

REES 615-10: The Economics and Politics of Transition

Summer Course
May 21-June 29, 2018

Lectures: Monday and Wednesday, 6:00 PM - 9:10 PM
Instructor: Dr. Vadim Grishin

Contacts

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Office Hours

9:10-10:00 PM after each lecture

Overview

The purpose of this course is to provide graduate students with a broad understanding on the economics and politics of transition, and under what conditions it would be sustainable, inclusive and irreversible.

Based on empirical and thematic overview, the course will incorporate comparative analysis of post-communist economic and political transformations in Central and Eastern Europe, in the former republics of the Soviet Union, and in regions of Asia with particular focus on China. A theoretical framework on transition policy will be examined in the context of globalization, including the ramifications of the global financial crisis and current populist, anti-establishment trends in politics.

In the course we will discuss the collapse of communism, the models of post-communist development, and the role of internal and external factors in transition -- the effects of liberalization and privatization, governance and corruption, the role of oligarchy and bureaucracy, social policies and informal practices, and alternative reform programs.

Beyond economics, the course will cover disruption within institutions, as well as cultural evolution and changes in values. It has three major goals: first, to help students understand the nature of transition, particularly into post-communist transformation; second, to become familiar with the main challenges and disputes of transition practices; and third, to perceive and evaluate the existing differences between transition countries.

Overall, the course is designed for graduate students coming from various social sciences, and while not necessary, some knowledge of the Russian language would be useful.

Instructional methods: lectures combined with discussions and simulations.

Course requirements: completion of a mid-term exam and a final. Grade distribution will include 35% for the mid-term, 35% for the final and 30% for class participation.

- The mid-term (35%) will cover the first half of the course and will be administered during regular class hours. It will consist of two essays chosen out of five topics relevant to assigned literature.
- The final paper (35%) should focus on a concrete issue in a specific country or on a crosscutting topic related to the transition agenda. It will also be based on assigned literature and won't exceed 15 double-spaced pages. While additional research will not be required, it will not be discouraged. Topics will be specified in class on June 13 and students can pick one of them or choose their own. My prior approval will be required if you decide to choose your own.
- For matters related to attendance and participation (30%), significant time will be set aside for discussions, and students will be judged according to their participation. Students will also be encouraged to prepare questions on the readings and follow new developments in transition countries.

Make-up policy and homework deadlines: Students will not be allowed to take an exam in advance of its scheduled date. Anyone who misses a test will be allowed to do a make-up if he or she provides a medical certificate excusing attendance.

Readings

The readings for this course consist of texts, book chapters, and articles. All readings will be made available through the CERES library and/or the Canvas.

Out of environmental respect, the course is entirely paperless. Slides and syllabus will be made available electronically. I will not be directly providing such handouts. Students will be responsible for downloading, reading, and printing if desired any prior material to be covered.

Texts

- Gaidar, Yegor, ed. (2003) *The Economics of Transition*. Cambridge (Massachusetts), London (England): MIT Press.
- Åslund, Anders (2013) *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia and Central Asia*. Second Edition. New York: Cambridge University Press.

Course Outline

* **Note:** The instructor reserves the right to make changes to the readings and discussion topics during the course of the semester.

Class 1. Monday May 21

Inevitable Collapse of the Socialist System

Cheremukhin, Anton, Mikhail Golosov, Sergei Guriev, Aleh Tsyvinski (2013). “Was Stalin Necessary for Russia’s Economic Development?” *NBER Working Paper No. 19425*, Issued in September 2013.

Gaidar, Yegor (ed., 2003) *The economics of transition*. Cambridge (Massachusetts), London (England): MIT Press, **Chapter 1-3**.

Kornai, Janos (1992) *The Socialist System. The Political Economy of Communism*, Princeton: Princeton University Press, **Chapter 15**, pp. 360-379.

Åslund, Anders (2013) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 1&2**.

Fischer, Stanley, and Alan Gelb (1991) “The Process of Socialist Economic Transformation,” *Journal of Economic Perspectives*, **5**, 4: 91-105.

Rapid vs. Gradual Transformations

Aghion, Phillipe and Olivier Blanchard (1994) “On the Speed of Transition in Central Europe,” In Stanley Fischer and J. Rotemberg, eds., *NBER Macroeconomic Annual 1994*, Cambridge, Mass.: MIT Press, pp. 283-320.

Auzan, Alexander (2017) “Revolutions and evolutions in Russia: In search of a solution to the path dependence problem,” *Russian Journal of Economics* 3 (2017): 336-347

Lin, Justin (2012) *The Quest for Prosperity. How Developing Economies Can Take Off*. Princeton and Oxford: Princeton University Press, Chapter 4 & 8.

