Economies in Transition

Introduction

The study of Economies in Transition investigates the relationship between economic institutions and economic performance by surveying the processes of institutional change and economic growth in socialist and former socialist economies that have undertaken large-scale economic reforms. Countries undertaking rapid institutional change include Asian countries, such as China and Viet Nam, the states of the former Soviet Union in Europe and Central Asia, and the former socialist states of Central Europe.

What is a transitional economy? We use this term to characterize current and former socialist economies engaged in establishing market-supporting governmental and legal institutions to increase the roles of private ownership, investment, entrepreneurship, and market competition. Transitional economies are characterized by rapid and significant changes in institutional arrangements that alter the information and incentives facing individuals and firms. Moreover, members of the society face changes in relative prices and in the structure of economic activity combined with high risk and uncertainty.

The Twentieth Century was an era in which, briefly, almost half of the world’s population was governed by Marxist states. These states transferred the ownership of land, resources, and physical capital stocks to the government and established centralized administrative mechanisms for managing production. Today, most of these Soviet-style economic systems are gone as major economic reform programs evolve in dozens of formerly command economies to put in place institutions underpinning what their policy-makers define as a “normal economy.” By “normal”, they mean a system in which independent individuals may enjoy private ownership of land, housing, and assets and are free to establish independent enterprises. Individuals may enter into voluntary, mutual exchange in markets at market-determined prices. They can invest in productive assets, innovate, and enter competitive markets, facing uncertain benefits and costs in a risky world.

After more than thirty years of experience, there is great variation in the institutions of public governance in these countries and in their economic performance. What can we learn from this mammoth social experiment? How did some transitional economies embark on a path of rising growth and welfare while others still suffer stagnation and poverty? To understand the role of institutions in economic performance, we look at the incentive features of administrative and market institutions and the effects of economic arrangements, focusing on market liberalization, property rights, enterprise governance, macroeconomic policy and the role of the state in providing public infrastructure and rule of law.

Course Goals:

1. Applied Goals

Survey the historical experience of a sample of economies undergoing rapid institutional change asking how institutional change impacts incentives and sources of economic growth, productivity, poverty, and welfare. We explore the sources of institutional change as well, asking how economic performance influences the incentives to strengthen market-supporting economic institutions.

Understand how administrative decision-makers collect information and make decisions in non-market environments and how individuals and firms make choices subject to market constraints and incentives.

Understand how government policies influence the allocation of resources, productivity, and growth in a command economy and in a market economy.

Understand how prices and property rights in a market system inform the decisions about what to produce, how to produce it, and who gets it.
Develop skill in presenting economic concepts and the results of empirical analysis in writing and presenting analytical case studies to an audience of social scientists.

2. Problem-Solving Goals
   Apply microeconomic theory to an understanding of the role of institutions in a variety of administrative and market systems.
   Understand how economic arrangements influence the behavior of decision-makers, focusing on incentives, constraints, and sources of uncertainty.
   Understand how institutional constraints and incentives impact the economic environment faced by individuals.
   Use game theory to explain the strategic choices of individuals when outcomes depend on the strategic actions of more than one player.
   Use the theory of risk to understand how individuals respond to uncertain economic outcomes.
   Understand how market structure and regulatory policies influence the allocation of resources.

Course Requirements
   Class lectures and discussions follow the syllabus, below. Grades are based on 3 hour tests, an in-class presentation, and a final essay. Each exam counts 25% and the presentation-plus-essay counts 25%.
   Hour tests are divided between solution of microeconomic problems and a written essay that will receive constructive criticism on its analysis, organization, rigor and substance.
   In the last third of the quarter, students organize into small groups. Each student will prepare a brief presentation on some aspect of the economic performance of an economy in transition, with members of a group focusing on separate aspects of a single economy. In addition to a brief, in-class presentation, each student writes a brief (4-5 pages) essay on a topic of his/her choice relating to economic performance in one transitional economy. Individual essays will support a group assessment of country performance in their case study.

   Academic Integrity:

   Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal from the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

Texts:


Thornton lecture notes: you will find discussions of economic issues for many of the individual chapters, below. There are also lecture notes and practice problems on the analytical tools used in the course.
Suggested data sources for up-to-date information for your class presentations and essays are listed at the end of the syllabus.

