

Economics

The teacher:

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Economics

40% of the grade: the “offline” classes (20% in-class test + 20% final exam)

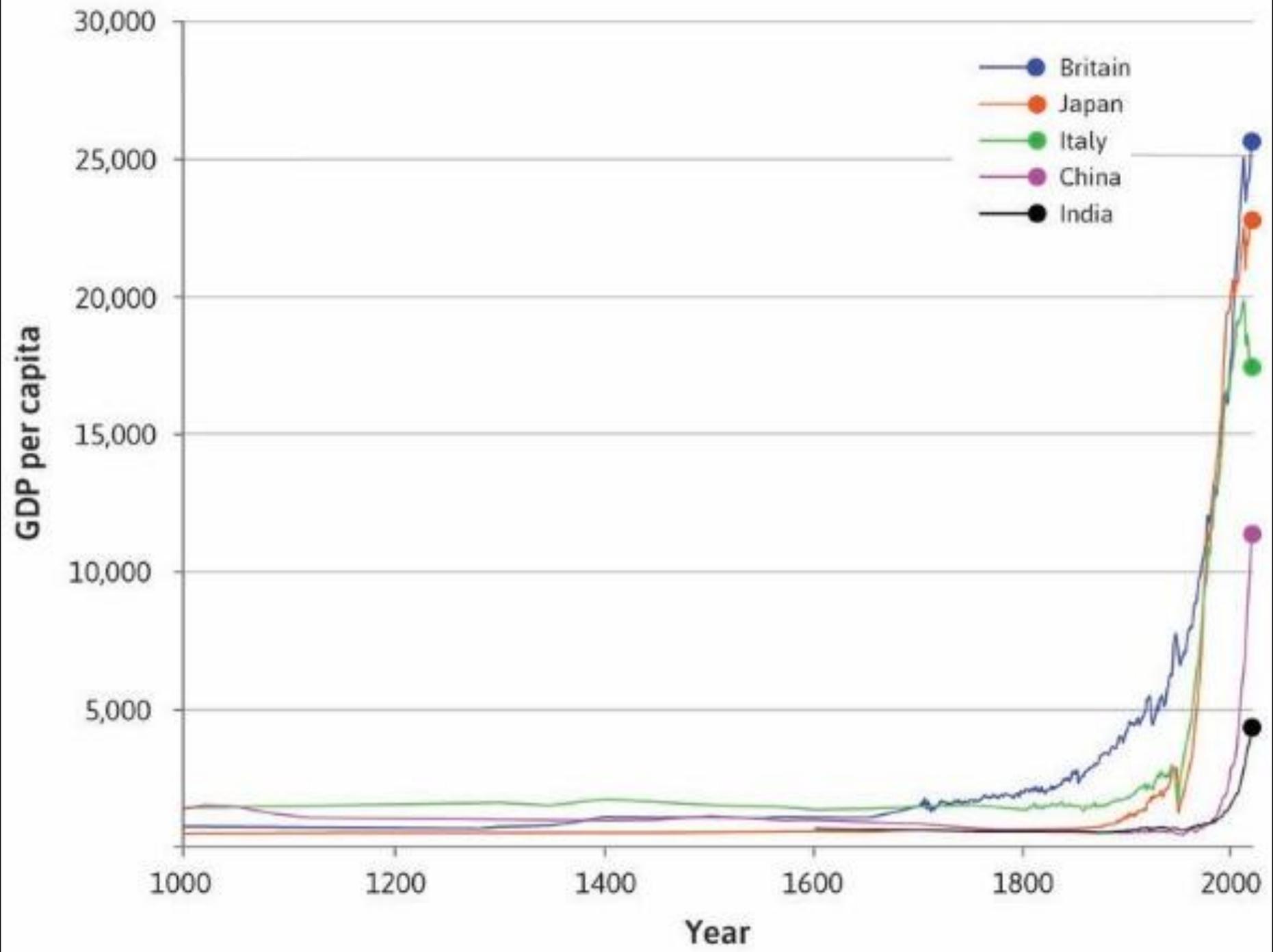
60% of the grade: the online-course “Introduction to Economic Theories” on the Coursera platform:

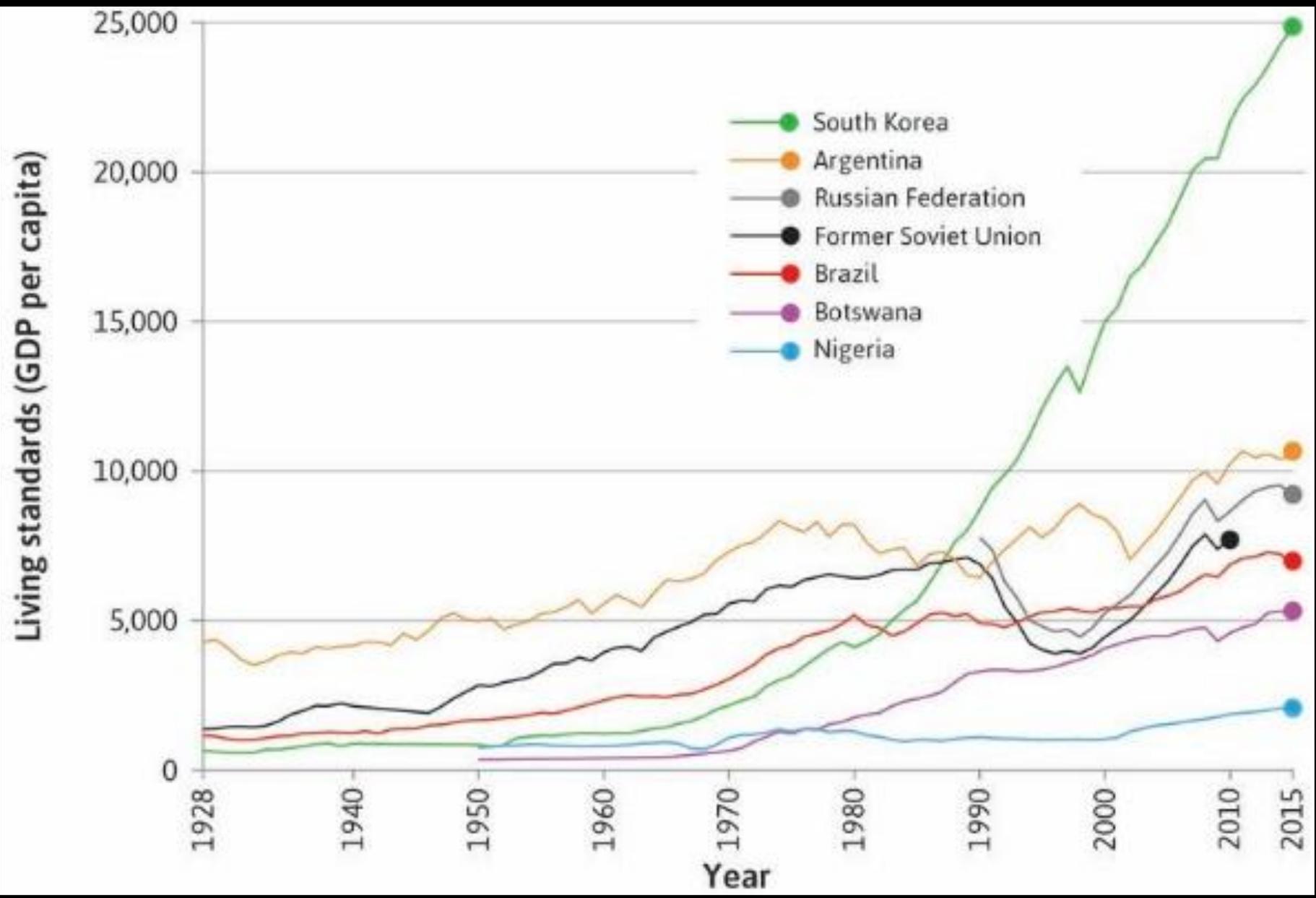
<https://coursera.org/learn/intro-economic-theories>