Murrell, Peter (1992) “Evolutionary and Radical Approaches to Economic Reform,” *Economics of Planning*, **25**: 79-95.

Popov, Vladimir (2000) “Shock Therapy Versus Gradualism: The End of the Debate,” *Comparative Economic Studies* **42** (1), pp. 1–57.

Class 2. Wednesday May 23

From Shock to Recovery: Transformational Recession vs. Cyclical Slowdown

Kornai, János (1994) “Transformational Recession: The Main Causes,” *Journal of Comparative Economics*, 19(1): 39-63.

Åslund, Anders (2012) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 3**.

Blanchard, Olivier, and Michael Kremer (1997) “Disorganization,” *Quarterly Journal of Economics*, **112** (4): 1091–126.

Johnson, Simon, Daniel Kaufmann, and Andrei Shleifer (1997) “The Unofficial Economy in Transition,” *Brookings Papers on Economic Activity* **27** (2): 159–239.

Roland, Gérard, and Thierry Verdier (1999) “Transition and the Output Fall,” *Economics of Transition* **7** (1): 1–28.

Liberalization and Macroeconomic Stabilization: Washington/Post-Washington Consensus vs. Beijing Consensus

EBRD (2016). *Transition Concept Review*. London, EBRD

Åslund, Anders (2013) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 4-5**.

Hoffman, Bert (2018). *Reflections on Forty Years of China’s Reforms*. Washington, D.C.: World Bank

McKinnon, Ronald I. (1991a) “Liberalizing Foreign Trade in a Socialist Economy,” in John Williamson, ed., *Currency Convertibility in Eastern Europe*. Washington, D.C.: Institute for International Economics, pp. 96–115.

Murphy, Kevin, M., Andrei Shleifer, and Robert W. Vishny, “Why Is Rent-Seeking So costly to Growth?” *American Economic Review*, AEA papers and Proceedings, June 1993, 409-14.

Commission on Growth and Development, *The Growth Report – Strategies for Sustained Growth and Inclusive Development*, Washington, DC, 2008, pp. 1-31.
http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf

Sachs, Jeffrey D. and David A. Lipton (1990) “Poland’s Economic Reform,” *Foreign Affairs*, **63**, 3: 47-66.

Stiglitz, Joseph E. (2002) *Making Globalization Work*, New York: Norton, New York: Norton, **Chapter 5**, “Who Lost Russia?” pp. 133-165.

Williamson, John, *The Washington Consensus as Policy Prescription for Development*.
Lecture provided on Jan 13, 2004.
<http://www.iie.com/publications/papers/williamson0204.pdf>

Class 3. Wednesday May 30

Privatization and Its Limits

Åslund, Anders (2013) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 6**.

Estrin, Saul, Jan Hanousek, Evzen Locenda, and Jan Svejnar (2009), “The Effects of Privatization and Ownership in Transition Economies,” *Journal of Economic Literature* **47** (3): 699-728.

Guriev, Sergei and William Megginson (2005). “Privatization: What Have We Learned?” St. Petersburg, ABCDE Conference.

Havrylyshyn, Oleh, and Donald McGettigan (2000) “Privatization in Transition Countries,” *Post-Soviet Affairs*, **16**, 3: 257-286.

Murrell, Peter, and Yijang Wang (1993) “When Privatization Should Be Delayed: The Effect of Communist Legacies on Organizational and Institutional Reforms,” *Journal of Comparative Economics* **17** (2): 385–406.

Roland, Gérard (1994) “On the Speed and Sequencing of Privatization and Restructuring,” *Economic Journal*, **104**: 1158-1168.

Shleifer, Andrei (2005) *A Normal Country: Russia after Communism*, Cambridge, Mass: MIT Press, **Chapter 3**.

The Rise of State Capitalism

Kurlantzick, Josure. *State Capitalism. How the Return of Statism Is Transforming the World*. New York: Oxford University Press, **Chapter 4**, 64-92.

Cole Kyle and Andrew Szamoszegi (2011). “*An analysis of state-owned enterprises and state capitalism in China*”, Report for U.S.-China Economic and Security Review Commission, October 26, 2011.

Francisco Flores-Macias and Aldo Musacchino (2009) “The return of state owned enterprises should we afraid?” *Harvard International Review*, July 31, 2009.

Winston, Clifford. 2006. *Government Failure versus Market Failure: Microeconomics Policy Research and Government Performance*. Washington, DC: Brookings Institution Press and American Enterprise Institute for Public Policy Research.

