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MIREES & LMSID

Forlì
Academic Year 2018 - 2019

Political Economy of Transition

Lectures: Wednesday 9.30-11.00 and Thursday 9.30 - 11.00

Office hours: Wednesday 14.00 – 15.00 (S3)

Lectures are in English!

Class dates: classes will take place on the following dates:

20/2,21/2,27/2,28/2,6/3,7/3,13/3,14/3,3/4,4/4,10/4,11/4,2/5,8/5,9/5,15/5,16/5,
22/5,23/5,24/5.

***SELECTED TOPICS IN THE ECONOMICS OF CENTRAL PLANNING AND
TRANSITION***

In lectures, we try to give a review of some of the pertinent issues of central planning and the economics of transition with both an emphasis on theoretical work and on empirical evidence. First we will cover some basic features of the Classical Planning System (CPS) in the Soviet Union and the reasons for its inability to survive as a viable economic system even in its reformed version. We then turn to the following important topics in transition economics: sequencing of reforms; privatization, restructuring and corporate governance; macro stabilization; the political economy of transition; and labor market adjustment in Central Europe vs. CIS. We finally will discuss informal employment in transition countries.

I have decided against using a textbook; my power point presentations on various topics serve as a substitute albeit an imperfect one.

However, students might want to consult the following four books from time to time:

Paul G. Hare, *Central Planning*, Harwood Academic Publishers 1991.

Janos Kornai, *The Socialist System: The Political Economy of Communism*, Oxford University Press 1992 (reprint 2000).

Olivier Blanchard, *The Economics of Post-Communist Transition*, Oxford University Press 1997.

Paul Hare and Gerard Turley (Eds.), *The Handbook on the Economics and the Political Economy of Transition*, Routledge 2013.

Students are encouraged to read power point presentations and starred articles before lectures.

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Topics covered:

Topic 1: Central Planning and Market Socialism

The basic elements of the Classical Planning System (CPS) in the Soviet Union with an emphasis on the inner contradictions and the inefficiencies at the macro and particularly the micro level leading to decline and eventual collapse of the system. We will also look at why efforts to reform the system from within, generating “Market Socialism” were not successful.

*Power point presentation on central planning and market socialism

*F.A. Hayek, “The Use of Knowledge in Society”, *American Economic Review*, Vol. 35, September 1945.

Joseph S. Berliner, “The Informal Organization of the Soviet Firm”, *Quarterly Journal of Economics* (Vol. 66, August 1952).

Richard E. Ericson, “The Second Economy and Resource Allocation under Central Planning”, *Journal of Comparative Economics* (Vol. 8, No. 1, March 1984)

John Bennett, “Repressed Inflation, Queuing and the Resale of Goods in a Centrally Planned Economy”, *European Economic Review* (Vol. 35, No. 1, January 1991).

Janos Kornai, “The Soft Budget Constraint”, *Kyklos* (Vol. 39, No. 1, 1986).

Richard Portes and David Winter, “Disequilibrium Estimates for Consumption Goods Markets in Centrally Planned Economies”, *Review of Economic Studies* (Vol. 47, No. 1, January 1980).

John P. Burkett, “Slack, Shortage, and Discouraged Consumers in Eastern Europe: Estimates Based on Smoothing by Aggregation”, *Review of Economic Studies* (Vol. 55, No. 3, July 1988).

*Janos Kornai, “The Hungarian Reform Process: Visions, Hopes, Reality”, *Journal of Economic Literature* (Vol. 24, December 1986).

*Andrei Shleifer and Robert Vishny, “The Politics of Market Socialism”, *Journal of Economic Perspectives* (Vol. 8, No. 2, 1994), plus the comment by Pranab Bardham and John E. Roemer, “On the Workability of Market Socialism”, same issue.

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Topic 2: General Sequencing of Reforms and Their Success

Here we look at which reforms should be tackled first and which later. Also, which benefits arise from a Big Bang Approach compared to a Gradualist Approach? Ten years after beginning of transition, have reforms been a failure or a success?

*Power point presentation on transition in general.

*Hartmut Lehmann, “The Polish Growth Miracle: Legacy of Persistent Reform Efforts”, in L. Paolazzi (Ed.), *Riforme che funzionavano, Confindustria, Rome 2012*.

*Stanislaw Gomulka, “Polish Economic Reform, 1990-91: Principles, Policies, Outcomes”, *Cambridge Journal of Economics* (Vol. 16, 1992).

