Two major socioeconomic events occurred in the 20th century: the creation of the centrally planned economy (CPE) in the late 1920’s, and the dismantling of the CPE and its replacement with markets after both the fall of the Berlin Wall in 1989 and the breakup of the Soviet Union in 1991. Directly affected by this transition are the twenty-nine countries known as the “economies in transition,” (abbreviated EIT), eight of which became members of the European Union (EU) in May 2004. Of those eight, seven were either part of the former Soviet Union or in its sphere of influence. Two additional former Soviet-bloc countries joined the EU in January 2007. Slovenia, which joined in the first wave, is the first EIT to have met the requirements to adopt the euro, and did so January 1, 2007. Slovakia followed January 1, 2009. Slovenia is also the first central European state to have held the rotating presidency of the EU (January-June 2008), while the Czech Republic is currently holding that office (January-June 2009). The Russian Federation, which came to an agreement with the EU over issues relating to EU enlargement, now conducts more than one-half of its trade with the EU. The two are also interdependent with regard to energy, as the EU is the largest purchaser of gas from Gazprom, the Russian state-controlled natural gas company. The political and economic ramifications of these trade connections are still evolving. Most recently, in December 2008, payment issues between Gazprom and Ukraine again threatened to disrupt the flow of gas not only to Ukraine, but potentially to Western Europe as well. In terms of further integration of the EIT into the world economic framework, some of the countries in the region have already acceded to the World Trade Organization (WTO), with Ukraine being the most recent (May 2008). However, Russia and Kazakhstan, among others, have not. In May 2004, Russia won the backing of the EU, and later in the year the backing of China, for its bid to join the WTO, and the US concurred in November 2006, but accession stalled. Events surrounding the 2008 Georgian-Russian conflict over South Ossetia have mooted Russia’s bid to join the organization for now.

In 2003, for the fourth consecutive year, the region as a whole experienced faster output growth (5.6%) than the global economy (3.2%). This trend continued in 2004, with the region growing at its fastest rate (6.5%) since transition began. The European Bank for Reconstruction and Development predicted a more modest growth rate of GDP (5.3%) for 2005, but later estimated that growth for the region was slightly higher (5.7%). The 2006 prediction for the region was 6.2% and actual growth was 6.9%, the highest since
the start of transition. The regional growth for the year 2007 was anticipated to be even higher, at 7%, and attained 7.5%, before slowing more than 1% in 2008. Predictions for 2009 are difficult due to the evolving global financial crisis, but growth is expected to fall significantly. Although by 2003 the region had experienced strong growth for six consecutive years, that sanguine picture was rather new: initially output fell in all the countries, drastically in many, and income inequality increased significantly, with many individuals falling below the poverty line. Capital flight, crony capitalism, insufficient institutional development, poor corporate governance, and the lack of the rule of law were significant problems in many of the countries. Some of these problems continue to persist in some countries of the region, and the spread of the current financial and economic crisis has already intensified some of them (e.g., capital flight) and can be expected to intensify others. Recently, the IMF has agreed to loan funds to several EIT to help them stabilize their countries in the face of the economic crisis.

This course provides a framework for understanding the process of transition by furnishing a basic knowledge of the administrative-command mechanism identified with Soviet central planning, followed by an in-depth study of the transition experience and an assessment of its progress nineteen years after the fall of the Berlin Wall. Questions that will concern us include: Why has it proven so difficult for these former communist countries to make the transition to capitalism? Can the difficulties be traced to aspects of the discredited centrally planned mechanism? Can they be traced to the Washington Consensus that guided much of the philosophy of the transition strategies? Can they be traced to the methods by which state property was privatized? What is the role of institutions in the transition? What infrastructure changes are still needed? How will integration into the global economy affect these countries? When will we know if the transition is over? How do we assess the early transition preoccupation with big-bang versus gradualist policies? Given the current world financial and economic crisis, are there lessons the developed western economies can learn regarding government sponsored enterprises from EIT? Are there special aspects of the EIT that will influence the way they are affected by the current crisis? What are the expected impacts of the crisis on the EIT? Our exploration of the EIT will include the discussion of two cases, one relating to the privatization of an enterprise in Poland, and the other relating to corporate governance issues raised by the largest public equity fund focused on Russia.