Shirley, Mary (1996). "Bureaucrats in Business: The Economics and Politics of Government Ownership." *DEC notes No. 5*, Washington, D.C.: World Bank.

Shirley, Mary, and Patrick Walsh (2000). "Public versus Private Ownership: The Current State of the Debate." *Policy Research Working Paper 2420*. Washington, D.C.: World Bank.

Smith, D. Andrew C. and Michael J. Trebilcock. 2001. "State-Owned Enterprises in Less Developed Countries: Privatization and Alternative Reform Strategies." *European Journal of Law and Economics* 12 (3): 217-52.

Class 4. Monday June 4

Corruption and Governance

Åslund, Anders (2013) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 9**.

Kaufmann, Daniel, and Paul Siegelbaum (1996) "Privatization and Corruption in Transition Economies," *Journal of International Affairs*, **50**, 2: 419-458.

Pistor, Katharina, Martin Raiser and Stanislaw Gelfer (2000) "Law and Finance in Transition Economies," *Economics of Transition*, **8**, 2: 325-368.

Shleifer, Andrei (2005) *A Normal Country: Russia after Communism*, Cambridge, Mass: MIT Press, **Chapter 6**.

Stiglitz, Joseph E. (1999) "Whither Reform? Ten Years of Transition," Washington, D.C.: Annual Bank Conference on Development Economics, April 28-30.

Treisman, Daniel S. (2000) "The Causes of Corruption: A Cross-National Study," *Journal of Public Economics*, **76**: 399-457.

Commander, Simon (2016). *Governance in Russia*. London: Altura Partners.

Oligarchy vs. Democracy

Acemoglu, Daron (2008). "Oligarchic Versus Democratic Societies." *Journal of the European Economic Association*, March 2008 n.6 (1): 1-44

Dawisha, Karen (2015). *Putin's Kleptocracy: Who Owns Russia?* New York: Simon & Schuster Paperbacks, pp. 313-350.

Freund, Caroline and Mélise Jaud (2014). "Regime Change, Democracy, and Growth." *Peterson Institute for International Economics, Working Paper 14-1*. Washington, D.C.: PIIIE.

Gessen, Masha (2017). "The Poligarchs, Oligarchs, and Stooges of the Paradise Papers." *The New Yorker*, November 6, 2017.

Guriev, Sergei and Andrei Rachinsky (2015). "The Role of Oligarchs in Russian Capitalism", *Journal of Economic Perspectives*, Volume 19, Number 1, Winter 2005, pp. 131-150.

Hellman, Joel S. (1998) "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics*, **50**: 203-234.

Judah, Ben (2016). *The Kleptocracy Curse: Rethinking Containment*. Washington, D.C.: Hudson Institute.

Peev, Evgeni and Dennis C. Mueller (2012). "Democracy, Economic Freedom and Growth in Transition Economies." *KYKLOS*, Vol. 65, August 2012, No. 3, 371-407

Rice, Condoleezza (2017). *Democracy. Stories from Long Way to Freedom*. New York-Boston: Twelve, Hachette Book Group, pp. 12-24.

Class 5. Wednesday June 6

Social Policies & Practices Role of the Informal Sector

Åslund, Anders (2013) *How Capitalism Was Built*. New York: Cambridge University Press, **Chapter 7**.

Boeri, Tito, and Katherine Terrell (2002) "Institutional Determinants of Labor Reallocation in Transition," *Journal of Economic Perspectives*, **16**, 1: 51-76.

Kordonsky, Simon (2016). *Socio-Economic Foundations of the Russian Post-Soviet Regime. The Resource-Based Economy and Estate-Based Social Structure of Contemporary Russia*. Stuttgart: Ibidem- Verlag, pp. 211-256.

Sachs, Jeffrey D. (1995) "Postcommunist Parties and the Politics of Entitlements," *Transition* (The World Bank), **6**, 3: 1-4.

World Bank (2008). *Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union*. Overview. Washington, D.C.: World Bank, pp. 1-42.

Class 6. Monday June 11

Mid-Term Exam

Class 7. Wednesday June 13

Final Topics Distributed

**Financial Crisis as a Stress Test, and
Post Crisis Challenges (2007-2018)**

Åslund, Anders, 2012, "*How Capitalism Was Built.*" New York: Cambridge University Press, **Chapter 11.**

Bakker, Bas B. and Gulde, Anne-Marie, 2010, "The Credit Boom in the EU New Member States: Bad Luck or Bad Policies?" IMF Working Paper 10/130.

Darvas, Zsolt and Pisani-Ferry, Jean, 2008, "Avoiding a New European Divide," Bruegel Policy Brief no. 10, Brussels: Bruegel (December).