David Lipton and Jeffrey Sachs, “Creating a Market Economy in Eastern Europe: The Case of Poland”, *Brookings Papers on Economic Activity*, No. 1, 1990.

*J. Stiglitz, “Whither Reform: Ten Years of the Transition”, World Bank, 1999, mimeo.

*M. Dabrowski, S. Gomulka and J. Rostowski, “Whence Reform? A Critique of the Stiglitz Perspective”, Centre for Economic Performance DP 471, September 2000.

Topic 3: Privatization, Restructuring and Corporate Governance

Has privatization led to speedy restructuring and better corporate governance? Is privatization an important precondition for better economic performance?

*Power point presentation on privatization.

*S. Estrin, J. Hanousek, E. Kocenda, and Jan Svejnar, “The Effects of Privatization and Ownership in Transition Economies, *Journal of Economic Literature*, XLVII, 47:3, 1-30.

*S. Estrin, “Competition and Corporate Governance in Transition.” *Journal of Economic Perspectives*, vol. 16, Winter 2002.

C. Shapiro and R.D. Willig, “Economic Rationales for the Scope of Privatization”, in E.N. Suleiman and J. Waterbury (eds.), *The Political Economy of Public Sector Reform and Privatization*, Westview Press, 1990.

M. Boycko, A. Shleifer and R. Vishny, *Privatizing Russia*, MIT Press 1995, chapters 4 and 5.

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*Aghion, Phillipe, and Olivier Blanchard, "On Privatization Methods in Eastern Europe and Their Implications," *Economics of Transition*, Vol. 6, No. 1, pp. 87-99.

*Boycko, Maxim, Andrei Shleifer, and Robert Vishny, "A Theory of Privatization," *Economic Journal*, Vol. 106, pp. 309-19.

Earle, John S., and Zuzana Sakova, "Business Start-ups or Disguised Unemployment? Evidence on the Nature of Self-Employment from Transition Economies." *Labour Economics*, Vol. 7(5), September 2000, 575-601.

*Johnson, Simon, John McMillan, and Christopher Woodruff, "Entrepreneurs and the Ordering of Institutional Reform," *Economics of Transition*, Vol. 8(1), 1-36, 2000.

World Bank, *Transition - The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union*, Washington, D.C.: World Bank, 2002, chapters 3-6.

Topic 4: Stabilization and Growth in Transition

Most transition economies have experienced serious bouts of inflation or hyperinflation with the onset of reforms. The various channels of inflation and methods to stop inflation will be discussed. What do we know about the determinants of growth in transition?

*Power point presentation on stabilization and growth

*A. Aslund, P. Boone and S. Johnson, "How to Stabilize: Lessons from Post-Communist Countries." *Brookings Papers on Economic Activity*, 1995.

D. Gros and A. Steinherr, *Winds of Change*, Longman, 1995, chapter 7.

*N.F. Campos and F. Coricelli, "Growth in Transition: What We Know, What We Don't, and What We Should." *Journal of Economic Literature*, XL, September 2002.

Topic 5: Divergent Labor Market Adjustments in Central Europe and CIS

Here, we first look at a simple model of labor reallocation from the declining to expanding sectors during transition and provide some empirical evidence of how the labor force, employment and unemployment evolve over time in the two regions mentioned. We then contrast two prototypes of labor market adjustment: "quantity adjustment", which is primarily observed in CEE, and "price adjustment", which is

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prevalent in CIS countries. Finally, we investigate the factors that might drive the different adjustment mechanisms.

*Power point presentation on labor markets in transition.

*T. Boeri and K. Terrell, “Institutional Determinants of Labor Reallocation in Transition.” *Journal of Economic Perspectives*, vol. 16, Winter 2002.

*Lehmann, H. and Wadsworth, J. (2000), “Tenures That Shook the World: Worker Turnover in Russia, Poland and Britain.” *Journal of Comparative Economics* vol.28, no. 4, pp. 639-664, December.

Svejnar, J. (1999), “Labor Markets in the Transitional Central and East European Economies.” In Orley Ashenfelter, and David Card, Eds, *Handbook of Labor Economics* Vol. 3b, pp. 2809-2858. Amsterdam: Elsevier Science.

Topic 6. Job Creation and Job Destruction in Transition Countries

Since transition economies have to reallocate jobs on a massive scale, it seems natural to analyze where jobs are destroyed and created in transition countries. Which sectors of the economy and which ownership types have the largest job destruction or job creation rates? Do we observe “Schumpeterian” creative destruction in so far as the released resources are employed in more productive activities or do we observe a slide into prolonged recessions brought on by job destruction? Studies on job creation and job destruction in mature capitalist economies find tremendous heterogeneity in gross job flows within narrow sectors of the economy indicating that within-sector job reallocation is much more important than between-sector job reallocation. Do we observe similar patterns in transition economies?