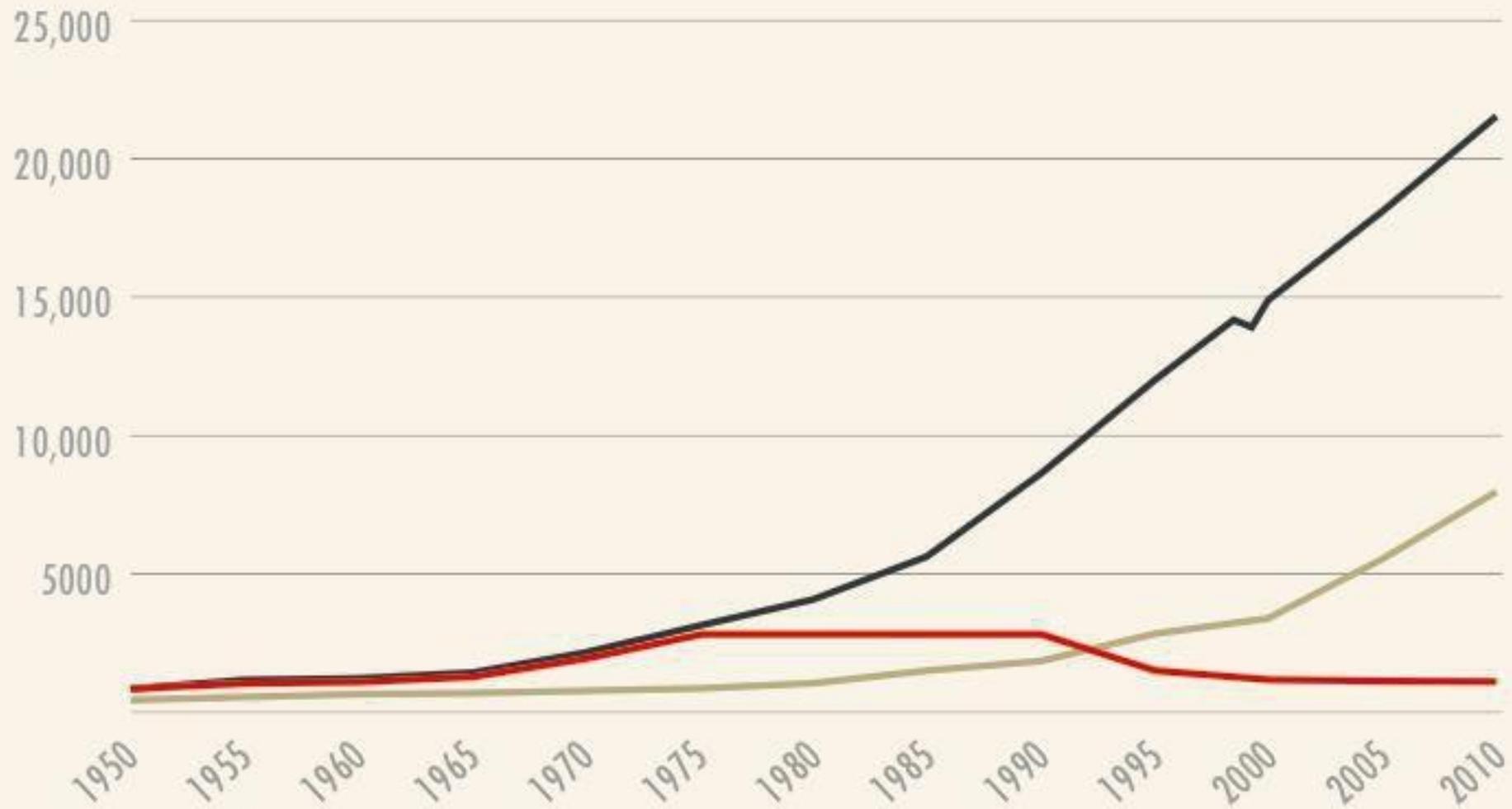
Economics

Seminar 1-2. Economic Systems: Markets,
Directives, etc.