Mau, Vladimir, 2009, "The Global Crisis As Seen from Russia," *Russia in Global Affairs*, Vol. 7 No.1, pp. 8-28.

Class 8. Monday June 18

International Assistance and EU Integration

Åslund, Anders (2013) *How Capitalism Was Built.* New York: Cambridge University Press, **Chapter 10.**

Stiglitz, Joseph E. (2002) *Making Globalization Work*, New York: Norton, New York: Norton, **Chapter 5**, "Who Lost Russia?" pp. 133-165.

Woods, Ngaire (2006) *The Globalizers: The IMF, the World Bank, and Their Borrowers.* Ithaca, NY: Cornell University Press, **Chapter 5**, 104-140.

Ukrainian Euromaidan: Social, Economic & Institutional Dimensions

Åslund, Anders, 2015, *Ukraine: What Went Wrong and How to Fix It.* Washington D.C.: PIIE, **Chapter 4, 5 and 6.**

Havrylyshyn, Oleh, 2015, "Ukraine: Greatest Hopes, Greatest Disappointments" in "*The Great Rebirth: Lessons from the Victory of Capitalism over Socialism.*" Washington, D.C.: PIIIE, pp.165-183.

Talbot, Strobe. *The Russian Hand. A Memoir of Presidential Diplomacy.* New York: Random House, pp. 78-91.

Trenin, Dmitri (2018). "To Understand Ukraine." *Russia in Global Affairs*, January 10, 2018, pp.1-7.

Class 9. Wednesday June 20

Russia and China in the Global Economy: Comparative Analysis

Ang, Yuen Yuen (2016). *How China Escaped the Poverty Trap.* Ithaca and London: Cornell University Press.

Zweg, David (2002) *Internationalizing China: Domestic Interests and Global Linkages* (Cornell Studies in Political Economy). Ithaca and London, Cornell University Press, Conclusions.

Lardy, Nicholas R. (2016) *The changing role of private sector in China.* Conference Volume. Canberra: Reserve Bank of Australia.

Cooper, Julian "Can Russia Compete in the Global Economy?" *Eurasia Geography and Economics*, vol.47, n 4, 2006, pp.407 – 425.

Li, Zhonghai. 2010. "China, Russia diverges on paths to revival. *China Economist*, vol.25, n 2, March-April, pp.50-55.

Åslund, Anders (2013) *How Capitalism Was Built.* New York: Cambridge University Press, **Chapter 10.**

Shleifer, Andrei, and Daniel Treisman (2004) "A Normal Country," *Foreign Affairs*, **83** (2): 20-38.

Rosefielde, Steven (2005), "Russia: an Abnormal Country," *The European Journal of comparative Economics*, **2**, 1: 3-16.

Class 10. Monday June 25

Geopolitics in Current Cold War Times. New Economic World Order?

Blackwill, Robert and Jennifer Harris (2016). *War by Other Means: Geoeconomics and Statecraft*. Cambridge (Massachusetts): Harvard University Press, **Chapter 10**.

Akindinova, Natalia, Yaroslav Kuzminov, and Evgeny Yasin (2016). “Russia’s economy: Before the long transition.” *Russian Journal of Economics* 2 (2016) 219–245.

Batsaikhan, Uuriintuya and Marek Dabrowski (2017). “Central Asia - Twenty-Five Years after the Breakup of the USSR.” *Russian Journal of Economics* 3 (2017) 296–320.

Farkas, Beata (2011). “The Central and Eastern European model of capitalism.” *Post-Communist Economies*, Vol. 23, No. 1, March 2011, 15–34.

Guriev, Sergei and Daniel Treismanz (2015) “How Modern Dictators Survive: An Informational Theory of the New Authoritarianism,” July 2015.

Oxenstierna, Susanne (2016). “Russia’s defense spending and the economic decline.” *Journal of Eurasian Studies* 7 (2016) 60–70.

**Guest Lecturer: Ambassador Daniel Fried (TBD), discussing
The Role of Economic Sanctions**

Aleksashenko, Sergei (2016). *Evaluating Western Sanctions on Russia*. Washington, D.C.: Atlantic Council.

Bagheria, Sajjad and Hamid Reza Akbarpourb (2016). “Reinvestigation of the West's sanctions against Russia in the crisis of Ukraine and Russia's reaction.” *Procedia Economics and Finance* 36: 89-95.

Eyler, Robert (2007). *Economic Sanctions. International Policy and Political Economy at Work*. New York: Palgrave Macmillan, pp. 1-85.

