

William & Mary
ECON 382: Comparative Economics (Spring 2025)

RUSSIA AND CHINA:
Post-socialist Transition under the New Economic Globalization

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Office: Chancellors 335

Office Hours: W: 10-11:30 AM; 2-3 PM (or by appt.)

Class: TR: 12:30-1:50 PM

Classroom: Boswell 38

A. WHAT THIS COURSE IS ALL ABOUT

Two economic systems dominated the post-WWII global economy: Capitalism (laissez-faire or corporatist) and Socialism (centrally planned or cooperativist). Comparative economics [CE] studies economic decision-making and outcomes within one of the two systems or between systems. In other words, CE seeks to understand the mechanism and impact on the efficiency and equity of alternative economic organizations and forms of economic planning at the corporation or the state level.

This course focuses on comparative economic systems [CES], a branch of CE that focuses on inter-system comparison and deals with the design and functioning of interactive market institutions and non-market economic institutions to incentivize decisions. CES melds ideas 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. Politics, of course, lurks behind these issues.

The observed economic performance of economies is a joint product of the characteristic features of the economic system (domestic and global, 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 the market and non-market institutions that permit or hinder rapid and equitable economic growth.

More specifically, this course addresses four sets of issues. The first part of the syllabus explores theories of economic systems, varieties of capitalism and Socialism, and central planning models. The operation and performance of the classical Soviet model and its Chinese version are studied in part two to help you understand how an industrial economy can function without markets. The third part examines the vexed, post-1990 political economy of market-oriented transition in the age of ICT-driven global value chains. The course concludes with a close look at contrasting country experiences with the post-socialist Transition: Russia vs. China. Time permitting, we will also explore the small-country cases of Poland and Vietnam.

B. GRADING 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 cumulative final exam (40%), two units of graded homework (10%), and team-based class debates with a one-page summary of your contributions (10%). I will provide guidelines. Please remember that any unexcused non-submission of graded work will be assigned a zero value. At the semester's end, I inspect the raw scores' distribution and decide on the cutoff points for letter grades to ensure reasonable normalization.

C. TEXTBOOKS AND READINGS

There is no single textbook in the market that coherently covers most topics. Therefore, this reading-intensive course relies on disparate readings, synthesized for you in the lecture slides. *The PPP slides tell you what is most important to know.* The required readings consist of the following textbooks (which you can purchase from Barnes and Noble/WM or elsewhere). You can download the supplemental articles and chapters from the Course's Blackboard site:

1. Marek Dabrowski, ed., *The Contemporary Russian Economy: A Comprehensive Analysis*, Palgrave Macmillan, 2023. [MK, 2023]
2. Barry Naughton, *The Chinese Economy: Adaptation and Growth*, MIT Press, 2018. [BN, 2018]
3. Oleh Havrylyshyn, *Present at the Transition: An Inside Look at the Role of History, Politics, and Personalities in Post-Communist Countries*, Cambridge UP, 2020. [OH, 2020]
4. Berhanu Abegaz, *Understanding Economic Transitions: Plan and Market under the New Globalization*, Palgrave Macmillan, 2023. [BA, 2023]

D. ATTENDANCE & OTHER ACADEMIC RULES

Consistent attendance is the best way to do well in this class, where seemingly disparate ideas are interconnected. It is also College policy: "Attendance is expected per the College Catalog rules, and it is the best thing you can do for your grade. Except for reasonable cause, students are expected to be present at all regularly scheduled class meetings. Students whose attendance becomes unsatisfactory to the extent that their course performance is affected adversely should be informed by their instructor and reported to the Dean of Students by completing a care report. Each student is responsible for notifying professors of absences. Because of the Honor Code, a student's explanation of class absence is expected to be truthful and, therefore, should be sufficient in most instances. Students who will miss classes due to personal difficulties or family emergencies should contact the Dean of Students Office as soon as possible." The authoritative source for academic rules is the Undergraduate Catalog. ***Unless you have a medical excuse, all electronic devices are prohibited during lectures.***

PART ONE: INSTITUTIONAL 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) predominates state and collective property over private property, plan directives over market allocations, and social consumption over private consumption. The primary goal 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 will be reviewed in this section.

1.1. Comparative Institutions, Organizations, and Economic Systems

BA (2023), "Economic Systems," chapter 1.