Optional References:

Cliff Gaddy and Barry Ickes (2013). Bear Traps on Russia’s Road to Modernization. Routledge (e-book available). (This is an engaging text if your independent research topic involves Russia.)

Perloff, Jeffrey Microeconomics (any edition). We assume the ability to apply microeconomic tools. Students who are unsure of their ability to use microeconomic tools should review the basics in any edition of Perloff.

Other Optional References

Aslund, Anders (2010) The Last Shall Be First; East European Financial Crisis. Peterson Institute
Lardy, Nicholas Sustaining China’s Economic Growth after the Global Financial Crisis (2012) Peterson Institute
Shleifer, Andrei and Daniel Treisman. (2000) Without a Map: Political Tactics and Economic Reform in Russia

Reading List

I Initial Conditions: Why Reform the Socialist Economy?
Roland, Gerard. Economies in Transition: Long-Run View (Listed as ET-LRV) “Introduction: Transition, the Long-run View”

Roland, Gerard “The Long-Run Weight of Communism or the Weight of Long-Run History?” in ET-LRV.

Thornton, Judith. “Institutions and Institutional Change,” (web)

Thornton, Judith. “Property Rights and Incentives” (web).

1. The Rise and Decline of Communism
Thornton, Judith, “Pre-Revolutionary Russia,” (web)

Thornton, Judith, “Marxian Economic Theory” (web)

Thornton, Judith, “Stalin’s Development Strategy” (web)

2. The Institutional Design of Socialist Economies and Techniques of Central Planning
Thornton, Judith, “Administrative Allocation and Rationing,” (web)

Thornton, Judith, “Corruption and Informal Economy,” (web)
(Choose either)
Naughton, Barry *Growing Out of the Plan*, Ch 1 “The Command Economy and the China Difference,” or

Naughton, Barry *The Chinese Economy*, Ch 3 “The Socialist Era”

Thornton, Judith, “Introduction to Input-Output,” (web)

Practice problems in input-output

Practice problems on rationing

3. The Planned Economy in Practice; the Case of North Korea

(Choose any one of three, below)


Haggard, Stephan and Marcus Noland. 2012. “Economic Crime and Punishment in North Korea” *Political Science Quarterly*

Optional Reference:

North Korea: *Witness to Transformation Blog* (Haggard and Noland)
http://www.piie.com/blogs/nk

4. The Planned Economy in Practice: The Firm and Household; Economic Growth and Productivity
Thornton, Judith, “Russian Collectivization” (web)

Thornton, Judith, “China’s Danwei System and Rural Collective Farms” (web)


Thornton, Judith, “Linear Programming,” (web)

Practice problems in linear programming

Practice problems on growth accounting

Optional Reference:

Perloff, Chapter 6.4 to 6.6: Long-run Production

Hour Test 1

II Reform Strategies

5. Liberalization
Kornai, Janos. “Innovation and Dynamism: Interaction between Systems and Technical Progress” in ET-LRV


Thornton, Judith, China Growing Out of the Plan 1978-1990 (web)

Optional Reference:
Perloff, Jeffrey Microeconomics, Chapter 9: Applying the Competitive Model ; Ch 17: Uncertainty

6. Privatization and Governance
Berglov, Eric et. al., “European Transition at Twenty: Assessing Progress in Countries and Sectors in ET-LRV.


Optional References:
Perloff, Microeconomics; Chapter 20: Contracts and Moral Hazard

7. Hyperinflation and Macroeconomic Stabilization

Pistor, Katherine, “Into the Void: Governing Finance in Central and Eastern Europe” in ET-LRV

Optional References:
Perloff, Jeffrey Microeconomics, Chapter 16 Interest Rates and Capital Markets

III Evaluating the Lessons of Transition

8. Growth and Social Welfare
Brainerd, Elizabeth, "The Demographic Transformation of Post-Socialist Countries: Causes, Consequences and Questions," in ET-LRV


9. State Capacity and Welfare
Treisman, Daniel, “Twenty Years of Political Transition” in ET-LRV


Hour Test 2
10. Innovation, Efficiency and Modernization

(Choose Pettis or any two alternative sources)

Michael Pettis (2013) Avoiding the Fall; China’s Restructuring. Carnegie Endowment

EBRD Transition Report 2012: Integration Across Borders, Ch. 1 Structural Change


Michael Pettis (2013) Avoiding the Fall; China’s Restructuring. Carnegie Endowment

