

ECONOMICS OF TRANSITION**ECON 3808A****Fall 2021**

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Please DO NOT use my Carleton/Brightspace e-mail!

Class Time: Thursday, 18:05 – 20:55 pm (in-class lectures only)

Classroom: HS 1301

Website: <https://brightspace.carleton.ca/d2l/home/62131>

Office Hours: By appointment and as announced in class

TA: TBD

TA Info: TBD

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 Acting Department of Economics Undergraduate Administrator, Renée Lortie.

I. DESCRIPTION

The goal of this course is to study 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. Thirty years ago the Berlin Wall fell, symbolizing the end of the greatest economic experiment of the 20th century conducted in countries of Central and Eastern Europe, the former Soviet republics, and Central Asia. What have we learned during their return to the global economic community?

We start with the region’s historical and economic background, then review the fundamentals of socialism and central planned economy, and the legacy of the Soviet economic system which these countries inherited. We proceed through the initial debates about transition that outlined the options, and review the eventual outcomes, economic and social. We study the key determinants of transition choices and outcomes, and then discuss in detail the domestic vested interests and obstacles that obstructed the path towards further reform. While the case of China is outside the scope of this course, we will have an opportunity to apply what we learned to its situation.

In addition to learning about transition, a key objective at the end of the course is to gain a better understanding of a functioning market economy and to be able to describe an “optimal” transition process from a non-market economy to a market one.

II. GRADING

Midterm Exam	25%
In-class quizzes (4)	20%
Country Study	20%
Final Exam	35%
TOTAL	100%

III. EDUCATIONAL PROCESS

Modality: Classes will take place in person on campus. No online participation will take place for this course. Key slides for these lectures will be accessible from the Brightspace course website, but will only have general topics discussed without detail. Lecture attendance will be essential to do well.

To succeed in the course you should follow the steps below in order:

- review the course outline before every class to situate the subject of the upcoming lecture within the course;
- do the required readings before every class (and further readings if interested in the topic);
- attend the lecture, which will help you to: 1) understand the context, 2) arrange the material from the readings in the right order, 3) put emphasis on what's important and what is secondary, and 4) determine what knowledge will be required in order to do well on quizzes and exams;

Quizzes: The last half-hour of each class on Weeks 4, 6, 9 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. 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 final exam. Any additional missed quizzes will result in a grade of 0 for that quiz.

Country Study: In Week 3, a random draw will be held to assign one transition country to every student. You will be responsible for writing a short study on your assigned country. Its length should be 1,500 words, or 6 double-spaced pages, plus accompanying charts/tables/references in an Annex). Additional details will be provided by the third week of class. The paper will be due in the week of the last class and should be submitted online.

The perspective of your Country Study will follow this scenario:

- you are a citizen of a transition country - born, raised and now working there;
- however, you are also a graduate from a Canadian university with a recent degree in economics;
- your country underwent a recent election, and the new government wants your urgent and honest advice on the transition progress so far, and what can be done to improve its speed;
- your advice above should apply both domestically and internationally, because a copy of your study will also be forwarded to the World Bank and IMF. Think accordingly.

Your Country Study should strictly follow the outline below:

1. General description of the economic situation at the beginning of transition, and key facts and constraints (political, military, international, industrial etc.) that should be borne in mind.
2. Discuss the degree of progress towards a market economy achieved by your country up to now, using quantitative evidence discussed in the course materials (GDP, TPI, HDI, INST, Gini, etc.). Make sure to

use available sources: you can't be flatly contradicting EBRD, IMF, World Bank, but you cannot plagiarize them either. Consider their evidence and creatively develop it with additional information.

3. Make conclusions and recommendations for action. Those are 4-5 short bullets at the end that are the key value added of your study (think of your short window of opportunity, the most important reforms that can be made, and a realistic way to implement them). Do not be generic. Use additional readings on the country in question to gain more insight into its path and problems.

Please note the following important rule associated with this course:

- Any student who fails to write the midterm test, or to hand in the paper on time, will automatically receive a zero for that assignment, unless the instructor is notified in advance and a written medical or equivalent explanation is provided. With a valid reason an extension for the paper will be scheduled and the weight of the midterm can be shifted to the final.

