefings*, August 6, 2012 **(ON)**

Debate: The Russian transition has been a political success, but an economic failure (2 groups, 8 students)

Debate: Corruption deters foreign direct investment (2 groups, 6 students)

Week 11 (November 21): Reintegration of CEECs. European Union accession

History, aims and structure of the EU. From Comecon to European Union. Engines of economic growth: goods, services, capital and labour movement. Adjustment by new members. EU support policies.

Readings:

Linden, R.H. and Killian, S. (2015), "EU Accession and After", in Wolchik, s. & Leftwich, C.J. (eds.), Central & East European Politics. *From communism to democracy*, Rowman & Littlefield, 3rd edition, pp. 189-212 **(ON)**

Epstein, R.A. (2014). "Overcoming Economic Backwardness in the European Union", *Journal of Common Market Studies*, Vol. 52(1), pp. 17-34 (ON).

Debate: Should everyone just join the European Union? (2 groups, 8 students)

Debate: Eurasian Economic Union versus Deep Free Trade Agreements with the European Union.

(Consider as case studies Moldova, Georgia, Armenia and Azerbaijan). (2 groups, 8 students)

Week 12 (November 28): Economic Crisis and Transition Economies / Lessons and Challenges

Varieties of capitalism. Industrial structures. Financial accounts. Resistance to shocks. The Great Recession as a test. Verdict on transition. Could we do it better next time?

Readings:

M&D, Chapter 16, *Emerging Varieties of Capitalism*, 299-312

M&D, Chapter 17, *The Financial Crisis and a Verdict on Transition*, pp. 313-333

Havrylyshyn, O., Meng, X and Tuoy, M.L. (2016), "25 years of Reforms in Ex-Communist Countries. Fast and extensive Reforms Led to Higher Growth and More Political Freedom", Policy Analysis CATO Institute, <https://www.cato.org/publications/policy-analysis/25-years-reforms-ex-communist-countries-fast-extensive-reforms-led> **(ON)**

Debate: Will the CEECs that are part of the EU benefit from Eurozone (monetary union) membership? (2 groups, 8 students)

Debate: Globalization (international economic integration) and Europeanization (European

economic integration) benefited the transition economies. (2 groups, 8 students)

Academic Accommodations:

The Centre for Student Academic Support (CSAS) is a centralized collection of learning support services designed to help students achieve their goals and improve their learning both inside and outside the classroom. CSAS offers academic assistance with course content, academic writing and skills development. Visit CSAS on the 4th floor of MacOdrum Library or online at:

www.carleton.ca/csas

The Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or pmc@carleton.ca for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send the instructor your Letter of Accommodation at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). Requests made within two weeks will be reviewed on a case-by-case basis. After requesting accommodation from PMC, meet with the instructor to ensure accommodation arrangements are made. Please consult the PMC website (www.carleton.ca/pmc) for the deadline to request accommodations for the formally-scheduled exam (if applicable).

Religious Observance: Students requesting accommodation for religious observances should apply in writing to their instructor for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student. Instructors and students may contact an Equity Services Advisor for assistance (www.carleton.ca/equity).

Pregnancy: Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. Then, make an appointment to discuss your needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

Plagiarism: The University Senate defines plagiarism as “presenting, whether intentional or not, the ideas, expression of ideas or work of others as one’s own”. This can include: reproducing or paraphrasing portions of someone else’s published or unpublished material, regardless of the source, and presenting these as one’s own without proper citation or reference to the original source; submitting a take-home examination, essay, laboratory report or other assignment written, in whole or in part, by someone else; using ideas or direct, verbatim quotations, or paraphrased material, concepts, or ideas without appropriate acknowledgment in any academic assignment; using another’s data or research findings; failing to acknowledge sources through the use of proper citations when using another’s works and/or failing to use quotation marks; handing in substantially the same piece of work

for academic credit more than once without prior written permission of the course instructor in which the submission occurs.

All suspicions of plagiarism will be dealt with according to the Carleton's Academic Integrity Policy (<http://carleton.ca/studentaffairs/academic-integrity/>). The Associate Dean of the Faculty will conduct a rigorous investigation, including an interview with the student. Penalties are not trivial. They may include a mark of zero for the plagiarized work or a final grade of F for the course. Student or professor materials created for this course (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the author(s). They are intended for personal use and may not be reproduced or redistributed without prior written consent of the author(s).

Submission, Return and Grading of Term Work:

Written assignments must be submitted directly to the instructor(s) according to the instructions in the course outline. If permitted in the course outline, late assignments may be submitted to the drop box in the corridor outside room 3305 Richcraft Hall. Assignments will be retrieved every business day at 4 p.m., stamped with that day's date, and then distributed to the instructors. For written assignments not returned in class please attach a stamped, self-addressed envelope if you wish to have your assignment returned by mail. Final exams are intended solely for the purpose of evaluation and will not be returned.

Final standing in courses will be shown by alphabetical grades. The system of grades used is standard to Carleton.

90-100:	A+
85-89:	A
80-84:	A-
77-79:	B+
73-76:	B
70-72:	B-
67-69:	C+
63-66:	C
60-62:	C-
57-59:	D+
53-56:	D
50-52:	D-
0-50:	F

Standing in a course is determined by the course instructor subject to the approval of the Faculty Dean. This means that grades submitted by an instructor may be subject to revision. No grades are final until they have been approved by the Dean.

Carleton E-mail Accounts: All email communication to students will be from the instructor's e-mail (mykyta.vesselovsky@international.gc.ca) to the students' official Carleton university e-mail accounts and/or cuLearn. Important course and university information is distributed this way, so it is the student's responsibility to monitor their Carleton and cuLearn accounts. However, do not e-mail the instructor on Carleton or cuLearn, use the e-mail above for all communications.