Hufbauer, Gary Clyde, Schott, Jeffrey J., Elliott, Kamberly Ann, and Oegg, Barbara, (2007). *Economic Sanctions: Reconsidered*. Washington, D.C.: PIIE, pp.125-178.

Movchan, Andrey (2017). “How the Sanctions Are Helping Putin.” *Politico*, March 28 2017.

Class 11. Wednesday June 27

New Transition: Battle of Concepts and Reality

Stiglitz, Josef (2017) “Illiberal Stagnation”, *Project Syndicate*, Apr 2, 2017

Guriev, Sergei (2017). “Economic Crisis. How Transitional Institutions Could Transform

Russia's Economy." 21.11.2017. Moscow: Carnegie Center.

Guriev, Sergei (2018). "Fairness and Support for the Reforms: Lessons from the Transition Economies." *SUERF Policy Note*, Issue 24, January 2018.

Yann, Algan, Sergei Guriev, Elia Papaioannou, and Evgenia Passari (2017). "The European Trust Crisis and the Rise of Populism." *Brookings Papers on Economic Activity* (September 7, 2017).

Vladimir Mau (2016). "Anti-crisis measures or structural reforms: Russian economic policy." *Russian Journal of Economics* 2 (2016) 1–22

Overall Discussion of Post-Communist Transitions: Quo Vadis?

Where is the post-communist world going? Future Scenarios? Which are the key problems for the future?

Sunday, July 1

**Final Paper Due by Midnight Eastern
Time via e-mail:
vg155@georgetown.edu**

Additional Sources:

Acemoglu, Daron and Robinson, James (2012). *Why nations failed: the origins of power, prosperity and poverty*. New York: Crown Publishers.

Ang, James and David Ding (2005). "Government ownership and the performance of government linked companies: the case of Singapore." *Journal of Multinational Financial Management*, August 2005.

Aven, Petr and Alfred Kokh (2015). *Gaidar's Revolution: The Inside Account of the Economic Transformation of Russia*. London, New York: I.B.Tauris.

Aven, Petr (2018). *Vremia Berezovskogo (Russian)*. Moscow: AST.

European Bank for Reconstruction and Development (EBRD) *Transition Report, 1994-2017*. London: EBRD.

The Great Rebirth: Lessons from the Victory of Capitalism over Communism. Åslund, Anders, and Simeon Djankov, eds. Washington, DC: Peterson Institute for International Economics, 2014.

IMF (2013). “German-Central Europe Supply Chain, Cluster Report.” *IMF Multi-Country Report*, August 2013. Washington, D.C.: IMF.

Lardy, Nicholas R. (2014). *Markets Over Mao: The Rise of Private Business in China*. Washington, D.C.: PIIE.

Lin, Justin (2012). *New Structural Economics. A Framework for Rethinking Development and Policy*. Washington, D.C.: World Bank.

Luce, Edward (2017). *The Retreat of Western Liberalism*. New York: Atlantic Monthly Press.

Nuti, Domenico Mario (1996) “Inflation, Interest and Exchange Rates in the Transition,” *Economics of Transition*, 4, 1: 137-158.

Pettis, Michael. “China’s growth miracle has run out of steam.” *Financial Times*, November 20 2017.

Russia after the Global Economic Crisis (2010). Åslund, Anders, Sergei Guriev and Andrew Kuchins, eds. Washington, D.C.: Peterson Institute for International Economics and the Center for Strategic and International Studies.

Sachs, Jeffrey D. (1994) “Life in the Economic Emergency Room,” in John Williamson, ed., *The Political Economy of Policy Reform*, Washington, D.C.: Institute for International Economics, pp. 501-523.

Sachs, Jeffrey D. (1995) “Why Russia Has Failed to Stabilize,” in Anders Åslund, ed., *Russian Economic Reform at Risk*, New York: St. Martin’s Press, pp. 53-64.

Schumpeter, Joseph A. (2008). *Capitalism, Socialism and Democracy*. New York: Harper Perennial Modern Thought.

Tausch A. 2006. *From the “Washington” towards a “Vienna Consensus”? A Quantitative Analysis on Globalization, Development and Global Governance*. Buenos Aires: Centro Argentino de Estudios Internacionales.

The World Bank Group (2016). *Russia Economic Report 35: The Long Journey to Recovery*. Washington, D.C.: World Bank.

Zon, Hans van (2008). *Russia’s Development Problem. The Cult of Power*. New York: Palgrave Macmillan.

Relevant Websites:

International Monetary Fund (IMF): <http://www.imf.org>

The World Bank <http://www.worldbank.org>

EBRD www.ebrd.org