IV. 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, but should be taken just as seriously. Materials on the reading list are required. Readings are available online, on reserve through the university catalogue or in the bookstore. Read the week's materials before tuning in for the class - it will make the class material more useful to you.

ON = on-line, through ARES or the library catalogue.

This outline is tentative and some readings may change as we progress.

Main text (bookstore for both e-version and complimentary physical copy, and on reserve):

Havrylyshyn, Oleh (2020). *Present at the Transition: An Inside Look at the Role of History, Politics, and Personalities in Post-Communist Countries*, Cambridge University Press (referred to below as **Text**).

COURSE STRUCTURE

Part I: THE PAST

Week 1 (Sep. 9): Points of Departure

Understanding the region and its country groupings. Historical background. What is success? Understanding capitalism. Economic socialism in historical context. Contributions to economic theory from transition experience. Outline of the course.

Readings:

Text, Introduction, pp. 1-15

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, Introduction, (pp. xvii-xxv) (**ON**)

Week 2 (Sep. 16): Understanding State Socialism: Theory and Practice

Political origin of socialism. Marx's challenge and its meaning. Problems that socialism addresses. Problems that socialism creates. Property rights and incentives. 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.

Readings:

Myant, Martin and Drahokoupil, Jan (2011). *Transition Economies*, Chapter 1, *The System of State Socialism*, pp. 3-10, John Wiley & Sons.

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

Further readings of interest: 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) **(ON)**.

Week 3 (Sep. 23): Initiating Transition

Political vs. economic motives for the transition. Unprecedented challenges for an unprepared profession. Main economic themes of transition. The "Washington Consensus". Speed of reforms: "Big Bang vs. Gradualism". Some key issues and definitions. Hypotheses to be tested. Pitfalls of transition. The transformation depression. The Big Bang in Poland: how did it work? The CIS collapse. Key practical aspects of transition: international integration, trade, financial flows, foreign direct investment, remittances and aid.

Readings:

Text, Ch.1, pp. 17-34.

Myant, Martin and Drahokoupil, Jan (2011). *Transition Economies*, Chapter 4, *The Courses of Transition*, pp. 49-69, **(ON)**.

Further readings of interest: Gros, Daniel, "From Transition to Integration: The Role of Trade and Investment", in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 233-250 **(ON)**.

Part II: THE STORY OF TRANSITION**Week 4 (Sep. 30): Reforms and Results of Transition**

Measuring transition. TPI, private share, democracy, GDP. Standards of living and inequality. Inflation and unemployment. Public finance. Social well-being and cost of reforms. Outcomes for different

regions and groupings. Liberalization and institutional development. Corruption. Preliminary conclusions on the basis of the data.

Readings:

Text, Ch.2, pp. 35-62.

Further readings of interest: Wyplocz, Charles, “Twenty-Five Years Later: Macroeconomic Aspects of Transition”, in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 205-232 (ON).

Week 5 (Oct. 7): Transition Choices - Role of History, Leaders and Populations

Historical legacies. Variables of importance. Path dependency? Attitudes to communism. Wars and conflict. Nationalism and independence. Transition leaders. Political experience. CEB and Southeast Europe. FSU. Leaders or people? Conclusions.

Readings:

Text, Chs. 3-4, pp. 63-103.

Week 6 (Oct. 14): Transition Choices - Technocrats and External Forces

Shortage of competent specialists. Economic experts in CE. The role of Western education. Kornai, Klaus, Balcerowicz, Kolodko, Horvat, Isarescu. Reform commitment and high appointments of economists. Situation in FSU: Russia and Ukraine. Lack of specialists or lack of leadership? Filling the gap through imports. Diaspora and its role. Foreign advisors and returnees. Training in market economics. Foreign influences. The EU anchor. IFIs and their role. Conclusions.

Readings:

Text, Chs. 5-6, pp. 104-154.

Further readings of interest: Balcerowicz, Leszek, “Poland: Stabilization and Reforms”, in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 17-38 (ON).

Week 7 (Oct. 21): Review + Midterm exam (in-class, 2 hours)

FALL BREAK, no classes

PART III: TRANSITION IN PRACTICE: ISSUES AND PROBLEMS**Week 8 (Nov. 4): Domestic Vested Interests**

The role and perception of insiders. Theoretical framework for “old guard” behaviour. Transition from power to wealth. Life in transition - methodology and results. Populism and abuse of statistics. Fate of the “old guard” in CEB and FSU.

