

# POLITICAL ECONOMY OF TRANSITION IN CENTRAL AND EASTERN EUROPE

EUROPEAN STUDIES 700.715

FALL 2011 • TUESDAYS 2:15PM – 4:15PM • ROOM R535

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Office Hours: W 8:15am-12:15pm

## COURSE OVERVIEW

Central and Eastern Europe underwent radical neoliberal reforms after 1989 to undo the effects of communism and create high-growth market economies. While the principle behind these reforms was to “the get the prices right,” enabling growth to follow, experience has shown that the politics, histories, cultures, and geographies of this part of the world often created obstacles to the fulfillment of neoliberal reform blueprints. What did radical reform achieve and what were its limits? What type of economies developed as a result? This course analyzes political-economic developments in emerging Europe since 1989 from an international and comparative perspective. Students will acquire a broad understanding of regional political economy through readings and seminar discussions while focusing on selected countries and topics through independent research and papers in this writing-intensive course.

## COURSE REQUIREMENTS:

### Attendance and Class Participation 40%

Students are expected to do the readings each week and contribute to class discussions. Special presentations and projects are also required.

### Written Assignments 60%

Students are required to submit a 1-2 page reaction paper every other week and three 10-plus page research papers providing a more detailed analysis of topics discussed in class, one for each segment of the course.

- 1 Reaction Papers. Reaction papers should provide a summary of main points and proposed questions for discussion. Reaction papers should be distributed to the instructor and other students by email at least one day prior to the class session to allow time for feedback and discussion.
- 2 Research Papers. Research papers are expected to be at least 10 pages in length. They provide an opportunity for more in-depth analysis of particular topics and countries. Topics must be approved by the instructor and papers submitted on time.

## REQUIRED READINGS:

Anders Aslund, Russia's Capitalist Revolution, 2007.

Blanchard et al. 1991. Reform in Eastern Europe. Cambridge: MIT Press.

Blasi, Kroumova, and Kruse, Kremlin Capitalism, 1997.

Linda Cook, Postcommunist Welfare States, Cornell University Press, 2007.

Jon Elster, Claus Offe, and Ulrich Preuss, Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea, Cambridge University Press, 1998.

Mitchell A. Orenstein, Out of the Red, University of Michigan Press, 2001.

Adam Przeworski, Democracy and the Market, Cambridge University Press, 1991.

David Stark and Laszlo Bruszt, Postsocialist Pathways.

Milada Vachudova, Europe Undivided, Oxford University Press, 2005.

## RECOMMENDED READINGS:

Chrystia Freeland, Sale of the Century: Russia's Wild Ride from Communism to Capitalism, 2000.

Grzegorz Kolodko, From Shock to Therapy, Oxford University Press, 2000.

Janos Kornai, The Socialist System, Oxford University Press, 1992.

Milanovic, Income, Inequality, and Poverty in the Transition from Planned to Market Economy, World Bank (1998).

## WEB RESOURCES:

Transitions On-Line:

<http://www.tol.cz/look/TOL/home.tpl?IdLanguage=1&IdPublication=4&NrIssue=243>

Journal of Democracy: [http://muse.jhu.edu/journals/journal\\_of\\_democracy/](http://muse.jhu.edu/journals/journal_of_democracy/)

Economics of Transition: <http://www.blackwellpublishing.com/journal.asp?ref=0967-0750>

East European Politics and Societies: <http://eep.sagepub.com/>

Europe-Asia Studies: <http://www.jstor.org/journals/09668136.html>

## [1] AUGUST 30 • POLITICAL ECONOMY OF MARKET REFORM

### *Questions for Discussion:*

What were the fundamental problems of transition in postcommunist countries? How did these countries differ from others where Washington consensus policies were applied? What economic and political dynamics did reformers expect? What were the different proposed approaches to reform?

### *Assignments:*

Prepare readings and distribute reaction papers.

### *Required Readings:*

Blanchard et al. 1991. Reform in Eastern Europe. Cambridge: MIT Press.

Balcerowicz, "Understanding Postcommunist Transitions," Journal of Democracy (1994).

Adam Przeworski, Democracy and the Market (1991), especially chapter 4.

### *Recommended Readings:*

Jeffrey Sachs, Poland's Jump to the Market Economy. Cambridge, MA: MIT Press.

Lipton and Sachs, "Creating a Market Economy in Eastern Europe: The Case of Poland," Brookings Papers on Economic Activity 1990:1, 75-147.

Aslund, Boone, and Johnson, "How to Stabilize: Lessons from Post-Communist Countries," Brookings Papers on Economic Activity (1996).

