

**George Mason University
School of Public Policy**

**ITRN 701-B01 Political Economy of Transition in Central and Eastern Europe: the
Mystery of an Emerging Market and Democracy.**

**Summer Semester, 2003: June, 2 - July 16; final exam - July 23, 2003
Mondays and Wednesdays, 6:00 PM to 8:45 PM
Arlington campus, room 245**

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Course objective:

We will examine *terra incognita* of a new type of transition: from socialism to capitalism; from a central planning system to the economy of a free market; from autocracy and totalitarianism to democracy and respect for human rights and freedom of expression in a newly emerging world of Central and Eastern Europe, from the local wars of the Soviet succession to a real sovereignty of the Newly Independent States (NIS).

Course overview:

The mystery of emerging markets and democracies is the essence of the Political economy of a new Transition, which embraces 27 countries with a combined population of 415 million inhabitants. The magic key to this igniting transition is privatization - a controversial, difficult and important reform. We'll focus on the lessons, risks and prospects of this process in the context of globalization and the increasing interdependence of the New and Old Worlds.

The successful economic renaissance of these countries is directly and tightly linked with the thorny path of an emerging democracy. We will delve into "secrets" --vulnerabilities and challenges--faced by emerging democracies; we'll examine the greatest Democratic invention of civilization, particularly - American democracy- and the ways and prospects of its application to the NIS.

We will analyze the genesis of the so-called "frozen and forgotten" local conflicts in this area of political, ethnic, cultural and religious turbulence of the modern World, which has

affected the *status quo* and prospects of the independence, sovereignty and territorial integrity of these countries, while also threatening regional and international stability and security. In each such type of “local conflicts”, there are *frozen genes of Kosovo* and potential sources of terrorism.

The classroom discussions, topic analysis, brain-storming seminars with the participation of some distinguished US and international Scholars and Ambassadors, will add to this course not only an academic aspect, but also a practical interest, generated by discovering the new World of Transition.

Readings:

Students will be encouraged to read some articles and short papers that are focused on specific issues of economic and political reforms. Additionally, it is recommended that students search Internet web sites related to diverse aspects of the democratic experiment and the conflict resolution problems of Transition.

Requirements and Grading:

Students are expected to read required readings and to participate actively in classroom discussions and seminars. The course grade will be determined by performance of:

- 1) Mid term exam (35%)
- 2) Class discussion (15%)
- 2) One class presentation (15%)
- 3) A final exam (35%)

The mid-term exam may be substituted by a 17 - 21 page research report on a prior approved subject.

Class presentations will be specified later.

Required Literature:

- Aslund, Anders *Building Capitalism. The transformation of the Former Soviet Bloc.* Cambridge University Press, 2002;

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

Recommended reading:

Diamond, Larry and Plattner, Marc F. *Democracy after Communism.* Baltimore, MD: The John Hopkins University Press and the National Endowment for Democracy, 2002.

Hughes, James and Gwendolyn Sasse. *Ethnicity and Territory in the former Soviet Union: Regions in Conflict.* London, Portland, OR: Frank Cass, 2002.

Boettke, Peter J. *Calculation and Coordination: Essays on socialism and transitional political economy*. Foundations of the Market Economy, 2002;

Lavigne, Marie. *The Economics of Transition*, 2nd edition. New York: St. Martin's Press, 1999.

King, Charles. *Post-Postcommunism. Transition, Comparison, and the End of "Eastern Europe"* in World Politics, Vol. 53 (October 2000, 143-172;

Privatization in an Economy in Transition: the Case of Moldova. Euro-In Library, Venice Mestre-Italy, 1995.

Course Outline:

Lesson 1: Introduction to the course: What kind of Transition are we talking about? (Monday, June 2)

- Five Mysteries of Capital: Why capitalism triumphs in the West and Fails Everywhere Else? Hernando de Soto, versus...
- What Communism actually was and what were causes of the end of the System. Anders Aslund, versus...
- Transition from Socialism: Where To? Yegor Gaidar's Days of Defeat and Victory, versus...
- Different points of Departures and Detours, performances and failures, hopes and deceptions. Ceslav Ciobanu - Moldova as a model of success and ...precedent of communist restoration through democratic elections.

