

Free University of Berlin
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 Summer Semester 2013

Institutions and Political Economy in Eastern Europe

OEI Master (Modul B) (31505) und WIWISS Master (Module "Aktuelle Forschungsfragen der politischen Ökonomie" und "Aktuelle Forschungsfragen der internationalen Finanzpolitik") (107070)

Wednesdays, 14-16, UG 3 Seminar room, Ihnestr. 22 (First Session: 10th of April 2013)

Office Hours: Tuesdays, 15-17

This is a course on institutions and political economy in Eastern Europe. The first part of the course will focus on the economics of socialism in order to provide the students with a solid background on the analytical and structural determinants of communist economic organization. The second part of the course will concentrate in the political economy of post-socialist transition. Lectures will cover both rigorous economic concepts and policy debates. Slides, which have been graciously provided by Prof. Gérard Roland, will be used to facilitate the learning process. Students are expected to become conversant with the analytical tools and theoretical discussions presented in the literature. Course requirements include six problem sets, one midterm, one final and a research paper. Attendance in all sessions is required.

Required Textbooks:

1. Kornai Janos. *The Socialist System: The Political Economy of Communism*. Princeton University Press 1992.
2. Roland Gérard. *Transition and Economics: Politics, Markets and Firms*. MIT Press 2004.

Grades:

WIWISS Master: Final Exam (requires solution of Problem Sets)

OEI Master: Presentation and Paper

Week 1: Introduction to the Socialist Economic System

- I. **Economic Models of Socialism**
 - Kornai, Ch. 1 and 2.
- II. **Power and Ideology**
 - Kornai, Ch. 3 and 4.
- III. **Property and Economic Coordination**
 - Kornai, Ch. 5 and 6.
- IV. **Managerial Incentives, Money and Pricing**
 - Kornai, Ch. 7 and 8.

Week 2: Economics of Shortage

I. Investment and Growth

- Kornai, Ch. 9.

II. Employment and Wages

- Kornai, Ch. 10.

III. Economics of Shortage

- Kornai, Ch. 11 and 12.

Week 3: The Soviet System of Incentives

- Weitzman Martin L. "The New Soviet Incentive Model", *Bell Journal of Economics*, Vol. 7, No. 1 (Spring 1976): 251-257.
- Murrell Peter, "The Performance of Multiperiod Managerial Incentive Schemes", *American Economic Review*, Vol. 69, No. 5 (December 1979): 934-940.
- Bonin John P. and Alan J. Marcus, "Information, Motivation and Control in Decentralized Planning: The Case of Discretionary Managerial Behavior", *Journal of Comparative Economics*, Vol. 3, No. 3 (September 1979): 235-253.

Week 4: Review of Central Planning**I. Consumption and Distribution**

- Kornai, Ch. 13.

II. Review and Evaluation of the Socialist Economic System

- Kornai, Ch. 15.

Week 5: Introduction to Transition Economics**I. Tasks and Stylized Facts of Transition**

- Roland, Ch. 1.

II. Political Economy of Reform I

- Roland, Ch. 2.
- Roland G. "The Political Economy of Transition". *Journal of Economic Perspectives* Vol. 16(1): 29-50.

Week 6: Economics and Politics of Reform**I. Political Economy of Reform II**

- Roland, Ch. 3.
- Qian Y. and C. Xu, (1993) "Why China's Economic Reforms Differ: The M-Form Hierarchy and Entry/Expansion of the Non-State Sector" *Economics of Transition* 1: 135-170.

II. Political Economy of Mass Privatization

- Roland, Ch. 4.
- Frydman Roman, Cheryl Gray, Marek Hessel and Andrej Rapaczynski (1999), "When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies", *Quarterly Journal of Economics* 114 (4): 1153-1191.

- Bolton, Patrick and Gérard Roland, (1992), "Privatization in Central and Eastern Europe", *Economic Policy*, 15: 276-309.

Week 7: TBA

Week 8: Liberalization

I. The Optimal Speed of Sectoral Reallocation

- Roland, Ch. 5.

II. Speed and Methods of Price Liberalization

- Roland, Ch. 6.

III. Liberalization and the Output Fall

- Roland, Ch. 7.

Week 9: Government and Institutions

I. Government Collapse and Economic Performance

- Roland, Ch. 8.

II. Law Enforcement and Comparative Legal Systems

- Pistor K., M. Raiser and S. Gelfer. "Law and Finance in Transitional Economies" *Economics of Transition*, 8 (2): 325-368. 2000.
- Roland Gérard and Thierry Verdier. "Law Enforcement and Transition". *European Economic Review* 47 (2003): 669 – 685.

Week 10: Business-Government Relations and the Soft Budget Constraint

I. Managerial Incentives and Business-Government Relations

- Roland, Ch. 9, Part I

II. The Soft Budget Constraint

- Roland, Ch. 9, Part II
- Qian Yingyi and Gérard Roland. "Federalism and the Soft Budget Constraint". *American Economic Review*, Vol. 88 (5): 1998.
- Dewatripont M. and E. Maskin. "Credit and Efficiency in Centralized and Decentralized Economies", *Review of Economics and Statistics*, Vol. 62 (4): 541-555, 1998.
- Roland, Ch. 12.

Week 11: Privatization

I. Privatization and Restructuring: Theory

- Roland, Ch. 10.

II. Privatization and Restructuring: Applications

- McFaul Michael. "State Power, Institutional Change, and the Politics of Privatization in Russia". *World Politics* Vol. 47, No. 2 (Jan. 1995): 210-243.
- Carlin Wendy, Colin Mayer, Hans-Werner Sinn, and Vittorio Grilli. "Restructuring Enterprises in Eastern Europe", *Economic Policy*, Vol. 7, No. 15, (October 1992): 312-352.

Week 12: Natural Resources, Bureaucracy and Property Rights

I. Natural Resources and Governmental Institutions

- Tarr David G. and Peter D. Thomson (2004). "The Merits of Dual Pricing of Russian Natural Gas". *The World Economy* 27 (8): 1173-1194.
- Aslund Anders. "Russian Resources: Curse or Rents?" *Eurasian Geography and Economics*, 2005, 46, No. 8: 610-617.
- Grigoriadis, Theocharis and Benno Torgler, "Energy Polarization and Popular Representation: Evidence from the Russian Duma", *Energy Economics*, Vol. 31, No. 2 (March 2009): 322-334.

II. Federalism and Bureaucratic Capacity

- Roland, Ch. 11.
- Zhuravskaya Ekaterina V. "Incentives to provide local public goods: Fiscal federalism, Russian style". *Journal of Public Economics* Volume 76, Issue 3, June 2000: 337-368.

III. Property Rights

- Olson Mancur. "Dictatorship, Democracy and Development". *American Political Science Review*, Vol. 87, No. 3 (Sep., 1993): 567-576.

Week 13: European Union and Review of East European Transition

I. European Union

- Baldwin Richard E. "The Eastern Enlargement of the European Union", *European Economic Review*, Vol. 39, No. 3-4, April 1995: 474-481.
- Grigoriadis Theocharis, "Aid Effectiveness and the Soft Budget Constraint: EU Development Aid to the former Soviet Union", *Economics Letters*, Vol. 112, No. 3 (September 2011): 287-289.

II. Almost 20 Years of Transition: Lessons from the "Washington Consensus"

- Roland, Ch. 13

Week 14: Final Review

Final: TBA