

The Political Economy of Policy Reforms
(4 credits)

Lecturer: Attila Fölsz folsza@ceu.hu

Lectures and seminars: Tuesday and Thursday 9.00 – 10.40

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

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 problems of implementing reforms in Central and Eastern Europe in and after the transition from communism.

Third, to enable students analyze specific reform episodes from a comparative perspectives and with in the analytical framework of the discipline.

Participation in this course does not require any background in economics

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 by 8 pm be preceding the day of the seminar.
- Students will write brief written tests after every four topics
- Students are to prepare a final home-essay, preferably on a particular reform experience of their home country, using the analytical tools acquired in 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
- (Although it is not a requirement, interested students will be given the possibility to make in-class presentations of some literature not included in the core readings.)

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*, 16/1

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*, 35/1

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

Class 3-4: Transition, as Development or Change of System

As alternatives of the “ political economy of reforms” approach

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

László Csaba (2003): Transition as Development. *Post-Communist Studies Vol. 15, No. 1. 2003*

Further readings:

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

Shu-Yun Ma(1998): Third World studies, development studies and post-communist studies: definitions, distance and dynamism. *Third World Quarterly*, Vol. 1, No 3., 1998

Class 5-6: The mainstream blueprint for reforms

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

Williamson, John (2004): The strange history of the Washington Consensus |*Journal of Post-Keynesian Economics Vol. 24 No. 2*

Dani Rodrik (2006): Goodbye Washington Consensus, Hello Washington Confusion? A review of the World Bank’s “Economic Growth in the 1990’s: learning from a Decade of Reforms” *Journal of Economic Literature*, Vol XLIV, Dec 1996, pp. 9-41

Marangos, John (2008): The Evolution of the Anti-Washington Consensus Debate: From ‘Post-Washington Consensus’ to ‘After the Washington Consensus’. *Competition and Change Vol. 12, No 3 September 2008*

Further readings:

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

Further reading:

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*

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*

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? *World Politics*, Vol. 45, No. 3 (Apr., 1993),.

Marangos, John (2008): The Evolution

Further readings:

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*

Further readings

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: *Socialism, Capitalism, Transformation. CEU Press*

Class 11-12: Constraints and legacies

The particular difficulties of market-oriented economic reforms in post communist context

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*

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

Further reading:

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*

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

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*

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

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*

Class-13-14: Why, when and who?

Alternative explanations for the factors, shaping the type and time of major reforms

Simmons Beth A., Elkins Zachary (2004): The Globalization of Liberalization: Policy Diffusion in the International Political Economy *The American Political Science Review, Vol. 98, No. 1 (Feb., 2004), pp. 171-189*

Abdul Abiad and Ashoka Mody(2005): Financial Reform: What Shakes It? What Shapes It? *The American Economic Review, Vol. 95, No. 1 (Mar., 2005), pp. 66-88*

A Alesina, S Ardagna, F Trebbi (2006): Who adjusts and when? On the political economy of reforms. - *IMF Staff Papers Vol. 53, Special Issue © 2006 International Monetary Fund*

Further reading:

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*

Class 15-16 Foreign influence, domestic policies

Alternative views on the external factor

Dobbin, F – Simmons –B – Garret, G. (2007): The Global Diffusion of public Policiers: Social Construction, Coercion, Competition or Learning. *American Review of Sociology 2007. 33.*

Jacoby, Walter (2006): Inspiration, Coalition and substitution. External influenced on Post-Communist Transformation. *World Politics 58 (July 2006)*

Further reading:

Lucan A Way – Steven Levitsky (2007) : Linkage, leverage and the Post-Communist Divide.: *East European Politics and Societies* Vol 21. No. .1

Class 17-18: Interest group activity and reforms

On the role of insiders and veto players

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

Gehlbach, Scott – Malesky, Edmund (2010): The contribution of Veto Players to Economic Reform . *Journal of Politics, Forthcoming*

Further reading:

Laffont, Jean-Jacques – Tirol, Jean (1991): The politics of government decision-making: a theory of regulatory capture. *Quarterly Journal of Economics . World Politics* Vol. 51. No. 2

Class 19-20: The politics of partial reforms

First and second generation reforms: East and South

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

O'Dwyer, Conor – Kovalcik, Bronislaw (2007): And the Last Shell be First: Party System Institutionalization and Second-generation Economic Reform in Post-Communist Europe. *Studies in Comparative Economic Development* Winter 2007 Vol 41

Santiso, Carlos (2002): *Insulated Economic Policymaking Democratic Governance: The Paradox of Second Generation Reforms in Argentina and Brazil SAIS Working Paper Series, WP/02/03*

Further reading:

Monetero, Alfred P.(2005): From Democracy to market. The Political Economy of Post-Neoliberal Reform in Latin America. *Latin American Research Review* Vol 40 No. 2

Class 21-22 Dual transitions, simultaneous reforms

How economic liberalization affect political regimes and vice versa?

Gans-Morse, Jordan – Nichter, Simeon (2008): Evidence of a J-Curve in Latin America. *Comparative Political Studies* 2008 41

Fish, Steven M (2007): Democratization and Economic Liberalization in the post-Communist World. *Comparative Political Studies* Vol 40 No. 3 march 2007

Further reading:

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*

Class -23-24: Summary

Lessons from reform episodes here and there

Kopits, George (2008): The political economy of fiscal reform in Central and Eastern Europe - *OECD Journal on Budgeting, 2008 - oecd.org*

Alesina (2010): Fiscal adjustments: lessons from recent history. *Paper Prepared for the EU ECOFIN Meeting in Madrid, April, 2010*

Further reading:

Staehr, K. – Tamazian, A. – Vadlamannati, K (2009): Political Determinants of Economic Reforms in the Post-Communist Transition countries. *MPRA paper No. 15960*

Washington Consensus. *The World Bank Policy Research Department, December, 1998.*