Required literature:

- Anders Aslund. Introduction; chapters 1-2;
- de Soto, Hernando *The Mystery of Capital. Why Capitalism triumphs in the West and Fails Everywhere else*. Basic Books, 2000, chapter 1.

Recommended readings:

- Marie Lavigne. *The Economics of Transition. From Socialist Economy to Market Economy*. Second Edition, St.Martin's Press, NY, 1999, chapters 1, 6.
- *Transition, Cohesion and Regional Policy in Central and Eastern Europe*. Edited by John Bachtler and Ruth Downes, Grzegorz Gorzelak. Ashgate, 2000, Part 1, chapters 1-2;
- Charles King. *Post-Postcommunism. Transition, Comparison, and the End of "Eastern Europe"* in World Politics, Vol. 53 (October 2000, 143-172;
- Ceslav Ciobanu. *Moldova's 10 years of independence: the puzzle of Transition*, Woodrow Wilson International Center, December 2001

Lesson 2. Transition: The First Ten Years (analysis and lessons for Eastern Europe and the former Soviet Union). (Wednesday, June 4)

- Political, economic and social dimensions of Transition. What are criteria and coordinates of Economies in Transition in the Global Economy?
- How did Transition Economies Perform and how to explain variation in output performance?
- Strategic Policy Choices and Institutional Challenges. Interdependencies between Political and Economic Development.
- The Quest for Growth, Discipline and Encouragement. Emerging Dynamics of Change and lessons for the future.

Required literature:

- Aslund. Chapters 3-4;
- *Transition. The First Ten Years*. The World Bank, chapters 1-5

Recommended readings:

- A.Karatnicky. "Nations in Transit: Emerging Dynamics of Change"; A.Motyl." Ten Years After the Soviet Collapse: Persistence of the Past and Prospects for the Future" in: Nations in Transit. 2001. Civil Society, Democracy, and Markets in East Central Europe and the Newly Independent States. Edited by Adrian Karatnicky, Alexander Motyl, and Amanda Schnetzer, Freedom House, 2001;
- Gregorz W.Kolodko. From Shock to Therapy. The Political Economy of Postsocialist Transformation, Oxford University Press, 2000, chapters 1-2;
- Thiemo W.Eser. "Transformation and the Interdependencies between Political and Economic Development" in "Transition, Cohesion and Regional Policy in Central and Eastern Europe", (chapter 3);
- Cezlav Ciobanu. Moldova: Opportunities for Business. Washington, D.C., 2000

Lesson 3. Political Economy of Privatization: from Concepts to Implementation. Effects and Disappointments. (Monday, June 9)

- Privatization - the reform "trap" or a "bridge" toward a free market economy? What are the alternative views?
- Between State and Market: Mass privatization in a comparative perspective; voucher privatization (Check model and Moldovan experience) versus the "case by case" privatization (Hungarian model and Poland experience);
- The mechanisms of Privatization; Small-Scale (Slovenia and Moldovan models) versus Large-Scale privatization (the Russia and East Germany case);
- The Effects of Privatization in Central and Eastern Europe and former Soviet block countries: Lessons and Agenda for the Future

Required literature:

- Aslund. Chapters 7-8;
- *Transition. The first Ten Years*. Chapters 7-8;
- de Soto. Chapters 2-3

Recommended readings:

- Marie Lavigne. The Economics of Transition. Second edition, chapter 8;
- Gerard Roland. Transition and Economics. Politics, Markets, and Firms. The MIT Press, Cambridge, 2000, chapter 4;

- K.Grime, Z.Kovacs and V.Duke. "The Effects of Privatization in Central and Eastern Europe: Evidence from Households in Three Central European Capitals" in "Transition, Cohesion and Regional Policy in Central and Eastern Europe", (ch. 4);
- Ceslav Ciobanu. "Supply Side of Mass Privatization: the case of Moldova" in "Between State and Market. Mass Privatization in Transition Economies". The World Bank, 1997.

