

## SYLLABUS FOR TRANSITION ECONOMICS

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**Classteachers:** Rustem Nureev

### COURSE DESCRIPTION:

Transition economics is a one semester course for graduate school students.

The course is taught in Russian or in English. The students are studying for Russian degree in Economics, but knowing English terminology through reading in English is also required.

### COURSE OBJECTIVES:

The purpose of the course is to give students a thorough understanding of the economic of transition in historical dynamics and geographical variety. This course is devoted to the study pre-transitional, transitional and post-transitional societies.

### THE METHODS:

The following methods and forms of study are used in the course:

- lectures (3 hours a week);
- classes (1 hours a week, the main problems of home assignments are discussed);
- essay writing in English;
- teachers' consultations;
- self-study.

In total the course includes 16 hours of lectures, 8 hours of classes. Self-study is the main method in the course.

### READINGS:

#### **Main manual and articles:**

The Institutional Economics of Russia's Transformation, Ashgate, 2005

**Nureev R., Runov A.** Russia: whether deprivatization is inevitable? Power-property phenomenon as a path dependence problem, Berkley, 2001 ([www.isnie.org/ISNIE01/Papers01/nureev-runov.pdf](http://www.isnie.org/ISNIE01/Papers01/nureev-runov.pdf))

**Nureev R.** Back to Private Ownership or On to Private Ownership?, Social Sciences, A Quarterly Journal of the Russian Academy of Sciences, 2003, No. 2

**Nureev R.** Russia at the beginning of the XXI century, Harvard, 2006.

([www.iriss.ru/attach\\_download?object\\_id=000150073738&attach\\_id=000538](http://www.iriss.ru/attach_download?object_id=000150073738&attach_id=000538))

#### **Supplementary Readings:**

**Andreff W.** Economie de la transition. La transformation des economies planifiees en economies de marche. Breal. 2007.

**Gérard R.** Transition and Economics: Politics, Markets and Firms. The MIT Press, Cambridge., 2000

**Goldman M.I.** The Piratization Of Russia: Russian Reform Goes Awry, L.: Routledge, 2003

**Gregory P.R., Stuart R.S.** Russia and Soviet Economic Performance and Structure. 6<sup>th</sup> ed., Boson, NY: Addison Wesley, 1998.

**Lavigne M.** The Economics of Transition: From Socialist Economy to Market Economy. 2<sup>nd</sup> Ed., L.: McMillan Press, 1999

**Nureev R., Latov Yu.** The Fruits of Enlightenment (The New Russian Economic Science at the Threshold of the Third Millennium), Problem of Economic Transition, vol. 44, nos. 9/10, January/February 2002

**Nureev R.** The Economic Actors of Post-Soviet Society, Sisyphus. Social Studies Institute of Philosophy and Sociology. Polish Academy of Sciences. Vol. XVI, 2002

**Nureev R.** Schumpeterian Entrepreneur: Theory and Practice/ Economic Transformation and Evolutionary Theory of J. Schumpeter, Russia, Center of Evolutionary Economics, 2003

**Nureev R.** Machteigentum im heutigen Russland – ein “Pfadsabhängigkeitsproblem”/Proceedings des 2. Deutsch-russischen Workshops zum Thema: “Aktuelle Fragen und Trends der Wirtschaftswissenschaften”. Prof.Dr. K. Richter, B. Gobsch (Hrsg.). Europa Universität Viardina, Frankfurt (Oder), Lehrstuhl für ABWL, insbes. Industriebetriebslehre. Diskussionspapier Nr. 193 (deutsch), Mai 2003.

**Rosenberg N., Birdzell L. E.** How the West Grew Rich: The Economic Transformation of the Industrial World, 1986.

**Nureev R.** Russia: institutional development. Moscow. 2009 (in Russian).

**GRADE DETERMINATION:**

The students sit a mid-year exam, on a 100-point scale and from 1 to 5.

