

ECONOMIC SYSTEMS (GRADUATE COURSE).
Instructor: Gérard Roland

The course 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. It is based on my recent book *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

Lecture 1. Transition as a process of large-scale institutional change.

This lecture will introduce the general topic of transition, 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.

Lecture 2. 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.

Lecture 3 and 4. Aggregate uncertainty, complementarities and the optimal speed of reforms.

This lecture 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.

Lecture 5. 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.

Lecture 6. The political economy of privatisation.

This chapter will compare the political economy effects of various privatisation methods,

Based on chapter 4.

Lecture 7. The optimal speed of allocative changes.

Transition implies important shifts in the sectoral composition of output. This lecture 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.

Lecture 8. 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.

Based on chapter 6.

Lecture 9. 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.

Lecture 10. Government collapse 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.

Lecture 11. Incentive problems of socialist firms: the soft budget constraint and the ratchet effect.

The incentive problems of socialist firms were related to their incestuous relationship to government. Two important phenomena have been highlighted and analysed by the theoretical incentive literature: soft budget constraints and the ratchet effect.

Based on chapter 9.

Lecture 12. Privatisation policies and enterprise restructuring.

Privatisation policies are supposed to bring a change in the incentives of enterprise managers. These incentive changes depend however on the forms of privatisation. The effect of privatisation policies on microincentives will be analysed and discussed.

Based on chapter 10.

Lecture 13. Changing incentives within government

The outcome of the transition process is very much affected by the incentives of bureaucrats within the state apparatus which is in turn affected by reforms in the organization of government and in fiscal arrangements. Special attention will be devoted to the effects of decentralization of government in China.

Based on chapter 11.

Lecture 14 and 15. The soft budget constraint and financial reform.

Financial reform affects enterprise behaviour and incentives in the liberalised environment. The lecture will focus specifically on the problem of solving soft budget constraints of enterprises who depend on banks for their financing.

Based on chapter 12.