

The College of William & Mary

ECONOMICS 382:

Comparative Economics:

The Centrally Planned Economy and Post-socialist Transitions

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Office: Tyler 317A

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Classroom: Morton 202

Office Hours: M, W, Th, 9:30-11:00 AM

M, W: 2:00-3:20 PM

A. WHAT THIS COURSE IS ALL ABOUT

The modern world economy was, until 1990, dominated by two economic systems: Capitalism (laissez-faire or corporatist) and Socialism (centrally planned or cooperativist). Comparative economics [CE] approaches the study of economies by focusing on who controls the most important decision-making authority over scarce economic resources. This course is concerned with the design and functioning of market and non-market economic institutions which shape incentives and coordinate the decisions of economic actors. Together, they define an economic “system.”

CE seeks to evaluate the impact, on efficiency and equity, of alternative economic organizations. Comparative economics borrows from various fields of economics, especially from economic history, international economics, development economics, and institutional economics. Topics covered include property rights and transaction costs, economic organization, competition, centralized and decentralized planning, cooperative and labor management, vertical and horizontal inequality, and the dynamics of economic systems.

The observed economic performance of countries is a joint product of the characteristic features of economic system, endowments, and policies. At the end of the course, you will be able to understand: the soft institutional underbelly of the market economy, the impossibility of devising an apolitical economic system, the fusion of the political and the economic under socialism, and the varieties of market and non-market institutions that permit rapid and equitable economic growth.

To help you develop the requisite analytical skills for disentangling the effects of each of these fundamentals, the course is divided into four parts. The first part explores theories of economic systems, varieties of capitalism and socialism, and models of central planning. The operation and performance of the classical Soviet model is explored in part two to help you understand how an industrial economy can function in the absence of markets. The third part examines the vexed political economy of market-oriented transition at the microeconomic and the macroeconomic levels. We conclude with a close look at two contrasting country experiences with post-socialist transition: Russia vs. China.

B. COURSE EVALUATION AND EXPECTATIONS

Your grade for the course will be based on the quality of three sets of coursework: a mid-term exam (40%) and a largely cumulative final exam (40%), two units of homework (10%), and class team-based debates with a one-page summary of your own contributions (10%). Guidelines will be provided.

Attendance is expected per College rules. Sorry: all electronic devices are prohibited during class.

C. TEXTBOOKS AND READINGS

The course is unavoidably reading-intensive. The required readings consist of the following textbooks (which you are free to purchase from Barnes and Noble or Amazon), and a number of articles and chapters for are available in the course's Blackboard site:

1. Barry Naughton, *The Chinese Economy: Transition and Growth*, MIT Press, 2007.
2. Arthur Kroeber, *China's Economy: What Everyone Needs to Know*, Oxford, 2016.
3. David Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, Public Affairs, 2011.
4. Chris Miller, *The Struggle to Save the Soviet Economy: Mikhail Gorbachev and the Collapse of the USSR*, University of North Carolina Press, 2016.
5. Berhanu Abegaz, *Pedagogical Notes on Central Planning*, CWM, 2017*.

(*) Because of the absence of a suitable textbook on the theory part of this course, I have prepared pedagogical synthesis notes for you which you should study very closely along with the extensive lecture slides.

PART ONE:

INSTITUTIONAL ECONOMICS--DESIGN AND EVOLUTION OF ECONOMIC "SYSTEMS"

Economic systems (such as communal, state, or market) allocate resources and distribute income under the hegemony of various ruling elites. The centrally planned economy (CPE) is characterized by the predominance of state and collective property over private property, plan directives over market allocations, and social consumption over private consumption. Its ideal is rapid economic growth with economic security and a high level of egalitarianism. It is a product of both design and improvisation. The nature of economic systems in general, and the debate on the feasibility and efficiency of socialism relative to capitalism are reviewed in this section.

1.1. Comparative Institutions, Organizations, and "Systems "

Neuberger (1971), "Classifying Economic Systems," pp. 18-26.

Nelson (2011), "The Complex Economic Organization of Capitalist Economies," *Capitalism and Society*, 6(1).

1.2. The Great Debate on Systems: Capitalism vs. Stalinist Socialism vs. Market Socialism

Hayek (1945), "The Price System as a Mechanism for Using Knowledge," pp. 29-40.

Von Mises (1936), "Economic Calculation in Socialism," pp. 111-17.

Lange (1936), "On the Economic Theory of Socialism," pp. 118-26.

Stiglitz (1994), *Whither Socialism*, chs. 1, 2, 14 and 15 (skim).

⇒ Homework #1—5%.