Case study: radical reforms in Estonia.

Readings:

Text, Ch. 7, pp. 157-180.

Laar, Mart, “Estonia: The Most Radical Reforms”, in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 73-88 (ON).

Further readings of interest: Sanfey, Peter, “People and Transition: Life in Transition Survey”, in *Handbook of the Economics and Political Economy of Transition*, by Hare, Paul and Gerard Turley, eds., pp. 313-320.

Week 9 (Nov. 11): Enter the Oligarchs

The new Russians. What’s a Maybach? The opening of the income gap. Its causes. Transformation of the old communist elite. State wealth open to insiders. Loans-for-shares: the rise of the oligarchs. Property rights and their protection. Oligarch activities, economical and political. True purpose of state budget. Who runs the state: Russian vis-a-vis Ukrainian oligarchs. Other regions (FSU and CE).

Case study: failed hopes in Ukraine.

Readings:

Text, Ch. 8, pp. 181-212.

Havrylyshyn, Oleh, “Ukraine: Greatest Hopes, Greatest Disappointments”, in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 165-184 (ON).

Further readings of interest: Freeland, Chrystia, *Plutocrats: The Rise of the New Global Super-Rich and the Fall of Everyone Else*, 352 pages, Penguin Press (RE).

Week 10 (Nov. 18): Corruption: A Transition to Nowhere

Bribes in the socialist economy. Origin of corruption in policy. Theoretical views. Data and trends of corruption. Types and aspects of corruption. The role of the oligarchs. Pervasiveness of corruption. Corruption control and prospects for change.

Case study: the war against corruption in Georgia.

Readings:

Text, Ch. 9, pp. 213-241.

Saakashvili, Mikheil and Kakha Bendukidze, “Georgia: The Most Radical Catch-up Reforms”, in Aslund, Anders and Simeon Djankov, eds., *The Great Rebirth*, pp. 149-163 (ON).

Week 11 (Nov. 25): The Role of the State and Social Consequences of Transition

The role of the state under planned and market economies. Desire for reduction in state’s role and its coincidence with 1990s neoliberal orthodoxies. Economic intervention by the state: stages of growth. Public spending and balance. Education. Research and development. Industrial policy. Taxation.

Readings:

Myant, Martin and Drahokoupil, Jan (2011). *Transition Economies*, Chapter 9, *Economic Role of the State*, pp. 159-183.

World Economic Forum (2006), *The Global Competitiveness Report, 2006-2007*, Lopez-Claros et al.

Week 12 (Dec. 2): End of Transition: Conclusions and Lessons

Accession to the EU. Impact of socialist past on EU members now minimal. Engines of EU economic growth. Stylized facts about transition. Why some succeeded and others are stuck? Myths and legends of transition. Perspectives for the future. A better socialism?

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)

Text, Chs. 11-12, pp. 271-296.

Further readings of interest (particularly for help with the country study): *Faces of Convergence*, e-book, on course website@Brightspace.

V. 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 Observances: 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.

Plagiarism is a serious offence that cannot be resolved directly by the course’s instructor. The Associate Dean of the Faculty conducts a rigorous investigation, including an interview with the student, when an instructor suspects a piece of work has been plagiarized. Penalties are not trivial. They can include a final grade of “F” for the course.

Copyright: Classroom teaching and learning activities, including lectures, discussions, presentations, etc., by both instructors and students, are copyright protected and remain the intellectual property of their respective author(s). All course materials, including PowerPoint presentations, outlines, and other materials, are also protected by copyright and remain the intellectual property of their respective author(s).

Students registered in the course may take notes and make copies of course materials for their own educational use only. Students are not permitted to reproduce or distribute lecture notes and course materials publicly for commercial or non-commercial purposes without express written consent from the copyright holder(s).

Submission, Return and Grading of Term Work:

Written or online assignments must be submitted directly to the instructor(s) according to the instructions in the course outline. 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.

Communication: All email communication to students will be from the instructor's e-mail (menelhil@yahoo.com) to the students' official Carleton university e-mail accounts and/or Brightspace. Important course and university information is distributed this way, so it is the student's responsibility to monitor their e-mail accounts and course website. However, do not e-mail the instructor on Carleton, but use the e-mail above for all communications.