Dahrendorf, Reflections on the Revolution in Europe (1990 [1995]).

Interviews with Leszek Balcerowicz, Anatoly Chubais, Yegor Gaidar, Mikhail Gorbachev, Boris Jordan, Vladimir Potanin, Jeffrey Sachs, Lilia Shevtsova, Joseph Stiglitz, Lech Walesa, Grigory Yavlinsky:  
[http://www.pbs.org/wgbh/commandingheights/lo/people/pe\\_name.html](http://www.pbs.org/wgbh/commandingheights/lo/people/pe_name.html)

Interviews with Leszek Balcerowicz, Anatoly Chubais, Yegor Gaidar, Mikhail Gorbachev, Boris Jordan, Vladimir Potanin, Jeffrey Sachs, Lilia Shevtsova, Joseph Stiglitz, Lech Walesa, Grigory Yavlinsky:  
[http://www.pbs.org/wgbh/commandingheights/lo/people/pe\\_name.html](http://www.pbs.org/wgbh/commandingheights/lo/people/pe_name.html)

## [2] SEPTEMBER 6 • POLITICAL ECONOMY OF TRANSITION

### *Questions for Discussion:*

To what extent did the political and economic dynamics of reform conform to initial expectations? Who were reform losers and winners? How did legacies of the past affect the prospects for reform? What lessons were learned? What explains the renewed emphasis on institutions?

### *Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

Joel Hellman, "The Politics of Partial Reform in Postcommunist Transitions," World Politics (1998).

M. Steven Fish, "The Determinants of Economic Reform in the Post-Communist World," East European Politics and Societies (1991).

Orenstein, Out of the Red (2001), chapters 1-3 and 5.

*Recommended Readings:*

Gerard Roland, "The Political Economy of Transition," Journal of Economic Perspectives 16:1 (2002).

Elster, Offe, and Preuss, Institutional Design (1998), chapters 1-5.

Gowan, "Neoliberal Theory and Practice for Eastern Europe," New Left Review (1995).

Blanchard, The Economics of Post-Communist Transition (1997).

Jan Fidrmuc, "Political Support for Reforms: Economic Voting in Transition Countries," (1998).

Fidrmuc, "Economic Reform, Democracy, and Growth during Post-Communist Transition," (2002).

Bunce, "Political Economy of Post-Socialism," Slavic Review.

Kolodko, From Shock to Therapy.

World Bank, World Development Report (From Plan to Market) (1996).

Macours and Swinnen, "Causes of Output Decline in Central European Transition." Journal of Comparative Economics (2000).

### [3] SEPTEMBER 13 • VOUCHER PRIVATIZATION

*Questions for Discussion:*

What were the theories and expectations behind voucher privatization in postcommunist Europe? What were the results? Was voucher privatization a prerequisite of transition or a human disaster?

*Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

John Nellis, "Privatization in Transition States: A Brief Assessment," The Privatization Barometer Newsletter 2 (2005), pp. 20-28.

Brom and Orenstein, "The Privatised Sector in the Czech Republic," Europe-Asia Studies (1994).

Stuckler, King, and McKee, "Mass Privatisation and the Post-Communist Mortality Crisis," The Lancet 373, Issue 9661, pp. 399-407.

John Earle, "Mass Privatisation and Mortality," The Lancet 373, Issue 9671, p. 1247.

*Recommended Readings:*

Lipton, Sachs, and Summers, "Privatization in Eastern Europe: The Case of Poland," Brookings Papers on Economic Activity, 1990.

Stark and Bruszt, Postsocialist Pathways, chapters 1-3.

Stark and Bruszt, Path Dependence and Privatization Strategies in East Central Europe, East European Politics and Societies (1991).

Boyco, Shleifer, Vishny, "A Theory of Privatization."

Laurence King, "Shock Privatization," Politics & Society, Vol. 31, No. 1, 3-30 (2003).

Frydman and Rapaczynski, Privatization: Is the State Withering Away?

Orenstein, Out of the Red, chapter 4.

G. Pohl, "Privatization and Restructuring."

Estrin, Privatisation in Central and Eastern Europe.

K.M. Schmidt, The Political Economy of Mass Privatization.

Ileana Tache, "The Mass Privatization Process in Romania."

Claessens and Djankov, Ownership Concentration and Corporate Performance in the Czech Republic, Journal of Comparative Economics (1999).

Schwartz, Andrew, The Politics of Greed, chapters 1-5.