Lesson 4: Time to rethink Privatization in Transition Economies? (Thieves in Power: The New Challenge of Corruption). (Wednesday, June 11)

- Does the privatization win the day? Spirit of "revisionism" in the air;
- Privatization and its discontents. The rise and fall of Russia. Difficulties and scandals in Czech Republic, Hungary, Moldova and everywhere else where Privatization succeeded;
- Post-Privatization; Corporate governance and corporate finance; Sensitive markets and institutional investors;
- Informal institutions: governance, corruption, and organized crimes. The Winners and Losers from Discipline and Encouragement.

Required literature:

- Aslund. Chapter 9;
- *Transition. The First Ten Years.* Chapters 9-10;
- de Soto. Chapter 4.

Recommended readings:

- Yegor Gaidar. Days of Defeat and Victory. University of Washington Press, 1999, chapter 12;
- Russia's Road to Corruption. How the Clinton Administration Exported Government Instead of Free Enterprise and Failed the Russian People. Speaker's advisory group on Russia. Christopher Cox, Chairman. U.S. House of Representatives, Washington D.C., 2000, chapters 6-8;
- John Nellis. Time to Rethink Privatization in Transition Economies? IFC, Discussion paper, Nr.38. The World Bank, 1999;
- Stephen Handelman. "Thieves in Power: The New Challenge of Corruption" in "Nations in Transit 2001";
- Ceslav Ciobanu. "Economic Transition in Moldova - 1996" in "Economic Transition Report 1996. Economic Development Institute of the World Bank, Liubleana, 1997.

Lesson 5: Reforming the State: through Liberalization and Financial Reform toward Macroeconomic Stabilization. (Monday, June 16)

- Liberalization: problems of energy and natural monopolies;
- Financial stabilization policy. How to create an Effective Tax Administration;
- Politics, Institutions, and Macroeconomic Adjustment (Hungarian experience in Comparative Perspective);
- Financial Transition: the outcome of the stabilization measures.

Required literature:

- Aslund. Chapters 5-6;
- Kornai, Janos; Haggard, Stephen and Kaufman, Robert R. *Reforming the State. Fiscal and Welfare Reform in Post-Socialist Countries.* N-Y: Cambridge University Press, 2001, Preface (J.Kornai) and Introduction (S.Haggard and R.Kaufman).

Recommended readings:

- Gregorz W.Kolodko. From Shock to Therapy. The Political Economy of Postsocialist Transformation, Oxford University Press, 2000, chapter 8;
- Marie Lavigne. The Economics of Transition. Second edition, chapter 7;
- Vito Tanzi. "Creating Effective Tax Administrations: The Experience of Russia and Georgia" in "Reforming the State. Fiscal and Welfare Reform in Post-Socialist Countries". Edited by Janos Kornai, Stephen Haggard and Robert R.Kaufman. Cambridge University Press, 2001, chapter 2;
- S.Haggard, R.Kaufman and M.Shugart. "Politics, Institutions, and Macroeconomic Adjustment: Hungarian Fiscal Policy Making in Comparative Perspective" in "Reforming the State. Fiscal and Welfare Reform in Post-Socialist Countries". 2001, chapter 3.

Lesson 6: The Internationalization of Post socialist Economies or devious way toward Reintegration the World Economy. (Wednesday, June 18)

- Transition and globalization. The role of the International Financial Institutions (IFI): the IMF, the World Bank;
- U.S. Assistance for Market Reforms: aid-for-reform approach;
- Reconstruction of the Regional arrangements. Regional cooperation within the Commonwealth of Independent States (CIS) and its alternatives;
- Reorientation to the West and integration in the global economy.

Required literature:

- Aslund. Chapter 10;
- de Soto. Chapter 5.