Hockey Stick of
Economic
Progress...

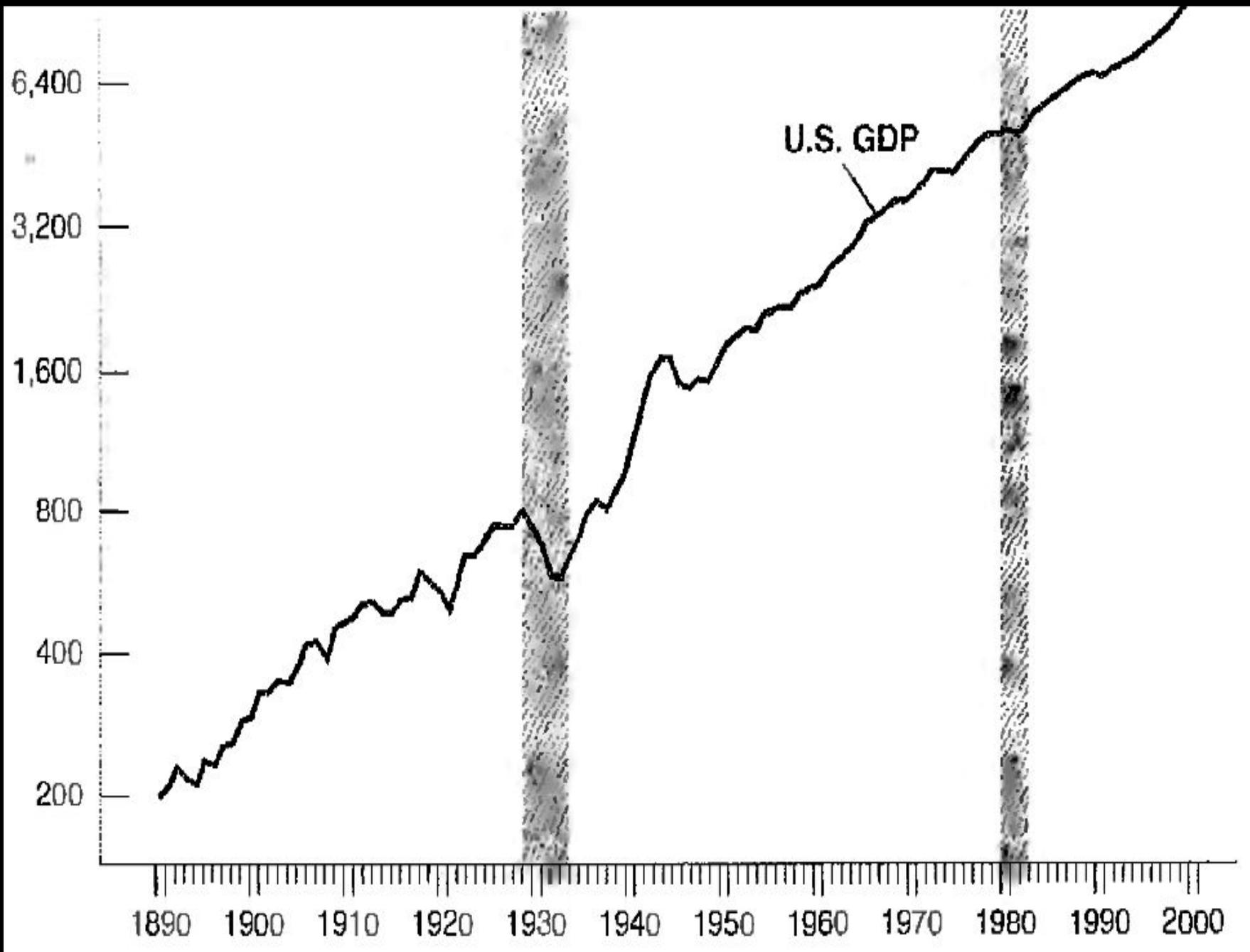






GDP *per capita*
1950-2010

NORTH KOREA
SOUTH KOREA
CHINA



What are Essential Institutions of Market Capitalism as a Type of Economic System?

