

Economic Transformation in Eastern Europe

(4 credits)

Lecturer: Attila Fölsz folsza@ceu.hu

Lectures and seminars: Tuesday and Thursday 9.00 – 10.40

Office hours: Tuesday 10.40 – 13.00, Thursday 10.40 – 12.00

Course description and objective:

The course has three main goals:

First, to introduce the main themes and paradigms of an evolving discipline, called “political economy of economic reforms” and to provide them with a conceptual and analytical framework that can be applied for studying specific reform episodes or the relationship between economics and politics in general.

Second, to identify the common and specific features of transition experience throughout the region of Central and Eastern Europe.

Third, to discuss and evaluate the major schools of descriptive and normative “transitology”, not only on the basis of their intellectual appeal, but also in the light of more than a decade of experience.

Participation in this course does not require any background in economics but does require some very basic acquaintance with some fields of political science, such as comparative politics, political economy and public choice.

The selected readings contain contrasting views which hopefully will provoke lively discussions in the seminars.

Learning outcomes:

Students will be acquainted with the themes and analytical approach of political economy of policy reforms and post-communist transition. The acquired knowledge will enable them to pursue individual empirical research on economic transition and reform episodes.

Teaching format:

Usually 2 classes are devoted to each topic. The first are interactive lectures while the seconds are seminars that require active students' participation.

Requirements

- Students are required to attend classes regularly and to participate actively in course discussions.
- Students are expected to formulate written comments and questions about the literature. These not more than half page long comments and questions will serve as basis for seminar discussions, and are to be submitted via e-mail before the seminars.
- Students are expected to make in-class presentations of some literature not included in the core readings.
- Students will write brief written tests after every four topics
- Students write in-class closed-book mid-term and final exams.
- Students are to prepare a final home-essay, preferably on the transition experience of their home country, related to the topics of the course. Essays must be submitted by the end of the semester.
- Students are also requested to make a short presentation on the major points of their future essay in the second half of the semester

Assessment:

3 short tests (3 x 10 %):	30 %
Written questions and comments:	15 %
Final essay:	35 %
In-class presentation	10 %
In-class participation	10 %

Class 1-2: The political economy of economic reforms: Survey of issues

A review of major schools and themes of political economy of reforms, "bad" and "good" political economy

Dani Rodrik (1996): Understanding Economic Policy Reform. *Journal of Economic Literature*, Vol XXXIV, March 1996, pp. 9-41

Roland, Gérard (2002): The Political Economy of Transition. *Journal of economic perspectives*, Vol. 16, No. 1

Further reading:

Grindle, Merilee S. (1989) "The New Political Economy. Positive Economics and Negative Politics" *Policy Planning and Research Working Papers*. No. 304. *The World Bank*.

Pickel A. (2002): Transformational Theory: Scientific or Political? *Communist and post-communist studies*, Vol 35, No. 1

Fidmurec Jan (2003): Economic reform, democracy and growth during transition. *European Journal of political economy*, vol 19, 583-904

Class 3-4: Transition, as a Change of System

An introduction to comparative economic systems: capitalism and socialism, capitalisms and socialisms

Kornai, János (2000): What the Change of System from Socialism to capitalism Does and Does Not Mean. *Journal of Economic Perspectives*, Vol 14 (1 Winter 2000- pages 27-42

Further reading:

Kornai, János (1992) The Socialist System: The Political Economy of Socialism. Princeton University Press, Oxford University Press

Class 5-6: The transition reform package and its mainstream blueprint

The neoliberal doctrine of economic reform and the elements of standard reform policy packages

Williamson, John (1990): What Washington Means by Policy Reform. in: Williamson (ed.): Latin American Adjustment: How Much has Happened? *Institute for International Economics Washington D.C. April*

Kolodko, Grzegorz W (1998). Transition to a Market Economy and Sustained Growth: Implications for the Post-Washington Consensus. *The World Bank Policy Research Department, December, 1998.* Extract: pp 1-26

Williamson, John (2002): What Should the World Bank Think about the Washington Consensus? *The World Bank research Observer*, vol. 15, no. 2

Further reading:

Williamson, John (1994) In Search of a Manual for Technopols *In: Williamson (ed.): The Political Economy of Policy Reform, Institute for International Economics, Washington D.C., January: 9-48.*

Kahler, Miles (1992) External Influence, Conditionality, and the Politics of Adjustment. *In Stephan Haggard and Robert, R. Kaufman, eds., The Politics of Economic Adjustment. International Constraints, Distributive Conflicts, and the State, Princeton, New Jersey: Princeton University Press*

Allsop, Christopher – Kierzkowsky, Henryk: (1997): The Assessment: Economics of Transition in Eastern and Central Europe. *Oxford Review of Economic Policy*, Vol 13. No.2

Class 7-8: The political economy of economic reforms: lessons from comparisons

In search for lessons for reformers: the East-South comparison

Nelson, Joan (1992) The Politics of Economic Transformation: Is Third World Experience Relevant in Eastern Europe? *Overseas Development Council. Mimeo.*