Recommended readings:

- Grzegorz W.Kolodko. From Shock to Therapy, chapter 12;
- Marie Lavigne. The Economics of Transition, chapter 9;
- Martha B.Olcott, Anders Aslund, Sherman W.Gamet. Getting it Wrong. Regional Cooperation and the Commonwealth of Independent States., Carnegie Endowment for International Peace, Washington, D.C., 1999, chapters 1, 5-6;
- Jean-Francois Drevet. « Regional Policy in Central and Eastern Europe » in « Transition, Cohesion and Regional Policy in Central and Eastern Europe » (chapter 23);

Lesson 7: Performances and Failures of economies of Transition: Political, Economic and Security Challenges. (Monday, June 23)

- How do Political Systems Affect Economic Reforms? The political infrastructure of economic development;
- Russia Reconsidered. America's Russian Dilemma. The Russian crisis: perils and prospects for post-Soviet transition;
- Moldova's Land Privatization and Farmer Restructuring Program - a model for countries of the region;
- Cost and Benefits of Transition. From Recovery to Sustained Growth.

Required literature:

- Boettke. Chapter 14. The political infrastructure of economic development;

- Transition. The First Ten years. Chapter 11.

Recommended readings:

- Irving S. Michelman. The March to Capitalism in the Transition Countries. Asgate, 1998, chapter 10;
- Grzegorz W. Kolodko. From Shock to Therapy, chapters 9,11;
- Dimitri K. Simes. After the Collapse. Russia Seeks its Place as a Great Power. Simon & Schuster, NY, 1999, chapter ten;
- Cezlav Ciobanu. Moldova: A Leader in Reforms. Washington, D.C., 2002

June 25 (Wednesday) - Mid term Exam. The exam will be administered through the assessment of the quality of analysis of the political and economic problems of Transition based on the materials presented to date. Credit will be given for those who most consistently apply the theories and practices discussed in the readings. Grades will be based on the soundness of the analysis.

Lesson 8: Marketization and Democratization: Discovering the Democratic Invention. (Monday, June 30)

- Market reforms and democracy: compatibility or incongruity;
- Democratic Transformation of Central and Eastern Europe; Democracy and Transition to Democracy;
- Comparative development of Post-communist Civil Societies;
- Russian dance with Democracy.

Required literature:

- Transition. The First Ten years. Chapter 12;
- Geremek, Bronislav. "The transformation of Central Europe" in "The Democratic Invention", Edited by Marc F. Plattner and Joao Carlos Espada. The John Hopkins University Press, Baltimore and London, 2000 (para. 6).

Recommended readings:

- Grzegorz W. Kolodko. From Shock to Therapy, chapter 10;
- Andrew T. Green. "Comparative Development of Post-communist Civil Societies" in Europe-Asia Studies, vol.54, No 3, 2002;
- James L. Gibson. The Russian Dance with Democracy, Post-Soviet Affairs, vol. 17, April-June 2001;
- Yegor Gaidar. Days of Defeat and Victory. University of Washington Press, 1999, chapter 13.

Lesson 9: The thorny Path of Emerging Democracy. Vulnerabilities and challenges of the democratic development of the NIS, Central and Eastern Europe in the International Context. (Wednesday, July 2)

- Social Capital, Ethnicity and Support for Democracy in the Post-Communist States;
- Transnational Influences in the Transition from Communism;
- Democracy and Liberty, Human Rights and Freedom of Expression: how these universal values are implemented in the NIS and other post-communist countries;
- Realities and Illusions of Democratic Consolidation. Moldovan experiment: from Democracy to the communist party restoration ("back to the future").

Required literature:

- Rupnik, Jacques "Eastern Europe: The International Context" in Marc F. Plattner and Alexander Smolar *Globalization, Power and Democracy*, Baltimore: The John Hopkins University Press. 2001 (Chapter 5);
- Brown, Archie "Transnational Influences in the Transition from Communism" in *Post-Soviet Affairs*, vol. 16 April-June 2000.

Recommended readings:

- Kathleen M. Dowley & Brian D. Silver. "Social Capital, Ethnicity and Support for Democracy in the Post-communist States" in *Europe-Asia Studies*, Vol. 54, No 4, 2002;
- Lucan A. Way. "Pluralism by Default in Moldova" in *Journal of Democracy*, vol. 13, No 4, 2002;
- Nadia Diuk and Myroslava Gongadze. "Post-Election Blues in Ukraine" in *Journal of Democracy*, vol. 13, No 4, 2002;
- Dimitri K. Simes. *After the Collapse. Russia Seeks its Place as a Great Power*. Simon & Schuster, NY, 1999, chapter eight.

