

EC 230A, Comparative Transitions
Fall 2005
MW 2:35 – 3:50 p.m.
Warner 202

Will Pyle
Warner 305C
x-3240
wpyle@middlebury.edu

Office hours: M 4:00 – 5:30; T 10:30 – 12:00; F 1:15 – 2:45 and by appointment

Subject: This course explores the systemic transformation that has been occurring over the past decade-plus in the former socialist countries of Eurasia. Although the disciplinary focus will necessarily be on the economic aspects of the transition from socialist central planning to markets, we will also give attention to the political and historical forces that have influenced this process. The countries of this region have followed widely divergent paths from socialism – some adopting rapid reform strategies, others choosing less radical policies and still others seeming not to follow any coherent blueprint. The inter-disciplinary focus of this class should allow us both to draw conclusions about the reasons for this variation and to better understand the consequences.

Since understanding any transition requires knowledge of the starting point, we devote the first part of the course to an exploration of the nature and legacies of the socialist economic system. We then look back on the policy debates from the early 1990s and discuss how they framed the reform strategies adopted by the first post-socialist governments. Subsequently, we go on to study how the transition to a market-based system has actually played out in various countries to date. We look specifically at the various experiences with macro-economic stabilization and growth performance, property rights reform and privatization, institutional development and integration into the world economy.

As we proceed, you will find that even though this is a course on a group of over two dozen countries, we will be spending a disproportionate amount of time reading and talking about the experiences of the region's largest economies: Russia, China and Poland. Much of the best literature on the transition deals with the experiences of these countries; and economically, they have gone in different directions and so provide nice points of contrast to one another.

Required Reading: We will be reading significant portions of Anders Åslund's *Building Capitalism: The Transformation of the former Soviet Bloc*. Additional articles will be available via either Starr Library's e-Res (password: 8252wp) or another electronic medium; all can be accessed via the syllabus in the course "Handouts" box on the "Classes" server. You will be responsible for keeping up with the schedule on pages 2-4 of this syllabus. Periodically, in class, we will be watching sections of videos that I may ask you to view more fully on your own; these will be made available through the Library's Reserve Desk.

Requirements and Grades: Your final grade will be a function of your performance on a final exam (30%), a mid-term exam (20%), three homework assignments (20%), a book review or country report writing assignment (20%), and class participation (10%). We will often use a portion of class time to discuss the required readings. Your ability to react to them thoughtfully will be a primary determinant of your participation grade. Regular attendance is also quite important for the participation grade.

TOPICS CALENDAR, READING ASSIGNMENTS AND NOTEWORTHY DATES

September 12, 14

History and Ideology

Aslund, Anders, *Building Capitalism*, chapter 1, pp. 20-23.

Kornai, Janos, *The Socialist System: The Political Economy of Communism* chapter 1, pp. 4-9; chapter 2, pp. 18-30; and chapter 4, pp. 49-61. [e-RES](#)

September 19, 26, 28

The Old Regime Expires

Aslund, chapter 1, pp. 23-38; and chapter 2, pp. 39-69

Berliner, Joseph, "Informal Organization of the Soviet Firm," *Quarterly Journal of Economics*, 66 (3), 1952, pp. 342-365. [e-RES](#)

Bergson, Abram, "USSR Before the Fall: How Poor?" *Journal of Economic Perspectives*, 5(4), Fall 1991, pp. 29-44. [e-RES](#)

Naughton, Barry "Pattern and Legacy of Economic Growth in the Mao Era," chapter 10 in Kenneth Lieberthal *et al.* eds., *Perspectives on Modern China*, pp. 226-254. [e-RES](#)

Smith, Hedrick, *The Russians*, chapters 2-3, pp. 68-134. [e-RES](#)

Video: Wajda, Andrzej, *Man of Marble (Człowiek z marmuru)*

September 30th, Homework 1 due

October 3, 5

The New Regime Shocks

Fischer, Stanley and Alan Gelb, "The Process of Socialist Economic Transformation," *Journal of Economic Perspectives*, 5(4), Fall 1991, pp. 91-106. [e-RES](#)

Freeland, Chrysta, *Sale of the Century*, chapter 2, pp. 24-49. [e-RES](#)