The final grade point is the constructed as:

Final exam	50%
Home works & Tests	25%
Presentation of the paper	25%

**COURSE OUTLINE:**

**1. The echelons of capitalism development**

Three echelons of capitalism development. Non-economic derivations and consequences of economic growth from poverty to welfare. Urbanisation. The industry and trade independence from political institutes. Laissez-faire policy. Different combinations of hierarchy and markets.

An explanation from history: a western growth system. Growth derivations are innovations in trade, technology and organisation. The emergence of an autonomous economic sphere and a merchant class. Innovation by extension of trade and discovery of new resources. Innovation by lowering the cost of production. Innovation by introducing new products. Uncertainty and Experiment. Diffusion of authority, experiment, and responsibility as experiment conditions. The development of property rights. Overcoming Resistance to Innovation: the diffusion of authority helps to initiate innovation, the judges' independence. Innovation in Organisation: Diversity.

The evolution of institutions favourable to commerce. The Changing Legal Structure. The clarification of law from discretionary, ritual, religious adulterants. The development of money, credits, changing in the finance system. Bills trading – evasion of church interdict on carrying charge. Insurance. The end of 12th century – the separating of insurance from financing (Italian).

Absolutism. The union of noblesse and trade bourgeoisie. Substitution of Taxation for Confiscation. Formation of New Kinds of Enterprise. Double entry. Separating of industry transactions from personal transactions Economic association not based on kin relationship The Role of Reformation. The Formation of New social entrepreneurs class. The Protestant ethic. Democratisation of the church in the interests of the bourgeois. Political prerequisites. Political pluralism in Europe as the beginning of growth An example from history: Main features of formation of capitalism in England and Spain (comparative analysis)

**2. Pre-Transition economics (The command economy).**

Process of increasing government role in the economy and the administrative-plan system genesis

Military communism. Centralized food dictatorship. Labor militarization. Low wage rate as the main reason of desertion. Growth of shadow economy. Dichotomy of government centralized barter economy and private dissipated market

Spurred industrialization. Making the administrative-plan system under spurred industrialization. Gigantomania. Conflicts between regional and national requirements increase in product deficit.. Long term building Inflation. Monopoly in production. Problems in procurement secondary universalization of production.

Total collectivization

The administrative-plan system genesis. General planning based on industrial projects. Incomplete balance and partial disproportions on pre-war five-years and early post-war five-years. Integrated multiple-choice planning. Method of balances: Permanently conservative of the planned indicators. Decrease in growth rate of National Income.

Monopolization. Features of administrative monopoly. Difference from ordinary monopoly: Based on state property; Run under production deficit and limited market; Run under closed economy (based on state foreign trade monopoly), Protected from competition:

Reasons for technological progress deceleration. Monopoly in all industries. Absence of economic responsibility of ministries for technological progress. No correlation between R&D budget and implementation of new inventions.

Deficit economy and its «shadow». Free consumer choice and its limitation in the time of socialism. Deficit and quality. Requiring payment and free of charge systems. Allocation by «common mess»

Queues. The queue in a case of the fixed price. Allocation vs demand price and queue length. Queue in case of indefinite equilibrium. Allocation vs demand price and queue length when the equilibrium price is ineffective. Time in the queue elasticity of demand. Queue types and its discipline. Mediation and speculation. Black market.

Rationing and its types. Ration card system. Rationing by means of checks. Rationing by means of coupons. The reform in retail prices. Increase of the government price followed by the increase of income. Government price increase followed by fully compensating income increase The choice of forms of the social support. Crises and collapse of the Soviet economy

### **3. Transition economics (Russian economy in the end of the 20<sup>th</sup> century).**

Radical reforms in 1990s. Russia at the third stage of capitalism development. Reasons for the choice of primitive liberal reformation paradigm. 1992 price liberalization. 1992-1995 privatization, its results. 1998 crisis, its consequences.

Features of Russian mentality. The majority population's reaction on the troubles with transition to the market economy is not the market adaptation but market evasion.

Social market adaptation. Under transformational recession shrinkage of economic freedoms were more significant than enhancement of social and political ones. Single side freedom understanding (getting new rights and goods without losing old guarantees and possibilities). Absence of understanding intercorrelation between "freedom – independence – liability".