Further reading:

Croan, Melvin - Skidmore, Thomas E. - Ost, David - Graham, Lawrence S. - Hershberg, Eric, (1992) Is Latin America the Future of Eastern Europe? *Problems of Communism May-June 1992*

Killick, Tony, Stevens, Christopher: Lessons from the Third World. *In: Stevens, Ch. and Kennan, J.(eds.): Reform in Eastern Europe and the Developing Country Dimension. ODI Development Policy Studies, Overseas Development Institute, 1992*

Killick, Tony, Stevens, Christopher: Economic Adjustment in Eastern Europe: Lessons from the Third World. In: Bird, G. (ed.): *Economic Reform in Eastern Europe*. Edward Elgar, 1992.

Class 9-10: Alternative reform strategies: The Big bang vs gradualism debate

The pros and cons of different reform strategies. Is there a choice at all?

Islam, Shafiqul (1993) "Conclusion: Problems of Planning a Market Economy" in *Islam, Shafiqul and Michael Mandelbaum eds. Making Markets. Economic Transformation in Eastern Europe and the Post-Soviet States*. Council on Foreign Relations Press. New York

Balcerowicz, Leszek (1995): Common Fallacies in the Debate on the Economic Transition in Central and Eastern Europe. In: *Socialism, Capitalism, Transformation*. CEU Press

Roland, Gérard (1996): Political constraint and the transition experience. In: *Zecchini (ed): Lessons from the Economic Transition. Central and Eastern Europe in the 90s*. OECD, Kluwer

Further reading:

Roland, Gérard: Political Economy of Sequencing Tactics in the Transition Period. In: *Csaba, L. (ed.): Systemic Change and Stabilization in Eastern Europe*. Dartmouth Press, 1991

Murrell, Peter (1990) "'Big Bang' versus Evolution: East European Economic Reforms in the Light of Recent Economic History" Plan Econ Report Nr 26.

Leszek Balcerowicz (1996): The interplay Between Economic and Political Transition. In:

Class 11-12: Institutional and behavioural constraints

The particular difficulties of market-oriented economic reforms in postcommunist context

Swaan, Wim (1994): Behaviourial Constraints and the Creation of Markets in Post-Socialist Economies. Mimeo. Institute of Economics. Hungarian Academy of Sciences, Budapest, 1994

Leitzel, James (1997): Rule Evasion in Transitional Russia, in *Joan Nelson, Charles Tilly, and Lee Walker, eds., Transforming Post-Communist Political Economies*. Washington D.C.: National Academy Press

Further reading:

Murrell, Peter (1993) Conservative Political Philosophy and the Strategy of Economic Transition. *East European Politics and Societies* vol. 6, no. 1, 1992

Murrell, Peter (1992) Evolution in Economics and in the Economic Reform of the Centrally Planned Economies. in *Cristopher Clague and Gordon C. Rausser, eds. The Emergence of Market Economies in Eastern Europe*. Blackwell Publishers

Polishchuk, Leonid (1997): Missed Markets: Implications for Economic Behavior and Institutional Change, In *Joan Nelson, Charles Tilly, and Lee Walker, eds., Transforming Post-Communist Political Economies*. Washington D.C.: National Academy Press

Feige, Edgar, L. (1997) Underground Activity and Institutional Change: Productive, Protective, and Predatory Behavior in Transition Economies. In: *Joan Nelson, Charles Tilly, and Lee Walker, eds., Transforming Post-Communist Political Economies* Washington D.C.: National Academy Press

Tomer, John F. (2002): Intangible factors in the Eastern European Transition: A Socio-Economic Analysis. *Post-Communist Economies*, Vol. 14, No. 4

Class 13: Transformational recession. unavoidable?

The hard legacy of socialism and its impact on the sudden consequences of postcommunist reforms. What else affects the severness of transformational recession?

Winiecki, Jan (2001): An Inquiry into the Early Drastic Fall of Output in Post-Communist Transition: an Unsolved puzzle, *Post-Communist economies*, vol 14, no. 1

Further reading:

Aslund, A. (2002): The Myth of Output Collapase after Communism. In *Aslund: Building Capitalism*. Cambridge UP.

Class 14: State capture in transition economies

Rent-seeking and interest group activities after the collapse of socialism.

Hellman, J. S., - Jones, G. – Kaufmann, D. (2003) Seize the state, seize the day: state capture and influence in transition economies. *Journal of comparative economics* 31. 751-773

Further reading:

Laffont, Jean-Jacques –Tirol, Jean (1991): The politics of government decision-making: a theory of regulatory capture. *Quarterly Journal of Economics* 106 (4).

Class 15-16: Winners and losers 1: the social costs of reforms

Societal attitudes to reforms. The social consequences of transition and its politics. The causes and consequences of the delay of social sector reforms.

