

**ECONOMICS OF TRANSITION****ECON 3808A****Fall 2024**

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

**Class Time:** Wednesday, 18:05 – 20:55 pm (in-class lectures)  
**Classroom:** Check Carleton Central for Location  
**Website:** <https://brightspace.carleton.ca/d21/home/288639>  
**Office Hours:** By appointment and as announced in class  
**TA:** 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.

**I. DESCRIPTION**

The goal of this course is to study and understand the recent experiences of a great number of countries that engaged in the process of transition from a “socialist”, centrally planned economy to a “capitalist”, market economy. Over thirty years ago, the Berlin Wall fell, symbolizing the end of the greatest political and economic experiment of the 20<sup>th</sup> century. Countries of Central and Eastern Europe, the former Soviet republics, and Central Asia were free to return to the global economic community. What have we learned from their experiences?

To understand this, we need to learn the context. We start with the region’s historical and geographical background, review the fundamentals of socialism and central planned economy and the legacy of the Soviet economic system which these countries inherited. This allows us to proceed to the second part of the course: the initial debates about transition, its course and its eventual economic and social outcomes. Here we study the key determinants of transition choices and outcomes. In the third part of the course, we discuss the deviations from the general theory and specific country experiences, with group presentations. Many of those relate to 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. The current existential conflict between Russia and the West will also be discussed.

Key objectives of this course include: understanding transition process and outcomes, better understanding of a functioning market economy, learning about the region and learning about socialism.

**II. GRADING**

Presentation (dates below)	25%
In-class quizzes (4, with dates below)	20%

Midterm Exam (Oct. 16)	35%
Country Study (Dec. 4)	20%
<b>TOTAL</b>	<b>100%</b>

### 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:

- 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 the rest of your coursework. Any additional missed quizzes will result in a grade of 0 for that quiz.

**Presentations:** You will be assigned to a team in Week 1 and pick a team presentation in Week 2. You can pick from the following topics: Ancient Kingdoms of the Region; Life in Transition; The Career of Saakashvili; Lives of the Oligarchs; Resource Curse?; The Truth About Russian Privatization. The presentations will happen after the midterm (Weeks 8-11): aim for 40 minutes + 15 min discussion.

**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 study on your assigned country. Its length should be 1,500-1,800 words (6-8 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 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 working there;
- however, you recently graduated from a Canadian university with a 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 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.

#### **IV. SUBMISSION, RETURN AND GRADING OF TERM WORK:**

Written or online assignments must be submitted directly to the instructor according to the instructions in the course outline. Students must fulfill all of the course requirements in order to achieve a passing grade (D- or higher).

Please note the following important rule associated with this course:

- Any student who fails to write a quiz, 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 quiz can be shifted to the rest of the course.
- As it is required that all course evaluations be submitted in order to have good standing in this course, an absence from a midterm will result in withdrawal or a failing grade for this course.

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.

## V. ACADEMIC ACCOMMODATIONS, PLAGIARISM AND COMMUNICATIONS

You are responsible for reading and knowing the information about plagiarism, Carleton University resources, and academic accommodations found [HERE](#).

E-proctoring will not be used for evaluations in this course.

Communications: All email communication to students will come from the instructor's Carleton e-mail account to the students' official Carleton university e-mail accounts and/or announcements on the course website (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 ([menelhil@yahoo.com](mailto:menelhil@yahoo.com)) for all communications.

## VI. 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. 4): Points of Departure

Understanding the region. Geography and history. Where does transition start and where is it going? Understanding capitalism. Economic work on transition experience. Links to Russian-Ukrainian relations and Russia's invasion of Ukraine. Links to China.

#### Readings:

**Text**, Introduction, pp. 1-15

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

Further readings of interest:

Mankoff, Jeffrey (2022). "Russia's War in Ukraine: Identity, History, and Conflict", [Weblink](#).

Snyder, Timothy, "The Making of Modern Ukraine", Yale course (Youtube).

## **Week 2 (Sep. 11): 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. Discussion: On the end of the USSR, its broken pieces and the One Ring.

### **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)**.

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

### Further readings of interest:

Shehadi, Sebastian, "Why the Ukrainian economy matters to Russia (and the rest of the world)", [Weblink](#).

Allen, Robert C. (2001), "The Rise and Decline of the Soviet economy", 35<sup>th</sup> 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. 18): Initiating Transition**

Political vs. economic motives for the transition. Which ones win? 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. 25): 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. Quiz #1.

**Readings:**

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

Atlantic Council Freedom and Prosperity Indexes, [Weblink](#).

*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. 2): 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? Discussion: Free will or determinism - who makes history? Conclusions.

**Readings:**

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

**Week 6 (Oct. 9): 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. Quiz #2.

**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. 16): Review + Discussion + Midterm exam (in-class, 2 hours)**

**FALL BREAK, no classes**

**PART III: TRANSITION IN PRACTICE: ISSUES AND PROBLEMS**

**Week 8 (Oct. 30): Domestic Vested Interests**

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

Case study: radical reforms in Estonia. Presentations: “Life in Transition”, “Ancient Kingdoms of the Region”.

**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. 6): 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). Presentation: “Lives of the Oligarchs”. Quiz #3.

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. 13): 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. Presentation: “The Career of Saakashvili”.

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. 20): 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. Presentations: "Resource Curse?", "The Truth About Russian Privatization".

**Readings:**

Myant, Martin and Drahokoupil, Jan (2011). *Transition Economies*, Chapter 9, *Economic Role of the State*, pp. 159-170.

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

**Week 12 (Nov. 27): State Functions. The End of Transition and its Lessons.**

Public spending and balance. Education. Research and development. Industrial policy. Taxation. 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. Is a better socialism possible? Quiz #4.

**Readings:**

Myant, Martin and Drahokoupil, Jan (2011). *Transition Economies*, Chapter 9, *Economic Role of the State*, pp. 171-183.

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.

**Week 13 (Dec. 4): Conclusions and Review.**