PART TWO: SOVIET CENTRAL PLANNING IN THEORY AND PRACTICE

The Soviet economy, the "really-existing socialism" par excellence, was imitated by all other socialist countries. This classical CPE relied on a central economic plan characterized by administrative allocation of key inputs and outputs, a regimented labor market, autarky with respect to external trade, dual control of economic entities by parallel Party and State bureaucracies, a sizeable informal or sub-market economy, and a generalized state of economic shortage and soft budget constraint. All these were rationalized by a Leninist ideology of "revolutionary democracy." The pre-1991 Soviet economy provides a great case study of how a modern industrial economy can function without reliance on markets. This historical case study underscores the need to pay especial attention to context—historical legacies, endowments, and institutions (the state, rule of law, and governance).

2.1. Historical Legacies: Power, Ideology and Ownership Forms

Kornai (1992), *The Socialist System*, chs. 5, 6 and 11.
Gaidar (2012), *Russia: A Long View*, chs. 8 and 9 (Gaidar).
Naughton (2007), chs. 1 and 3.

2.2. Soviet Planning: Organizational Architecture, Drafting and Implementation

Gregory & Stuart (2001), *Russian and Soviet Economic Performance and Structure*, chs. 1, 6, 7 and 10.
Roland (2014), “Markets and Hierarchies,” 232-263.
Abegaz (2017), “Pedagogical Notes on Central Planning,” relevant sections.

→ **Mid-Term Exam—40%**

PART THREE: THE TRAVAILS OF POST-SOCIALIST TRANSITIONS

Market-driven industrialization somehow took off in Western Europe and its offshoots, but failed to do so elsewhere except Japan. This largely explains the temptation by frustrated elites in the European periphery and in the so-called Third World to engage in radical reform and central planning in the hope of successfully engineering it from the top. It turns out that the Soviet-type CPE is well suited for the mobilization and reallocation of underemployed resources using mature technologies (extensive growth). It also produces a reasonably egalitarian distribution of income and unprecedented levels economic security. The system, however, provided inadequate incentives for innovation. It was less well suited for sustaining a high level of productivity (intensive growth) since sustained growth of productivity requires significant devolution of authority, flexibility, and technological innovation. Could it be that, as the old joke has it, socialism is the longest detour to capitalism?

3.1. Inducements and Triggers for Systemic Reform

Kornai (1992), *The Socialist System*, ch. 15.

3.2. Toward a Theory of Transition to the Market: The Shock and the Therapy

Blanchard (1997), *The Economics of Post-Communist Transition*, chs. 1-2.
Abegaz (2017), “Pedagogical Notes on Central Planning,” relevant sections.

⇒

Homework #2—5%

PART FOUR: TWO CONTRASTING MODELS OF TRANSITION

Starting around 1990, the CPEs have made what appears to be an irreversible switch to some sort of a market (capitalist) economy. China and Vietnam constitute intriguing exceptions to the rule of transformational depression during the transition period. Central Europe moved quickly to recovery by mid-1990s while many Southeastern European and the CIS countries endured shock without therapy. China and Russia, along with Brazil and India, now comprise the BRIC group of emerging economic powers. The class presentations will critically reflect on the diverse country experiences grappling with such questions as to whether the enormous cost of transition could have been minimized with better reform strategies and more generous Western support.

4.1. The Russian Model of Transition: Transformational Recession

Miller (2016), the whole book.
Kornai (2006), “The Great Transformation of Central and Eastern Europe,” *Economics of Transition*.
Hoffman (2011), entire book.

4.2. The Chinese Model of Transition: Transformational Boom

Naughton (2007), especially chs. 4, 12, 13 and 20.

Kroeber (2016), the whole book.

Huang (2012), "How Did China Take Off?" *Journal of Economic Perspectives*, 26(4): 147-70.

⇒ Class Presentation and Summary Report--10%

→ **Final Exam—40%**

Useful Sources on Historically Planned Economies

The European Economy	The Economist
Economics of Transition	Beijing Review
Problems of Communism	Annual Transition Report (EBRD)
Economic Systems	The Palgrave Dictionary of Economics
J. of Comparative Economics	Transition (World Bank)
Comparative Economic Studies	Far Eastern Review
The New York Times	The Washington Post
The Wall Street Journal	The Financial Times (London)

Useful Web Sites

The Economist	http://www.eneews.com/magazines/economist/
United Nations	http://www.unsystem.org/
World Bank (WDI data)	http://www.worldbank.org/html/Welcome.html/
European Union	http://europa.eu.int/
EBRD	http://ebrd.org/
IMF	http://imf.org/
OECD	http://oecd.org/

Selected Transition Countries to Track

Russia	Ukraine
Kazakhstan	Baltic States
Czech Republic	Kazakhstan
Slovak Republic	Hungary
Poland	Serbia
Slovenia	Azerbaijan
Romania	Bulgaria
Albania	China
Vietnam	Serbia
Cuba*	North Korea*

Recommended: Martin Jacques, When China Rules the World, Penguin, 2012.