**Readings Before the First Class**

Due to the intensive nature of the class, it is strongly urged that, as soon as you decide to take this class, you begin following the current events in the relevant countries. You can do this by consistently reading relevant articles in the *Financial Times, The New York Times, The Wall Street Journal* or in weekly magazines such as *The Economist*. You can also keep up to date by reading articles on various websites; in particular, you might become familiar with [http://www.cdi.org/russia/johnson/default.cfm](http://www.cdi.org/russia/johnson/default.cfm), the home page of Johnson’s Russia List. Those of you who really wish to immerse yourselves in Russian current events may choose to subscribe to this list (see details on home page), but be aware that you will receive very long newsletters on a daily basis. Other useful websites include RGE Monitor [http://www.rgemonitor.com](http://www.rgemonitor.com) (register from Stern using your Stern user id), and Yale Global [http://yaleglobal.yale.edu](http://yaleglobal.yale.edu) and [http://www.nytimes.com/world](http://www.nytimes.com/world) (look at individual countries).
Assignments before the first class:

*OECD, Russian Federation Economic Survey 2006, 11/06: Executive Summary

*EBRD-World Bank, Life in Transition: Current Attitudes, 5/07: Summary from Beyond Transition Newsletter

*OECD Economic Outlook, Russian Federation (Preliminary Edition), 11/08

*Council on Foreign Relations Expert Brief Russia and the Global Economic Crisis, 11/08

*EBRD Transition Report 2008, 11/08: Forward

Course Materials


Course Pack of required readings: Contains readings not available on the web and Harvard Business School Cases: Prochnik: Privatization of a Polish Clothing Manufacturer, Case No. 9-394-038, and The Hermitage Fund: Media and Corporate Governance in Russia, Case No. 9-703-010

Packet of course notes to be distributed in class

Reading on the syllabus are required, and indicated by an *. Where possible, links are provided in the syllabus to these readings. Although I have set up the links so that you may have direct off-campus access, if you have a problem accessing any of the materials, please see the directions for connecting from off-campus.

I strongly suggest that you read the assigned reading before the class discussion of the topic. In the class discussion I will usually cover the concepts and issues that are most challenging, reinforcing and extending what is in the required reading. I suggest that after the class
session you review the assigned reading to solidify your understanding. A list of optional readings will also be provided in case you wish to go more deeply into a particular topic; these readings may also serve as useful starting points for research for your term paper. Optional readings are not required.

It is very important that you keep up with current economic and political developments in the economies in transition. You can do this by reading relevant articles in the Financial Times, The New York Times, The Wall Street Journal or in weekly magazines such as The Economist; you can also keep up to date by reading various websites. You are encouraged to bring up current events for discussion in class, as time permits.

Blackboard Web Site:  http://sternnewclasses.nyu.edu
I will maintain a web site using Blackboard. The web site will include announcements and downloadable files with nearly all the class handouts. Please check it regularly.

Course Requirements
The course grade will be based on the following items, with weights indicated:

- Midterm examination: 1/26/09  40%
- Term Paper: 10 – 12 pages, due 2/7/09  40%
- Case Discussions  10%
- Class Participation (quality more than quantity)  10%

There is no final examination in this course; however, your participation in all class sessions is required. Also, please note there is no “make-up” midterm exam.

Laptop Policy
I strongly prefer that you do not use your laptops in class. You will be given a pack of lecture notes in each class, and you can take additional notes, as necessary, on them.