McMillan, John and Barry Naughton, "How to Reform a Planned Economy: Lessons from China," chapter 29 in Ross Garnaut and Yiping Huang eds., *Growth without Miracles*, pp. 459-473. [e-RES](#)

Murrell, Peter, "Evolutionary and Radical Approaches to Economic Reform," *Economics of Planning*, 25(1), 1992, pp. 79-95. [e-RES](#)

Schell, Orville, *To Get Rich is Glorious*, Part One, pp. 3-68. [e-RES](#)

Weschler, Lawrence, "Shock," *The New Yorker*, December 10, 1990, 35pp. [e-RES](#)

October 10, 12

The Macroeconomic Agenda

Aslund, chapters 5-6, pp. 159-254

October 14th, Homework 2 due

October 17, 19

The Macroeconomic Riddle

Aslund, chapter 4, pp. 113-158

Woo, Wing Thye, "The Art of Reforming Centrally Planned Economies: Comparing China, Poland, and Russia," *Journal of Comparative Economics*, April 1994, pp. 101-145. [e-RES](#)

Menil, Georges de Menil, "History, Policy, and Performance in Two Transition Economies: Poland and Romania," chapter 10 in Dani Rodrik ed., *In Search of Prosperity: Analytic Narratives on Economic Growth*, pp. 271-296. [e-RES](#)

Qian, Yingyi, "How Reform Worked in China," chapter 11 in Dani Rodrik ed., *In Search of Prosperity: Analytic Narratives on Economic Growth*, pp. 297-333. [e-RES](#)

October 18th, Mid-term Exam 7:30 – 9:30

October 24, 26, 31

Capitalists

Aslund, chapter 7, pp. 255-303

Brzezinski, Matthew, *Casino Moscow*, chapter 8, pp. 167-183. [e-RES](#)

Estrin, Saul, "Competition and Corporate Governance in Transition," *Journal of Economic Perspectives*, 16:1, Winter 2002, pp. 101-124. [e-RES](#)

Gaddy, Clifford, *Price of the Past: Russia's Struggle with the Legacy of a Militarized Economy*, chapter 8, pp. 130-147. [e-RES](#)

Gustafson, Thane, *Capitalism Russian Style*, chapter 2, pp. 35-57. [e-RES](#)

Johnson, Simon and Gary Loveman, *Starting Over in Eastern Europe: Entrepreneurship and Economic Renewal*, chapters 3-4, pp. 41-100. [e-RES](#)

Li, Cheng, *Rediscovering China: Dynamics and Dilemmas of Reform*, chapter 5, pp. 75-92. [e-RES](#)

McMillan, John and Christopher Woodruff, "The Central Role of Entrepreneurs in Transition Countries," *Journal of Economic Perspectives*, 16:3, Summer 2002, pp. 153-170. [e-RES](#)

Rosenberg, Tina, "Meet the New Boss, Same as the Old Boss: How Poland's *Nomenklatura* Learned to Love Capitalism," *Harper's Weekly*, May 1993, 7 pp. [e-RES](#)

Video: Lungin, Pavel *The Oligarch (Oligarkh)*

November 7, 9, 14

Workers and Households

Aslund, chapter 8, pp. 304-347

Boeri, Tito and Katherine Terrell, "Institutional Determinants of Labor Reallocation," *Journal of Economic Perspectives*, 16:1, Winter 2002, pp. 51-76. [e-RES](#)

Brainerd, Elizabeth, "Autopsy on an Empire," *Journal of Economic Perspectives*, 19(1), 2005, pp. 107-130. [e-RES](#)

Solinger, Dorothy, "China's Floating Population," chapter 10 in eds. M. Goldman and R. MacFarquhar, *The Paradox of China's Post-Mao Reforms*, pp. 220-240. [e-RES](#)

November 16, 21, 28**Governments**

Aslund, chapter 9, pp. 348-395

Frye and Shleifer, "The Invisible and the Grabbing Hand," *American Economic Review*, 87(2), May 1997, pp. 354-358. [e-RES](#)

Hellman, Joel, "Winners Take All: The Politics of Partial Reform," *World Politics*, 50(2), 1998, pp. 203-234. [e-RES](#)

Oi, Jean, "The Role of the Local State in China's Transitional Economy," *China Quarterly*, December 1995, pp. 1132-1149. [e-RES](#)

