

**ECONOMICS OF TRANSITION I (260A). 2003-2004**  
**Instructor: Gérard Roland**

The sequence (260A, 260B) will treat issues of transition from socialism to capitalism in Eastern Europe and Asia, with special emphasis on the new issues that transition raised for economics. Course 260A will focus on political economy aspects of transition and on allocative changes implied by transition. It is based on *Transition and Economics. Politics, Markets and Firms*, MIT Press 2000 (<http://www-mitpress.mit.edu/book-home.tcl?isbn=0262182033>). Further readings are indicated in the book.

## **Course Outline**

### **INTRODUCTION**

#### **Transition as a process of large-scale institutional change.**

The general topic of transition will be introduced. We will review what we know about the failures of socialism and the tasks of transition. The challenges of transition processes to economic theory and the requirements for a theory of transition will be discussed.

Based on Introductory Chapter.

#### **Understanding transition.**

We will analyze the initial conditions of transition, the objectives and constraints of transition and review the main stylised facts of transition.

Based on Chapter 1.

### **POLITICAL CONSTRAINTS AND REFORM STRATEGY**

#### **Aggregate uncertainty, complementarities and the optimal speed of reforms.**

We will analyse the effects of the type of uncertainty and complementarities on the choice of the speed and sequencing of transition.

Based on chapter 2.

#### **Political constraints and the speed of reform.**

The effects of heterogeneity in interests will be introduced in the analysis. The effect of political constraints on the speed, sequencing, budgetary costs and incentives to secede will be analysed.

Based on chapter 3.

### **The political economy of privatisation.**

We will compare the political economy effects of various privatisation methods,

Based on chapter 4.

### **Empirical analyses of transition strategies.**

We will go through some of the main papers analysing the interaction between transition strategies and economic outcomes.

- Andrew Berg, Eduardo Borensztein, Ratna Sahay and Jeromin Zettelmeyer ["The Evolution of Output in Transition Economies: Explaining the Differences"](http://www.hhs.se/site/ads/eote.pdf)  
<http://www.hhs.se/site/ads/eote.pdf>

-Heybey, Berta, and Peter Murrell (1999), "The Relationship between Economic Growth and the Speed of Liberalization During Transition," *Journal of Policy Reform* **3** (2).

- Jan Fidrmuc. "Economic Reform, Democracy and Growth during Post-Communist Transition" . <http://www.tbns.net/fidrmuc/lib.pdf>

## **ALLOCATIVE CHANGES.**

### **The optimal speed of allocative changes.**

Transition implies important shifts in the sectoral composition of output. We will analyse factors influencing the optimal speed of these changes and the consequences of a too slow or a too rapid contraction of the state sector.

Based on chapter 5.

### **The speed of price liberalisation.**

Under socialism, prices remained repressed. In most Central and Eastern European countries, comprehensive price liberalisation was introduced. The arguments in favour of such comprehensiveness will be discussed. The Chinese experience of dual track price liberalisation will be analysed in the same context.

## **Liberalisation and the output fall.**

In Central and Eastern Europe, a very important output contraction has been associated with price liberalisation. Only recently have models been elaborated trying to understand microfoundations for this phenomenon.

Based on chapter 7.

## **Government collapse, institutional failures and transition.**

The chapter will analyze the causes and consequences of government collapse in some transition countries, mainly in the Former Soviet Union and analyze how collapse could be prevented in other countries.

Based on chapter 8 and on C. Sonin (1999), "Inequality, Property Rights Protection, and Economic Growth in Transition Economics", Mimeo, RECEP.

We will also look at the related empirical literature.

- Dan Berkowitz, Jean-Francois Richard and Katharina Pistor) "[Economic Development, Legality and the Transplant Effect.](http://www.pitt.edu/~dmberk/dprlegal2.pdf)" (mimeo, February 2000 <http://www.pitt.edu/~dmberk/dprlegal2.pdf>)

*Joel S. Hellman, Geraint Jones, Daniel Kaufmann and Mark Schankerman* "[Measuring governance and state capture: The role of bureaucrats and firms in shaping the business environment - Results of a firm-level study across 20 transition economies](http://www.ebrd.com/english/region/workingp/wp51.pdf)", <http://www.ebrd.com/english/region/workingp/wp51.pdf>

**GRADING** (the grade will be based on a written essay in relation to the course).