Nelson, Joan (1997): Social Costs, Social Sector Reforms, and Politics in Post-Communist Transformations. In: *Joan Nelson, Charles Tilly, and Lee Walker, eds., Transforming Post-Communist Political Economies. Washington D.C.: National Academy Press*

Hirschmann, Albert O. (1984): The Changing Tolerance for Income Inequality in the Course of Economic Inequality. in: *Essays in Trespassing. Economics to Politics and Beyond. Cambridge University Press*

Ravaillon, Martin – Lokshin, Michael (1999): Who Wants to Redistribute? The Tunnel Effect in Transitional Russia. *Working Paper, World Bank*

Further reading:

Acuna, Carlos H, Smith, William C. (1994): The Political Economy of Structural Adjustment: The Logic of Support and Opposition to Neoliberal Reform. In: *Smith - Acuna - Gamarra 9eds.): Latin American Political Economy in the Age of Neoliberal Reform. Theoretical and Comparative Perspectives for the 80's. Transaction Publishers, New Brunswick,*

Class 17-18: Winners and losers 2: the dynamics of reforms

How do societal attitudes towards reforms affect the reform strategies and the entire new political system.

Przeworski, Adam (1991) The Political Dynamics of Economic Reform. In: *Democracy and the Market. Political and Economic Reforms in Eastern Europe and Latin America. Cambridge University Press 1991*

Hellmann, Joel s. (1998): Winners Take All. The Politics of Partial Reform in Postcommunist Transitions. *World Politics* 50, January 1998

Further reading:

O'Donnell, Guillermo, (1993) "On the State, Democratization and some Conceptual Problems (A Latin American View with Glances at some Post-Communist Countries) *World Development* Vol. 21. Nr. 8. August 1993

Diamond, Larry: Democracy and Economic Reform: Tensions, Compatibilities and Strategies for Reconciliation. In: *Lazear, E. P. (ed.): Economic Transition in Eastern Europe and Russia. Realities of Reforms. Hoover Institution Press, 1995*

Class 19-20: Determinants of success: path-dependence and/or geographic proximity

In search for explaining variance in the extend of reforms in the former communist blo> structuralist and (historical) institutionalist answers.

Fish, Stevens (1998): The Determinants of Economic Reform in the Post-Communist World. *East European Politics and Societies, Volume 12, No. 1, Winter, 1998*

Kopstein, Jeffrey S., Reilly, David A. (2000): Geographic Diffusion and the Transformation of the Postcommunist World. *World Politics* 53, October 2000

Further reading:

Crawford, Beverly – Lijphardt, Arend (1997): Old Legacies, New Institutions,: Explaining Political and Economic Trajectories in Post-Communist Regimes. In: *Crawford – Lijphardt (eds): Liberalization and Leninist Legacies. Comparative Perspectives on Democratic Transitions. Research Series, No. 96. University of California at Berkeley.*

Beck, Thorsten – Laeven, Luc (2006): Institution Building and Growth in Transition Economies. *CEPR Discussion Paper No. 5718, June 2006*

Class 21-22: The transition experience: an assessment

An ex post assessment and evaluation of transitional reform, in search for real determinants of success and failure.

Kornai, János (2006): The great transformation of Central Europe. Success and Disappointment. *Economics of Transition*, Vol 14 (2) 2006 207 - 244

Svejnar, Jan (2002): Transition Economies: Performance and Challenges. *Journal of Economic Perspectives*, vol 16, no. 1

Further reading:

EBRD: Transition Report. *Annual Publication*, EBRD, London.

Fischer, Stanley – Sahay, Ratna – Végh, Carlos A: (1998): From Transition to Market: Evidence and Growth Prospects. *IMF Working Paper* 98/52.

Kolodko, Grzegorz W. (2001): Globalization and Catching-up: from Recession to Growth in Transition Economies. *Communist and Post-Communist Studies* 34

Class 23-24: Conclusion: lessons from transition

The debate over the assessment of transitional reforms and the doctrine behind. Contrasting evaluations of the entire reform process

Stiglitz, Joseph E. (1999): Wither reform? Ten Years of Transition. *Keynote Address, World Bank Annual Bank Conference on Development Economics, Washington, April 28-30, 1999*

Dabrowski, M. - Gomulka, S. -Rostowski, J.: Whence Reform? A critique of the Stiglitz perspective. *Policy reform*, vol 4, pp. 291-234

Stiglitz, J. - Ellerman, D.: Not Poles Apart "Wither reform" and "Whence Reform?". *Policy Reform*, vol 4, pp 325-338

Dabrowski, M. - Gomulka, S. -Rostowski, J.: The Stiglitz-Ellerman Rejoinder: Our main Criticisms Remain Unanswered. *Policy Reform*, vol 4, pp 339-348

Further reading:

Kolodko, Grzegorz W. (1998). Transition to a Market Economy and Sustained Growth: Implications for the Post-Washington Consensus. *The World Bank Policy Research Department, December, 1998.*