11. Integration into the World Economy

(Choose Pettis or any two alternative sources)

Michael Pettis (2013) Avoiding the Fall; China’s Restructuring. Carnegie Endowment

EBRD Transition Report 2012: Integration Across Borders, Ch. 4 Regional Economic Integration

EBRD Transition Report 2012: Integration Across Borders, Ch. 3 Financial Integration

Thornton, Judith. The Impact of Nationalization and Insecure Property Rights on Oil and Gas Developments in Russia’s Asia Pacific. Waseda University, GIARI Occasional Paper (November 2009)

12. Country Studies; Group Presentations

(Choose one)

Lardy, Nicholas Sustaining China’s Economic Growth after the Global Financial Crisis (2012) Peterson Institute

Michael Pettis (2013) Avoiding the Fall; China’s Restructuring. Carnegie Endowment

Brandt, Loren and Xiaodong Zhu, “Accounting for China’s Growth,” University of Toronto WP (January 2010)


Popov, Vladimir, “The Long Road to Normalcy: Where Russia Now Stands in ET-LRV

Maier, CS. “The Travails of Unification: East Germany's Economic Transition since 1989” in ET-LRV

Pomfret, R. “Central Asia after Two Decades of Independence.” In ET-LRV.

**Hour Exam 3  Final Essay Due**

<table>
<thead>
<tr>
<th>Schedule and Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tuesday</strong></td>
</tr>
<tr>
<td>Institutional Change and Property Rights</td>
</tr>
<tr>
<td>Institutional Design of Socialist Economies Marxian Economics, Stalin's Development Model</td>
</tr>
<tr>
<td>Planning techniques Input-Output</td>
</tr>
<tr>
<td>Thornton notes: input-output</td>
</tr>
<tr>
<td>Planned Economy in Practice</td>
</tr>
<tr>
<td>Corruption, Rationing, Informal Economy North Korea</td>
</tr>
<tr>
<td><strong>Hour Test 1</strong></td>
</tr>
<tr>
<td>Liberalization</td>
</tr>
<tr>
<td>Privatization and Governance Russia, Eastern European Reform</td>
</tr>
<tr>
<td>Hyperinflation, Macroeconomic Stabilization</td>
</tr>
<tr>
<td>Growth and Welfare EBRD Slow and Rapid Reform</td>
</tr>
<tr>
<td>State Capacity and Welfare Thornton, Siberian Development</td>
</tr>
<tr>
<td><strong>Hour Test 2</strong></td>
</tr>
<tr>
<td>Innovation and Economic Performance Chinese Reform</td>
</tr>
<tr>
<td>Integration into the World Economy</td>
</tr>
<tr>
<td>Country Studies Group Presentations</td>
</tr>
<tr>
<td>Group Presentations</td>
</tr>
<tr>
<td>11-Mar 13-Mar</td>
</tr>
<tr>
<td><strong>Group Presentations</strong></td>
</tr>
</tbody>
</table>

**Suggested Data Sources:**
EBRD Transition Report data
World Bank Countries

Russian Economic Reports


World Bank: The Business Environment and Enterprise Performance Survey (BEEPS)
Permanent URL: http://go.worldbank.org/L0Q3E6RKS0

Life in Transition at

World Bank Enterprise Surveys; 120,000 firms in 130 countries
http://www.enterprisesurveys.org/

University of North Carolina Population Center
(Example: China Health and Nutrition Survey:
http://www.cpc.unc.edu/projects/china/index.html/?searchterm=China data)

Development Data NYU
http://devecondata.blogspot.com/search/label/China

World Bank Public Service Delivery Effectiveness; PETS/QSDS

World Bank. Doing Business (Example: national and subnational surveys; time and resource costs of doing business.
http://www.doingbusiness.org/
http://www.doingbusiness.org/Documents/CountryProfiles/CHN.pdf

Integrated Public Use Microdata Series, International
IPUMS, University of Minnesota
https://international.ipums.org/international/

University of Michigan, China Online (may access through UW web)

National Bureau of Statistics of China (www.stats.gov.cn/english/)


World Bank Living Standards Measurement Study (LSMS)
China (1995) Kazakhstan, Tajikistan, Vietnam
http://iresearch.worldbank.org/lsms/lsmssurveyFinder.htm