Kocenda and Svejnar, "Ownership and Firm Performance after Large-Scale Privatization," CERGE-EI Working Paper Series 209.

Interviews with Leszek Balcerowicz, Anatoly Chubais, Yegor Gaidar, Mikhail Gorbachev, Boris Jordan, Vladimir Potanin, Jeffrey Sachs, Lilia Shevtsova, Joseph Stiglitz, Lech Walesa, Grigory Yavlinsky:  
[http://www.pbs.org/wgbh/commandingheights/lo/people/pe\\_name.html](http://www.pbs.org/wgbh/commandingheights/lo/people/pe_name.html)

[4] SEPTEMBER 20 • CLASS CANCELLED

## [5] SEPTEMBER 27 • CRONY CAPITALISM

### *Questions for Discussion:*

Why did Russia and other countries fail to create well-functioning markets and instead develop a form of “crony capitalism?” Was this caused by the style of reform or by a failure to take into account historical, cultural, and geographic factors? Who lost Russia? Or was it not lost at all?

### *Assignments:*

Prepare readings and distribute reaction papers.

*Research Paper 1 Due. Topic: Political Economy of Market Reform*

### *Required Readings:*

Blasi, Kroumova, and Kruse, Kremlin Capitalism (1997).

Anders Aslund, Russia’s Capitalist Revolution (2007).

Barnes, “Russia’s New Business Groups and State Power,” Post-Soviet Affairs (2003).

Treisman, “Blaming Russia First,” Foreign Affairs (2000).

### *Recommended Readings:*

Chrystia Freeland, Sale of the Century: Russia’s Wild Ride from Communism to Capitalism (2000).

Juliet Johnson, “Russia’s Emerging Financial-Industrial Groups,” Post-Soviet Affairs 13:4 (1997), 333-365.

Black et al., “Russian Privatization and Corporate Governance: What Went Wrong?”  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=181348](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=181348)

Sachs, “Privatization in Russia: Some Lessons from Eastern Europe.” (1992)

## [6] OCTOBER 4 • SOCIAL IMPACTS OF REFORM

### *Questions for Discussion:*

What were the social impacts of reform? Were they worse in radically or gradually reforming states? How have post-communist welfare states been transformed to meet the challenges of market economies? What accounts for the differences between countries?

### *Assignments:*

Prepare readings and distribute reaction papers.

### *Required Readings:*

Linda Cook, Postcommunist Welfare States, pp. 1-54.

Ringold and Kasek, Social Assistance in the New EU Member States, World Bank (2007). Available on-line.

Orenstein, "Postcommunist Welfare States," Journal of Democracy (2008).

Kaufman, "Market Reform and Social Protection," East European Politics and Societies (2007).

Lipsmeyer, "Reading between the Welfare Lines: Politics and Policy Structure in Postcommunist Europe," Europe-Asia Studies 52:7, 2000.

*Recommended Readings:*

Milanovic, Income, Inequality, and Poverty in the Transition from Planned to Market Economy, World Bank (1998).

Brainerd, Elizabeth. "Winners and Losers in Russia's Economic Transition," American Economic Review 88:5 (December 1998), 1094-1116.

Deacon, "Eastern European Welfare States: The Impacts of the Politics of Globalization," Journal of European Social Policy, 2000.

Chase, "Markets for Communist Human Capital," Industrial and Labor Relations Review.

Voices of the Poor Country Reports:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20613045~isCURL:Y~menuPK:336998~pagePK:148956~piPK:216618~theSitePK:336992,00.html>

*YouTube:*

Bytom – The City that Died: <http://www.youtube.com/watch?v=JRYpUluXlss>

## [7] OCTOBER 11 • ROMA POVERTY

*Questions for Discussion:*

What is unique about Roma poverty? How have international and transnational actors attempted to address the problem? What is the range of Central European domestic responses?

*Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

Ringold, Orenstein, Wilkens, Roma in an Expanding Europe: Breaking the Poverty Cycle, World Bank (2005). Available on-line at [worldbank.org](http://worldbank.org).

*Recommended Readings:*

Barany, The East European Gypsies: Regime Change, Marginality, and Ethnic Politics.

European Roma Rights Centre, <http://www.errc.org/index.php>

## [8] OCTOBER 18 • WEAK CIVIL SOCIETY AND POLITICIZED STATES

### *Questions for Discussion:*

How has the economic transition affected the development of Central and East European political institutions? Why do civil society actors and the state remain weak? What can be done about the perennial issue of corruption?

### *Assignments:*

Prepare readings and distribute reaction papers.