*Power point presentation on job flows in transition.

*Haltiwanger, J., Lehmann, H. and Terrell, K. (2003) “Job Creation and Job Destruction in Transition Economies: Introduction to a Symposium”, in *Economics of Transition*, vol. 11, no. 2, 205-219, June.

*Brown, D. and Earle, J. (2002). ‘Gross job flows in Russian industry before and after reforms: Has destruction become more creative?’ *Journal of Comparative Economics*, 30(1), pp. 96–133.

Davis, S. and J. Haltiwanger (1999), “Gross Job Flows” in Ashenfelter, O. and D. Card, *Handbook of Labor Economics*, vol. 3, Elsevier, pp.2711-2805.

*Konings J., H. Lehmann and M. Schaffer (1996), “Employment Growth, Job Creation and Job Destruction in Polish Industry: 1988-91, *Labour Economics*, Vol.3, pp.299-317.

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Topic 7: Labor Market Policies in CEE Economies: Their Rationale and Evaluation

Most transition economies have introduced passive labor market policies (PLMP), mainly consisting in unemployment benefits, on the one hand, and active labor market policies (ALMP), i.e. job brokerage, training, wage subsidy and direct employment measures, on the other. First, we will briefly survey the economic reasons for PLMP and ALMP, as they have been applied in OECD countries over the last decades. Then we will describe the main trends in expenditures on PLMP and ALMP in CEE countries and will discuss the applicability of OECD-type policies to this group of countries. Finally, we will look at the efficacy of these policies citing examples from the evaluation literature for Poland and Slovenia.

*Power point presentation on ALMP with special reference to transition countries.

*Boeri, T. (1997), "Learning from Transition Economies: Assessing Labor Market Policies across Central and Eastern Europe." *Journal of Comparative Economics*, 25, 3, pp. 366-384.

Lehmann, H. and Kluge, J., Assessing Active Labor Market Policies in Transition Economies, in Caroleo, E. and Pastore, F. (eds.), *The Labor Market Impact of EU Enlargement: A New Regional Geography of Europe?*, Physica Verlag, Heidelberg, 2010.

*Kluge, J., H. Lehmann and C.M. Schmidt (1999), "Disentangling Treatment Effects of Active Labor Market Policies: The Role of Labor Force Status Sequences", *Labour Economics*, 15, 1270-1295.

*Vodopivec, M. (1999), "Does the Slovenian Public Work Program Increase Participants' Chances to Find a Job?", *Journal of Comparative Economics*, 27, 1, 113-130.

Topic 9: The Experience of Women in the Labor Market during Transition

Under communism women were treated equally on paper, but were confronted with the double burden of working outside the home and working in the household. Has transition improved the situation of women or made it worse?

* Power point presentation on women in the labor market in transition countries.

*Brainerd, E. (2000), "Women in Transition: Changes in Gender Wage Differentials in Eastern Europe and the Former Soviet Union", *Industrial and Labor Relations Review*, 54, 1, 138-162.

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*Dohmen, T., Lehmann, H. And Zaiceva, A. (2008), “The Gender Earnings Gap inside a Russian Firm: First evidence from Personnel Data”, *Zeitschrift fuer Arbeitsmarktforschung*, 2 and 3, 157-179.

Topic 10: Informal Employment in Transition Economies

We look briefly at the incidence and determinants of informal employment, showing that especially the incidence depends on the definition used. We also explore transitions between different labor market states and the informal-formal wage gap to ascertain whether labor markets in transition countries are segmented or integrated along the formal-informal divide.

*Power point presentation on informal employment in transition countries.

*Lehmann, H. (2015), “Informal Employment in Transition Countries: Empirical Evidence and Research Challenges”, *Comparative Economic Studies*, vol. 57, 1-30.

Lehmann, H. and Zaiceva, A. (2015), “Redefining Informality and Measuring its Determinants: Evidence from the Russian Labour Market”, *Journal of International Development*, vol. 27, issue 4, 464-488.

Please note: the items with a * are required reading.

STUDENT EVALUATION

There will be a written final exam, counting 70% of the final grade, and a power point presentation by students, counting 30% of the final grade.

The power point presentation can be on a chosen article from the list of readings.