Lesson 10: Ethnicity, Nationalism and Separatism in Russia and Eastern European Emerging Democracies. Local "frozen and forgotten" conflicts in the NIS. (Monday, July 7)

- The political roots and ethno-genesis of nationalism and separatism. From "Union" to "Commonwealth": nationalism and separatism in the ex-Soviet Republics;
- The Benefits of Ethnic War: the War of the Soviet succession. Democracy and Cecnea;
- Conflicts in Nagorno - Karabakh, Abkhazia, South Osetia: challenges for human rights, democratic institutions, and civil society, for independence and sovereignty of involved countries (Georgia, Armenia and Azerbaidjan);
- The Political Anatomy of Transnistrian conflict in Moldova: symbiotic interest binding of local corrupted elites, organized crimes and Russian military presence.

Required literature:

- King, Charles. "The Benefits of Ethnic War" in *World Politics*, vol. 53, No 4, July 2001;
- Hughes, James and Sasse, Gwendolyn "Comparing Regional and Ethnic Conflicts in Post-Soviet Transition States" in *"Ethnicity and Territory in the Former Soviet Union: Regions in Conflict"*. Frank Cass, London, Portland, Or. 2002.

Recommended readings:

- Dr. Stephen Bowers, Director of the William R. Nelson Institute for Public Affairs (WRNI) of JMU, series of brochures, including "The Stability of the Separatist Regime in the Eastern Region of the Republic of Moldova: a Post-Electoral Analysis", 2001; "Events in Kodori Gorge", 2001; "A survey of Islamic Fundamentalist Activism in Central Asia and the Caucasus", 2001; "Illegal Weapons Traffic in Eastern Europe", 2002;
- Jeff Richards. "Old Wine in New Bottles: The Resurgence of Nationalism in the New Europe" in *Ethnicity and Nationalism in Russia, the CIS and the Baltic States*, Ashgate, 1999;
- "Moldova: Are the Russian Troupes Really Leaving?" Testimony of the Moldovan Ambassador C. Ciobanu before Helsinki Commission of the U.S. in Hearing before the Commission on the Security and Cooperation in Europe. 107th Congress, First Session, September 25th, 2001.

Lesson 11: Searching for Conflict Resolution: Conflict Assessment and Peace-Building Framework. (Wednesday, July 9)

- Political Economy of the Soviet Legacy-Type of Separatism: Similarities and Differences of the local (regional) conflicts;
- The Russian Factor: military presence, economic and political support for separatists, Russian-speaking diaspora, “public diplomacy”;
- The role and limitations of external factors: UN, OSCE, US Special Negotiator, Parliamentary Assembly, GUUAM;
- Prospects for Solutions and Peace building.

Required literature:

- Hughes, James and Sasse, Gwendolyn . “Conflict and Accommodation in the Former Soviet Union: The Role of Institutions and Regimes” in Post-Soviet Transition States” in *“Ethnicity and Territory in the Former Soviet Union: Regions in Conflict”*. Frank Cass, London, Portland, Or. 2002;
- *The 1999 OSCE Istanbul Summit Decisions on Moldova and Georgia: Prospects for Implementation*. Woodrow Wilson International Center. Occasional Paper #284, 2002.

Recommended readings:

- Nathalie Mychajlyszyn. “The OSCE and Regional Conflicts in the Former Soviet Union” in *Ethnicity and Territory in the Former Soviet Union: Regions in Conflict*. Frank Cass, London, Portland, Or. 2002;
- John Morrison. “Ethnic and National Issues in Russian and East European History: An Introduction” in *“Ethnic and National Issues in Russian and East European History”*. St Martin’s Press, Inc., 2000;
- Peter J.Boettke. *Calculation and Coordination*, chapter 15 “Why culture matters: economics, politics, and the imprint of history”

Lesson 12: American Democracy: Lessons from American experience for addressing the vulnerabilities and challenges to emerging democracies. U.S. model of federalism. (Monday, July 14)

- Soviet Federalism-its origins, evolution, and demise. Is Regional autonomy a solution or a source of conflict?
- Federalism and Democracy: the U.S model.
- Federalism and Democracy: Beyond the U.S.Model.
- Democracy’s Uncertain Triumph in Central and Eastern Europe, in the NIS.