- Private Property (as opposed to State Property and other types of Property)
- Market Coordination (as opposed to both Gift Exchange and Directives)
- Firm as a Productive Unit (as opposed to both Family-Based Production and “Socialistic” Enterprises)

Some other Features of the Market Capitalism

- - Self-Interest – as the Basic Motivating Force
- - Competition – as the Basic Regulatory Force
- - Fixed Capital and Advanced Technologies
- - Specialization
- - Use of Money
- - Motive of Profit
- - Consumer Sovereignty

Some Important Virtues of Market Capitalism

- Freedom
- Incentives
- Efficiency



Self-sufficient family-based production

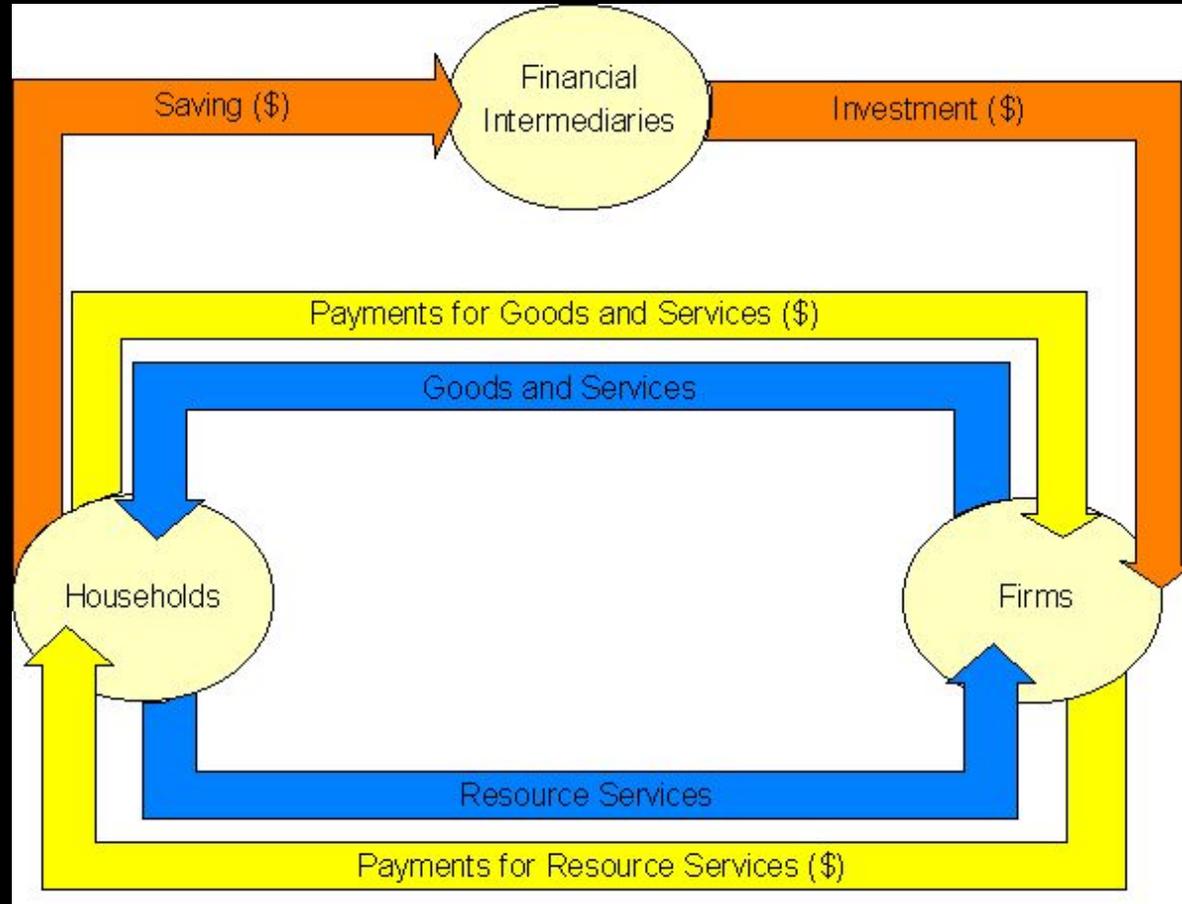


Market economy with family-based production



Capitalist economic system

Circular flow model (with savings and investments)



Innovativeness

- As a Key to the Winning in the Competitive World!