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

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

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

Marx and Engels (1848), "The Communist Manifesto," pp. 14-34.

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.

⇒ 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 concerning 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 an excellent case study of how a modern industrial economy can function without reliance on markets. This historical case study underscores the need to pay special attention to context—historical legacies, endowments, and institutions (the state, the rule of law, and governance).

2.1. Historical Legacies: Power, Ideology and Ownership Forms

BA (2023), "Economic Planning in Various Settings,"

Chapter 2.

2.2. Soviet Planning: Organizational Architecture, Drafting, and Implementation

BA (2022), "The Soviet CPE I" and "The Soviet CPE II," chapters 3 and 4.

MK (2023), Part I (scan); Part II.

➔ Mid-Term Exam, just before Spring Break—40%

2.3. Chinese Planning: Planning in a Semi-industrial Setting

BN (2018), Parts I and II.

BA (2023), "The Chinese CPE," chapter 5.

PART THREE: THE TRAVAILS OF POST-SOCIALIST TRANSITIONS

Industrialization took off in the nineteenth century in Western Europe and its offshoots but failed elsewhere except Japan and Russia. This Great Divergence 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 development from the top down. 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 an egalitarian distribution of income and unprecedented levels of 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 productivity growth requires significant devolution of authority, flexibility, and technological innovation. Could it be that Socialism is the most extended detour to capitalism, as the old joke has it?

3.1. Theories and Modalities of Post-Socialist Transition

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

BA (2023), "The Nature of Post-Socialist Transitions," chapter 6.

3.2. Contrasting Strategies and Experiences: Europe versus China

OH (2020), *Present at the Transition*, the whole book (scan most of it).

BN (2018), the rest of the book (scan most of it).

⇒ Homework #2—5%

PART FOUR: TWO CONTRASTING MODELS OF TRANSITION

Starting around 1990, the CPEs made what appears to be an irreversible switch to some 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 the mid-1990s, while many Southeastern European and the CIS countries endured shock without therapy. Along with Brazil and India, China and Russia have spearheaded the BRIC group of emerging economic powers, which collectively boast the largest economic bloc, as testified by their share of global GDP (about \$180 trillion, in PPP\$). The class presentations will critically reflect on the diverse country's experiences in grappling with questions such as whether the enormous transition cost could have been minimized with better reform strategies and more generous Western support.

4.1. The Russian Model of Transition: Transformational Recession

MK (2023), Part IV.

Kornai (2006), "The Great Transformation of Central and Eastern Europe," *Econ. Transition*.

BA (2023), "The Autarkic Road to Capitalism," Chapter 7.

4.2. The Chinese Model of Transition: Transformational Boom

BA (2023), "The Nationalist Road to Capitalism," Chapter 8.

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

BN (2018), as specified in section 3.2.

4.3. Polish and Vietnamese Transition and the New Globalization (time permitting)

BA (2023), "Two Integrationist Variants: Poland and Vietnam," chapter 9.

BA (2023), "Pathways of Integration in the Age of Global Value Chains," chapter 10.

⇒ Class Presentation and Summary Report--10%

⇒ Final Exam—40%

Useful Sources on Historically Planned Economies:

The European Economy
Economics of Transition
Problems of Communism
Economic Systems
J. of Comparative Economics
Comparative Economic Studies
The New York Times
The Wall Street Journal

The Economist
Beijing Review
Annual Transition Report (EBRD)
The Palgrave Dictionary of Economics
Transition (World Bank)
Far Eastern Review
The Washington Post
The Financial Times (London)

Useful Web Sites:

The Economist
United Nations
World Bank (WDI data)
European Union
EBRD
IMF
OECD
Penn World Tables

<http://www.eneews.com/magazines/economist/>
<http://www.unsystem.org/>
<http://www.worldbank.org/html/Welcome.html/>
<http://europa.eu.int/>
<http://ebrd.org/>
<http://imf.org/>
<http://oecd.org/>
<https://www.rug.nl/ggdc/productivity/pwt/>

Post-Socialist Transition Countries:

Russia
Kazakhstan
Czech Republic
Slovak Republic
Poland
Slovenia
Romania
Albania
Vietnam
Cuba*

Ukraine
Baltic States
Uzbekistan
Hungary
Serbia
Azerbaijan
Bulgaria
China
Croatia
North Korea*

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