Required literature:

- Stepan, Alfred “Federalism and Democracy” in Marc F.Plattner and Joao Carlos Espada *“The Democratic Invention”*. The John Hopkins University Press, Baltimore and London, 2000 (para 8);
- Stepan Alfred “Federalism and Democracy: Beyond the U.S.Model” in Larry Diamond and Mark F.Plattner *“The Global Divergence of Democracies”*. The John Hopkins University Press, Baltimore and London, 2001, Chapter 16.

Recommended readings:

- Svante E.Cornell. "Autonomy as a source of conflict. Caucasian Conflicts in Theoretical Perspective" in the World Politics, vol. 54, 2002;
- Philip Goldman, Gail Lapidus, and Victor Zaslavsky. "Introduction: Soviet federalism - its origins, evolutions, and demise" in "From union to commonwealth: Nationalism and separatism in the Soviet republics", Edited by G.Lapidus and V.Zaslavsky. Cambridge University Press, 1992;
- Zbigniew Brzezinski, "Epilogue: Democracy's Uncertain Triumph" in "The Global Divergence of Democracies", Edited by Larry Diamond and Mark F.Plattner. The John Hopkins University Press, Baltimore and London, 2001;
- Gertrude Himmelfarb. "Democratic Remedies for Democratic Disorders" in "The Democratic Invention", Edited by Marc F.Plattner and Joao Carlos Espada, (para 12).

Lesson 13: Synthesizing Lessons from Transition. (Wednesday, July 16)

- What Have We Learned about Transition and What Has Economics Learned from Transition?
- Why Have Some Countries Proceeded Further Than Others?
- How to Ensure The Long-term Perspectives?
- When is Transition Over?

Required literature:

- Aslund. Chapter 11;
- Lavigne, Marie. *The Economics of Transition*. Chapters 10-11.

Recommended readings:

- Grzegorz W.Kolodko. From Shock to Therapy, chapters 13-14;
- Gerard Roland. Transition and Economics. Politics, Markets, and Firms. The MIT Press, Cambridge, 2000, chapter 13;
- Peter J.Boettke. Calculation and Coordination, chapter 16. Concluding remarks;
- Ceslav Ciobanu. "The Black Sea Common Market" in "Attacking Global Barriers. The Phoenix Consortium", 2001

Dr. Ceslav Ciobanu came to the United States in 1998 as the Ambassador of Moldova to the USA. In this position, he coordinated various programs of technical and humanitarian assistance; promoted cooperation projects of Moldova with the World Bank, IMF, IFC, USAID, OPIC, and Ex-Im Bank; and organized round tables, conferences, symposiums on Moldova's economic and social reforms, investment opportunities especially related to the democratic transformations, economic reforms and privatization. He was forced to resign by communist authorities early in 2002. Today Dr. Ciobanu is the Research Scholar at James Madison University. He is also a distinguished scholar at National Endowment for Democracy and has successfully completed a 5-month scholarship at the Woodrow Wilson International Center for Scholars. Prior to coming to the United States, Mr. Ciobanu held positions of First Deputy Minister of Foreign Affairs of the Republic of Moldova; Minister of Privatization and

State Property Administration; Deputy Director of the Moldova's President's Office. During Soviet times his most distinguished duty was that of Advisor to the President of the Soviet Union, M. Gorbachev on Central and Eastern European issues. From 1990 until present Dr. Ciobanu wrote around 70 articles and interviews on Moldovan-American cooperation, privatization, restructurization of energy sector, securities markets, and other issues, published in the USA, Italy, Slovenia, Russia, Romania and Moldova. He received his PhD in Political Economy from Moscow State University in 1979.