November 21st, Homework 3 due

November 30, December 5**Foreigners**

Aslund, chapter 10, pp. 411-437

Lardy, Nicholas, "The Role of Foreign Trade and Investment in China's Economic Transformation," December 1995, *China Quarterly*, pp. 1065-1082. [e-RES](#)

Dyker, David, "The Dynamic Impact of EU Accession," *Europe-Asia Studies*, 53(7), 2001, pp. 1001-1021. [e-RES](#)

"Survey: EU Enlargement," *The Economist*, November 20th 2003. [e-RES](#)

December 7**The Big Picture**

Aslund, chapter 11, pp. 441-456

Hale, David and Lyric Hughes Hale, "China Takes Off," *Foreign Affairs*, pp. 36-53.

Shleifer, Andrei and Daniel Treisman, "A Normal Country," *Journal of Economic Perspectives*, 19(1) pp. 151-174.

December 9th, Writing Assignment (Book Review or Country Report) due

December 13th – December 20th, Self-scheduled Final Exam

Noteworthy Dates

September 21st, video (I will be away)

September 30th, Homework 1 due

October 14th, Homework 2 due

October 18th, Mid-term Exam 7:30 – 9:30, Warner Science 202

November 2nd, video (I will be away)

November 21st, Homework 3 due

December 9th, Writing Assignment (Book Review or Country Report) due

December 13th – December 20th, Self-scheduled Final Exam

Book Review Essay / Country Report

In order to fulfill the requirements of this course, you must write a 2000-word book review essay or country study.

Book Review Essay

A book review essay should clearly lay out how the book you have selected addresses a particular question or puzzle related to the economic transition and explain why the answer to that question is important. It should also provide context for how the answer that the author provides compares to those of others who have addressed the same or similar questions. (So it may be appropriate to do a bit of extra reading and research to determine how the conclusions, modes of analysis and use of supporting material in your book resembles or differs from others. The essay should make clear what you like and/or do not like about the book and, in particular, explain what lines of argumentation you are or are not convinced by and why

You are encouraged to choose books on topics that you might not think of as being exclusively “economics.” For example, books that explore the politics of the economic reform process, or that look at the interplay of legal developments and economic processes are fully within bounds and welcome. What is more, you should not feel that you are exclusively confined to selecting dry academic writing. There are a large number of books that could be used as the basis for a review that are written about the economic transition more for a lay audience by people who have spent a great deal of time in the countries that we are studying.

I would like you to choose the book in consultation with me so if you have a general topic in mind, e-mail me or talk to me after class or during office hours and I will try to assist you in the selection process. I do not want you to rely on or use the review essays of others that have written reviews of the books or articles that you selected. But if you are interested in reading through a very nicely constructed review essay, see Peter Murrell's “The Transition According to Cambridge, Mass.” It's in the *Journal of Economic Literature*, 33:1 (March, 1995), pp. 164-178. You can access it over J-STOR.

Country Report

If you choose to write up a country report, I would like you to put yourself in the position of the author of a brief for an executive of a Western business considering investing today in a particular post-socialist country. You choose the country and the nature of the investment – i.e., whether it is portfolio investment or direct investment in a particular sector.

Your report should be divided into multiple blocks. One block should address the political environment in the country and the extent to which it is favorable to the investment. You should assess whether the current alignment of political forces as well as recent trends and future prospects in terms of relevant government policies suggest that the investment would be wise.

A second block should address the favorability of the macroeconomic and institutional environment in the country. Is there good reason to believe that the country is fundamentally stable with respect to major macroeconomic indicators – e.g., the rate of inflation, the exchange rate and the federal budget balance. A third block should then highlight more micro-level economic factors relevant to the specific type of investment that you are evaluating. For instance, if you are exploring investing in a fund with exposure across most listed companies on the country's stock market, you should describe whether or not those companies represent a diverse or narrow cross-section of the country's economy. You would also probably wish to comment on the nature of property rights protections for minority shareholders. If you are considering a direct investment, you will want to pay particular attention to policies that directly impact it as well as to issues relevant to the markets that you will be selling into, the markets that you will be purchasing inputs from, including issues related to the local labor force.

There are many different directions to take this report. For ideas that may help you get started, I would suggest exploring the web-pages of the European Bank for Reconstruction and Development and the International Finance Corporation.