### *Required Readings:*

Frye and Shleifer, "The Invisible Hand and the Grabbing Hand," American Economics Review (1997).

Kitshelt, "Formation of Party Cleavages in Post-Communist Democratization," Party Politics (1995).

Michael Bernhard, "Civil Society and Democratic Transition in East Central Europe."

Anna Grzymala-Busse, "The Discreet Charm of Formal Institutions," CPS (2006).

Conor O'Dwyer, "Runaway State Building," World Politics (2004).

Ost, "Illusory Corporatism in Eastern Europe," Politics and Society (2000).

### *Recommended Readings:*

Greskovits, Political Economy of Protest and Patience, CEU Press (1998).

David Ost, The Defeat of Solidarity: Anger and Politics in Post-Communist Europe (2005).

## [9] OCTOBER 25 • EUROPEAN UNION ACCESSION

### *Questions for Discussion:*

Why did the European Union admit some, but not all, postcommunist states? What criteria and process were used? What impact did European Union accession have?

### *Assignments:*

Prepare readings and distribute reaction papers.

*Research Paper 2 Due: Social and Political Impacts of Reform*

### *Required Readings:*

Vachudova, Europe Undivided, chapters 1-5.

Heather Grabbe, "How Does Europeanization Affect CEE Governance? Conditionality, Diffusion, and Diversity," Journal of European Public Policy (2001).



Schimmelfennig, Frank and Ulrich Sedelmeier, "Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe," Journal of European Public Policy (2004).

*Recommended Readings:*

Judith Kelley, "International Actors on the Domestic Scene: Membership Conditionality and Socialization by International Institutions," International Organization 58:3 (July 2004).

Attila Agh, "Europeanization of Policy-Making in East-Central Europe: The Hungarian Approach to EU Accession," Journal of European Public Policy (1999).

Frank Schimmelfennig, "The Community Trap," International Organization (2001), 55:1:47-80 Cambridge University Press.

Special Issue, "Beyond Conditionality," Journal of European Public Policy 15:6 (2008), eds. Rachel Epstein and Ulrich Sedelmeier.

*YouTube:*

20<sup>th</sup> Anniversary of 1989 (EUtube): <http://www.youtube.com/watch?v=nhS55x8J7pw>

Entropa: <http://www.youtube.com/watch?v=k2SKLSM1cw4>

**[10] NOVEMBER 1 • CONDITIONALITY AND BEYOND**

*Questions for Discussion:*

What were the results of the EU accession process? In what ways did it affect the accession countries and their neighbors? Will EU accession continue? Has the EU experienced "indigestion" or "expansion fatigue"? What are the limits of conditionality in influencing CEE states?

*Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

David R. Cameron, "Postcommunist Democracy: The Impact of the European Union," Post-Soviet Affairs (2007).

Ulrich Sedelmeier, "After Conditionality: Post-Accession Compliance with EU Law in Central and Eastern Europe," Journal of European Public Policy (2008).

Frank Schimmelfennig, "EU Political Accession Conditionality after the 2004 Enlargement: Consistency and Effectiveness," Journal of European Public Policy (2008).

Taras Kuzio, "Is Ukraine Part of Europe's Future?" Washington Quarterly (2006).

PET Fall 2008, "Case Study: Funding the Fight against Corruption in Romania and Bulgaria." Political Economy of Transition Class Project January 2009. Johns Hopkins University SAIS (June 2009).

European Union, "Bulgaria and Romania: Political Consensus Needed to Push Forward the Progress on Judicial Reform and the Fight against Corruption," 22 July 2009. (Link to Cooperation and Verification Mechanism Reports Included at Bottom of Page).

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1166&format=HTML&aged=0&language=EN>

*Recommended Readings:*

Baldwin, Francois, and Portes, The Costs and Benefits of Eastern Enlargement, Economic Policy (1997).

Transparency International Corruptions Perceptions Index (CPI) 2008.

Daniel Treisman, The Causes of Corruption: A Cross-National Study (1998).

Ivan Krastev, Shifting Obsessions: Three Essays on the Politics of Anticorruption. Budapest: CEU Press (2006).

Sandra Lavenex, "EU External Governance in 'Wider Europe'," Journal of European Public Policy, 11:4 (2004), pp. 680 – 700

Dannreuther, Developing the Alternative to Enlargement: The European Neighbourhood Policy, European Foreign Affairs Review (2006).

Florian Trauner, "From Membership Conditionality to Policy Conditionality: EU External Governance in South Eastern Europe," Journal of European Public Policy (August 2009), 774-90.