Government were unable to maintain new proclaimed rights and by itself systematically injured these new rights. Pronounced and desirable freedom gap. Legal norms rejection has become a new special norm and norm following became an exception (Society criminalization; Illegal freedom development; New formal rules rejection is becoming new informal rule). Now Russian society is even farther from western institutional freedom than before the reform.

Society marginalization. Already there is no government employment guarantee and there is some risk of unemployment. Main employee's determinants: Job losing fear; Semilegal secondary employment orientation.

Absence of organised social movements for human rights: Makes people adapted by themselves, - Makes people struggle for personal rights by themselves.

Strengthening of the economic dependency of population from government: Government no more guarantees not even stable income which helps to live well but even its minimum. They lay on the help from outside, on those who hold the power. There is a tendency to relay one's responsibility on others.

Between legal and illegal of economy. Correlations between political and economical instability. Distribution of monetary income of people in Russia. Shift of Lorenz curve in Russia since 1991 to 2005. Sources of earnings in Russia. Increasing share of property incomes and entrepreneur incomes. Decreasing share of wage. The same share of social transfers. Increasing the percentages of people with two and more sources of earnings

Poverty in Russia. National poverty line. Main reasons: High level of inflation; Downfall in real wage rate; (especially in military-industrial complex); Increase of unemployment; Depreciation of social transfers. Structural Changes in post-soviet Russia.

Firm activity in post-Soviet Russia: main features. Paternalistic union of employees and entrepreneurs: conflicts and consensuses. Peculiarities of national wages. Post-Soviet trade unions: new institutional framework. "Latent" unemployment as a socio-economic problem.

Russian transition economy as a barter economy. Causes of barter development. Barter as a form of inefficient firms' existence. Barter and non-payments: role of natural monopolies. Barter as a form of "grey economy" manifestation. In search for the ways to overcome barter expansion.

Racket economy. Obstacles for legal protection of property rights. Negative image of Russian economy. Illegal protection of property rights.

State in transition economy: generator of institutional environment. “Revolution from the top” and its consequences. Reform of reforms. “Institutional inadequacy” of Russian State. Russia as a state of total redistribution.

Residual property of the State: problems of effective management. Institutional traps of budget separatism. Manifestations of opportunism in interbudget relations sphere as a stimulus for institutional development. Budget federalism: problems and contradictions. Doing business in Russia.

Features of a choice in conditions of representative democracy. A political competition. Whether preferences of the Russian voters have changed? Model of two-party competition by Hotelling-Downs: Russian case.

Russian Federation in globalizing world: Light and shadows of economic specialization

#### **4. Post-transition economics (Russia at the beginning of the 21<sup>st</sup> century).**

Possible scenarios of development (state capitalism, oligarchic capitalism, competitive capitalism)

State capitalism: comprehensive state intervention in economy; strengthening of centralized redistribution of resources; restriction on freedom of entrepreneur’s and investment decisions (as by Center, so regional authorities); dosated openness and transparency of economy; accent on growth maximization at the expense of a confined circle of industries.

Oligarchic capitalism: subsequent consolidation of companies and increase in concentration of industries; relative importance of large foreign companies in russian market; state delegation of decision-making for large companies but on terms of political agreement within «industrial policy»; combination of openness of economy and selective protective measures.

Competitive capitalism: government pursues a strong regulation policy in the field of formation, maintenance and perfection of conditions for enterprises; assistance to competition; support to small- and medium-scale business; gets out of the area of business decision-making; market-competitive mechanisms are entrusted with resource redistribution (except social redistribution); government pursues the policy of open market in accordance with clear rules and responsibility of subjects.

From total distribution State to social State: new functions emergence. Direction towards the property rights protection. Conditions for the formation of competitive environment. Attempts to stimulate economic growth.

Prospects of economic development in the Post-Soviet Space. The significance and limitations of pure market transition stimuli. Reproduction of neo-traditional forms. Commonwealth Of Independent States: common and distinct features of socio-economic development.

Russia: conception – 2020. RAND Corporation about global manufacturing revolution. Conditions of innovative-breakthrough scenario realization.