Preconditions for Innovativeness – according to Kornai (2012)

- Competition
- Decentralized Initiative
- Possibilities to Make Experiments with Innovations
- Expectations of Huge Material Reward for Innovations
- Access to External Financial Resources

Hockey Stick...

- of Not only Economic Progress but also
- of Rising Inequality
- of Increasing Pollution/Waste

Problems of Typical Capitalism

- - Instability and Crises
- - Unemployment
- - Inflation
- - Poverty and Inequality
- - Budget Deficits and Government Debt
- - Disequilibrium of Balance of Payments
- - etc.

Attractiveness of the System of the Planned Socialism

- - “Anarchy of Production” / Crises substituted by “Plan” (by Directives)
- - Private Property / Exploitation substituted by “Folk” Property (by State Property)
- - More than Full Employment
- - Fixed Prices
- - Free Higher Education, Health Care etc.
- - etc.

The Rates of Economic Growth in the USSR (%)

Years	Soviet Data	US Data
1951 - 1960	10.2	5.1
1961 - 1965	6.5	4.8
1966 - 1970	7.8	5.0
1971 - 1975	5.7	3.1
1976 - 1980	4.3	2.2
1981 - 1985	3.2	1.8

Some Comparisons (1985)

- Housing per capita – 12 m² (USSR), 55 m² (USA)
- Motor Cars per 1000 people – 55 (USSR), 550 (USA), 429 (Germany)
- Telephones per 1000 people – 75 (USSR), 759 (USA), 598 (Germany)

Some Defects of the Planned Socialism (on the example of the Soviet Economy)

- Difficulties of Coordination of Interests
- Lack of Relevant Information
- Monopolism
- Soft Budget Constraints and Shortage
- Barriers to Innovativeness

Kornai (1980; 2012), Gregory (2004)

Special Problems of the Soviet Socialism

- The large role of “production of the capital goods”
- The large role of the military sector
- Almost fully destroyed private entrepreneurial sector
- Deeply rooted anti-market mentality
- Cruel legal punishment of entrepreneurial activity (examples are the case of Rokotov & Faibishenko and the cases of Aizenshpis)

Concept of Transitional Economy (or Economy in Transition)

- Transition from “the Plan” to “the Market”
- Transition from State Property to Private Property
- Transition to Freedom and Efficiency...

• * * *

- Transitional economy as the economic system with radically changing institutions

How to Make Transition?

- 1) Shock Therapy – liberalization ; privatization ; stabilization...
- Everything should be made fast and simultaneously (Poland, Czech Republic, Russia [?])
- 2) Gradualism – slow and gradual reforming (China, Vietnam, Hungary)

Some Statistics of the Transitional Economies – 1989 & 1997

Countries	Life Expectancy	GDP per capita (US Dollars 1995)
Poland	71.0 & 72.7	3050 & 3650
Hungary	69.5 & 70.6	4820 & 4540
Czech Republic	71.7 & 73.9	5730 & 5110
Bulgaria	71.8 & 70.7	1730 & 1270
China	70.0 & 70.0	340 & 670
Russia	69.2 & 66.9	3900 & 2240
Ukraine	70.5 & 67.4	3500 & 1490

Concept of Transformational Recession

- Transformational Recession – deep and prolonged decrease of real GDP (real output) due to institutional changes caused by “Transition” (Kornai, 1994).