*YouTube:*

EU Freezes Bulgarian Funds over Corruption: <http://www.youtube.com/watch?v=bbm5kThu5js>

Corruption in Romania: <http://www.youtube.com/watch?v=lhxYr6h0cOw&feature=related>

The EU Stabilizing the Western Balkans:

<http://www.youtube.com/watch?v=bFaeS7nUDBs&feature=related>

## [11] NOVEMBER 8 • SECOND STAGE REFORMS

*Questions for Discussion:*

Why have CEE states continued to legislate and implement neoliberal structural reforms throughout the 1990s and 2000s? What distinguishes these second-generation reforms, such as the flat tax and pension privatization? Why are they undertaken? What are their effects?

*Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

O'Dwyer and Kovalcik, *And the Last shall be First: Party System Institutionalization and Second-Generation Economic Reform in Postcommunist Europe*, Studies in Comparative Institutional Development (2007).

Muller, *The Political Economy of Pension Reform in Eastern Europe*, International Social Security Review (2001).

Ivanova, Keen and Klemm, *The Russian 'Flat Tax' Reform*, Economic Policy (2005).

Appel, *International Imperatives and Tax Reform: Lessons from Postcommunist Europe*, Comparative Politics (2006).

*Recommended Readings:*

Elaine Fultz, Pension Reform in Central and Eastern Europe (2002).

[http://www.ilo.org/public/english/region/eurpro/budapest/publ/\\_book/index.htm](http://www.ilo.org/public/english/region/eurpro/budapest/publ/_book/index.htm)

Orenstein, *How Politics and Institutions Affect Pension Reform in Three Postcommunist Countries*, World Bank Policy Research Working Paper (2000).

Muller, Privatising Old-Age Security.

## [12] NOVEMBER 15 • VARIETIES OF CAPITALISM IN CEE

*Questions for Discussion:*

What forms of capitalism are emerging in Central and Eastern Europe? What are the main ways that countries are distinguished from one another? How are they managing their insertion into the international economy? Are some countries more successful than others? Do countries have choices or are these dictated by factor endowments and international influences?

*Assignments:*

Prepare readings and distribute reaction papers.

*Research Paper 3 Due. Topic: Accession and Beyond*

*Required Readings:*

Greskovits and Bohle, "Neoliberalism, Embedded Neoliberalism, and Neocorporatism: Paths towards Transnational Capitalism in Central-Eastern Europe," West European Politics (2007).

[http://econ.core.hu/doc/seminar/Bohle-Greskovits\\_WEP\\_Final.doc](http://econ.core.hu/doc/seminar/Bohle-Greskovits_WEP_Final.doc)

Nölke and Vliegenthart, "Enlarging the Varieties of Capitalism," World Politics (2009).

Bohle and Greskovits, "Varieties of Capitalism and Capitalism," European Journal of Sociology (2010).

Myant and Drahokoupil, "Varieties of Capitalism in Transition Economies,"

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1561944](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1561944)

Feldmann, "Emerging Varieties of Capitalism in Transition Countries," Comparative Political Studies (2006).

*Recommended Readings:*

Shleifer and Treisman, "A Normal Country," Foreign Affairs 2004.

<http://www.foreignaffairs.org/20040301faessay83204/andrei-shleifer-daniel-treisman/a-normal-country.html>

Bohle and Greskovits, "Capitalism without Compromise," Studies in Comparative International Development (2006).

*YouTube:*

Anders Aslund on Russia, <http://www.youtube.com/watch?v=-XfWx6l-ipl>

[13] NOVEMBER 22 • THANKSGIVING BREAK

[14] NOVEMBER 29 • IMPACT OF THE FINANCIAL CRISIS

*Questions for Discussion:*

Why have Central and East European countries been among the first to be affected by the global financial crisis? What impact will this crisis have on attitudes towards integration with the European Union and the West in general? How will responses to it shape domestic politics?

*Assignments:*

Prepare readings and distribute reaction papers.

*Required Readings:*

Aslund, "The East European Financial Crisis," IIE Working Paper.

Rainer Kattel, "Financial and Economic Crisis in Eastern Europe."

Atoyan, "Beyond the Crisis: Revisiting Eastern Europe's Growth Model," IMF Working Paper.

*Recommended Readings:*

EBRD, "EBRD responds to the Global Financial Crisis." [http://www.ebrd.com/new/fin\\_crisis.htm](http://www.ebrd.com/new/fin_crisis.htm)

Some in Eastern Europe Ask, 'What Financial Crisis?' Christian Science Monitor, March 13, 2009.