

**ECONOMICS OF TRANSITION:
EASTERN EUROPE
(ECON 161)**

Gérard Roland

Subject of the course:

Economic transition from socialism to capitalism in Central and Eastern Europe.

Previously: comparative economic systems courses on socialist economy.

Collapse of communism was unexpected. Experts agreed on stability of Soviet economic system

The Soviet Economy Toward the Year 2000

Transition was mostly triggered politically by Gorbachev's *perestroika*. Fall of Berlin wall unimaginable still early 1989. History accelerated between 1989 and 200.

Economics of transition received worldwide attention. J. Sachs (Harvard) advised

Poland

Yugoslavia

Russia

Slovenia

Mongolia

...?

- Shleifer (Harvard) was a major adviser of Russian privatization program.

The initial idea was that applying existing economics would make transition a success.

But...

Many unexpected developments.

- Huge output fall after liberalization
- Failure of mass privatization programs.

....

Research on economics of transition initially focused on pure policy advice but later tried to understand puzzles of transition and to develop new economic theories to understand observed transition process.

POLICY IMPORTANCE OF TRANSITION.

- Affects over 1.65 billion people (maybe hundred million more)
- One of the most important economic events of the 20th century

together with transition to socialism

great depression

...

Outcome of transition likely to affect major developments
in 21th century.

- weak Russia
- Strong China
- Enlarged Europe.

Some developments in the economics of transition are valid for economics as a whole:

- political economy of reform (valid everywhere)
- dealing with soft budget constraints (bailouts)
- role of institutions in successful development of capitalism

- ...

I. The socialist economy

1. Objectives and instruments of central planning.
2. Managerial incentives
3. Economic behavior under shortage
4. Worker behavior.

Recommended reading: J.Kornai (1992).

The Socialist System. Oxford University Press.

I. **II. Transition**

1. Tasks of transition.
2. Stylized facts of transition.
3. Political economy of transition and choice of reform strategies.
4. Liberalization.
5. Explaining the output fall.
6. Foreign Trade evolution.
7. Accession to the European Union.
8. Privatization and restructuring.
9. Legal and government reform.
10. Transition and the “Washington consensus”.

What have we learned since 1989?

No really good undergraduate textbook yet on economics of transition.

There is only one graduate economics textbook:

Transition and Economics. Politics, Markets and Firms.
G. Roland MIT Press.

Articles indicated in syllabus. Useful readings.

GRADE:

- Midterm exam (30%)
- Final exam (70%)

To enroll:

econ.berkeley.edu/rca/rcahome.html

If you are desperate,

Go see

Sean Flynn: 508-2 Evans