Elements of Transformational Recession

- - Transition from “seller market” to “buyer market”
- - Price/Foreign Trade Liberalization
- - Rupture in the Economic Coordination or Institutional Hiatus
- - Hardening Budget Constraints
- - Underdeveloped Financial Sector

Transformational Recession for Russia, Ukraine, etc.:

- - Falling GDP in the 1990 – 1998
- - Collapse of Investment in the Fixed Capital
- - Technological Degradation
- - Rising Poverty and Inequality
- - Criminalization
- - Suicides
- Etc.

The Role of Institutional Traps in Russia (Polterovich, 1999)

- Institutional traps are inefficient but stable norms of behavior. In particular, such norms can emerge in the conditions of transition.
- Institutional traps are supported by mechanisms of coordination, learning, linkage and cultural inertia.
- Examples of institutional traps: barter; arrears; corruption; tax evasion; self-fulfilling pessimistic expectations, etc.
- How to break out of institutional traps?

The Age Structure of the Productive Equipment in Russia in the 1990s (%)

Age of Equipment	1992	1995	1998
< 5 years	29	18	8
5 – 10 years	29	28	26
10 – 20 years	27	36	44
> 20 years	15	18	22

The Average Age of the Russian Industrial Productive Equipment (years)

Branches of Industry	1992	1995	1998
Whole industry, total	10.7	12.4	14.2
Electric power industry	12.9	14.6	16.3
Machinery and metal-fabricating industries	11.9	13.8	16.0
Light industry	10.0	12.3	15.0
Food industry	8.9	10.5	12.0

Some Specific Institutions of the Post-Soviet Russian Capitalism

- - Lack of Effective Protection of Property Rights and Contracts / Lack of Enforcement (one of the examples is “Night of the Long Scoops”)
- - Lack of Real Competition due to Administrative Barriers to Entry and other aspects of Bureaucratic “Pressure”
- - “Fusion” of Business and Authority
- - Lack of Independence of Court System
- - Abuse of Police Power (one of the examples is the Case of Dmitry Lopatin)
- - Large role of the Shadow Economy and Criminal Groups
- - Corruption and Bribes

Comparative Analysis of Informal Institutions – Russia and “Counterparts” (1997), part 1

- Share of managers which would refuse to invest 100 US dollars now in order to receive 200 US dollars 2 years after: in Poland - 22.1%, in Slovakia – 24.6%, **in Russia – 98.9%**.
- Share of firms’ sales in other cities and/or countries: in Poland – 64.7%, in Slovakia – 67.6%, **in Russia – 23.3%**.
- Share of firms which would be ready to buy good from new supplier for 10%-less-price rather than from the “established” supplier: in Poland – 42.5%, in Slovakia – 48.4%, **in Russia – 1.4%**.
- Share of firms reporting that companies pay for “protection” from mafia: in Poland – 8.0%, in Slovakia – 14.9%, **in Russia – 92.9%**.
- Share of respondents believing that firms illegally pay for government’s service: in Poland – 20%, in Slovakia – 38%, **in Russia – 91%**.

Source: (Johnson, Kaufmann, McMillan, Woodruff, 2000)

Comparative Analysis of Informal Institutions – Russia and “Counterparts” (1997), part 2

(Johnson, Kaufmann, McMillan, Woodruff, 2000)

Institutions	Poland	Slovakia	Romania	Russia	Ukraine
Taxes and other payments, % of revenues	19.4	20.2	22.0	29.9	31.4
Share of working time of managers on official reports, %	10.3	11.8	8.0	18.3	25.4
Share of entrepreneurs believing that it is necessary to pay bribes to receive licenses, %	19.3	42.2	17.0	91.7	87.5
Share of entrepreneurs recognizing that it is necessary to apply to court to protect contracts, %	72.9	67.9	86.9	58.4	54.7
Share of entrepreneurs receiving credit in the past year, %	48.8	27.6	24.1	17.0	13.8

What Capitalism does exist now in Russia?

- - Bandit Capitalism ?
- - Robber Capitalism ?
- - Predatory Capitalism ?
- - Crony Capitalism ?
- - Bureaucratic Capitalism ?
- - State Capitalism ?
- - Gang Capitalism ?
- - Criminal Capitalism ?
- - Family-Clannish Capitalism ?