Responsibilities
I presume that we are all adults. There are several implications of this:

- As a teacher, I have the responsibility to organize and present the material and to facilitate your learning.
- As a student, you have the responsibility for your own learning.
- As a student, I assume you will adhere to the MBA Stern Honor Code. No lying, cheating, or plagiarism of published work, work posted on the web, or work done by other students will be tolerated. Any suspected case will be referred to the School’s student discipline committee.
- Actions that have negative effects on others will not be acceptable in the classroom. All class sessions are important, and I expect you to attend each class. If you must arrive late or leave early, please do so quietly. No cell phones should be audible during class sessions, and no text messaging during class is permitted.
**Evaluation of Written Work**
The exam will be based on the assigned readings, class discussions and multimedia sources, as used. My goal in making the exam is to provide you with the opportunity to express your mastery of the topics we have studied together, as well as to explore your ability to develop new insights. Your term paper will be evaluated on content and presentation, and will be on a relevant topic of your own choice, subject to my approval. As this is an elective course, I assume you are keenly interested in the subject matter, and expect a grade distribution that reflects this.

**Students with Disabilities**
If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 212 998 4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

**Contacting Professor Katz**
I will usually be available for questions in the classroom during the several minutes before and after the class session. Office hours will be on Thursdays from 5:30p.m. – 6:30 p.m.; you can also contact me to arrange a mutually agreeable time to meet. You can also drop by my office, KMC 7-82; if I am there, I can usually make some time to talk with you. My phone number is 212-998-0865, my fax is 212-995-4218, and my email address is bkatz@stern.nyu.edu. I usually respond quickly to email messages, so this is an excellent way to contact me.
Outline of Topics and Readings

I. Introduction: Overview of the Main Issues plus the Current State of the Economies in Transition


*OECD, Executive Summary: Russian Federation Economic Survey 2006*, 11/06.


Video: Selections from CNN Cold War Series #23: The Wall Comes Down, 1989

II. Setting the Context: Highlights of Russian and Soviet Economic History


III. What was Central Planning?

A. Understanding the Administrative-Command Mechanism: How did it Work?


B. What were its legacies?

Video: Selections from CNN Cold War Series #6: Reds, 1947-1953
C. Perestroika: The Last Attempt at Reform


IV. Transition: The Problem

A. How Far and How Fast?
   1. Macroeconomic Stabilization
   2. Price Liberalization
   3. Privatization
   4. International Assistance
   5. Big-bang vs. Gradualism


B. Mass Privatization
   1. Voucher Privatization
      a. Czech Republic’s Experience
      b. Russia’s Experience
   2. Poland’s Mutual Fund Approach
   3. Theory of Voucher Privatization: Contrasting the Voucher Approach with the Mutual Fund Approach
   4. Hungary’s Spontaneous Privatization
   5. Germany’s Re-unification Experience


*Anatoly Chubais interview, *Der Spiegel*, 9/25/07; see BB external links


C. Loans for Shares in Russia

Video: Loans for Shares  


V. Transition: The Evidence and How to Evaluate It

A. Impacts on Output, Employment, Prices, Social Safety Net, etc.


*McKinsey Global Institute. *Unlocking Economic Growth in Russia*, Moscow: October, 1999, Executive Summary (Register on the site to download any part of the report)

B. Corporate Governance Issues

C. Russian Banking, Financial Markets and the Crisis of 1998


D. Prochnik Case

*Harvard Business School Case, Prochnik: Privatization of a Polish Clothing Manufacturer, Case No. 9-394-038. (In course pack)

VI. Transition: The Critiques

A. Stiglitz’s Critique of the Washington Consensus


B. Is Russia Just a “Regular Country” Now?


*EBRD, What do Russians think about Transition?, 2007

C. The Rule of Law: Are the Economies in Transition Moving Toward It?


VII. Transition: The Integration of the Economies in Transition into the World Order

A. Membership in the EU for Some, Prospects for Membership for Others

*The Balance of Costs and Benefits of Poland’s Accession to the European Union, Office of European Integration, April 2003. (Skim executive summary)
B. Membership in the WTO for Russia

C. FDI in the Economies in Transition


VIII. Transition: Unresolved Issues and Prospects for the Future

A. When Will the Transition be Over?


B. Impact of Current Financial/Economic Crisis

Readings to be suggested

C. Hermitage Fund Case


Some Additional References (see others on BB under “External Links”)

European Bank for Reconstruction and Development (EBRD). *EBRD Transition Reports*, various years. (also see BB “Course Docs”)

EBRD. *EBRD Transition Report 2004, 15 Years On*.


