

Sciences Po
Master of Public Affairs 2009-2010

Syllabus, Elective Course, 1st Semester (5 credits)

Policy-making in Transition: Tools and Strategies

Daniel Vaughan-Whitehead

“The gap between the expectations and the reality cannot be satisfactorily explained without considering the existence of a combination of delusions, mistaken policies, insincere promises, and inaccurate predictions”

G. Kolodko (2000: 108), *From Shock to Therapy*, Oxford University Press.

Instructor:

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Course Description:

For more than eighteen years, nations across the globe have carried out an historic transformation away from centrally planned to market economies. In a few years, transition economies have achieved what has never been done before. However, to successfully complete such a rapid shift these countries have implemented different reform strategies with differentiated outcomes. What reform elements do these countries have in common? What routes seem to work better than others? And what policy implications can we clearly identify for both public and private policy-makers and actors? What lessons can we draw also for other countries under similar reform process?

This course covers the basic theories, conceptual tools, and methods for understanding governance in transition. It covers not only transition countries from the Central and Eastern European post-communist bloc, but also major transition countries such as China and others from Asia (Vietnam, Mongolia) as well as other parts of the world. From collected evidence, this course leads students to identify the tools and strategies for good policy-making not only in transition economies but also in other countries in the world.

Course Objectives:

At the end of the course, the participants should have a broader and deeper understanding of countries in transition – based on both a comparative background and a good knowledge of case-specific elements – and the policy options which policy makers, institutions, and actors have to face in such a context. They will thus be able to analyze the effectiveness of a transition process in its comprehensive nature, that is, in economic (both macro/micro), but also political and social terms, and in particular to assess its sustainability in the long run. They will have acquired rigorous policy analysis skills using the appropriate indicators and tools, and be able to apply these in public and private policy-making.

Course Requirements:

This course is organized on the basis of background papers (with students' preparatory reading) and around the animation of case studies analyzed collectively by the students (sub-groups of students focusing on different and complementary sub-items in policy-making simulation sessions). The course is based above all on a strong interactive process.

Selected papers will be distributed at the end of each session for the following session.

Policy making simulation will be organized around the following country case study modules:

- Poland
- Ukraine
- Russia
- Czech Republic
- Bulgaria
- China/Vietnam
- Extension to economic reforms in Latin America, Asia and Africa

The country case studies will be presented by students who will choose one country and one policy angle (defined and selected with the instructor).

Each country case study will be done by a team of 3-4 students who will work together to make an oral presentation (eventually supported by slides or a written paper) and to simulate a specific policy-making situation.

A lively discussion will then take place between the members of the team who, after having presented their own perspective, will have to reach a judgment on the whole policy reforms package. An interactive discussion will then take place with the rest of the class.

This presentation and discussion will take place through the simulation of real life in policy making (on the basis of preparatory documents), for instance:

- a) through the simulation of a social dialogue process between government representatives, trade unions and employer organizations; or
- b) through the simulation of a Council of Ministers meeting between the Minister of Economy and Finance, the Minister of Privatization, the Minister of Labour, and the Minister of Industry.

The purpose of these case studies is to permit students to explore policy areas in greater detail, as well as to better understand the eventual trade-offs with other policy areas.

Assessment and Grade Distribution:

Students will be evaluated on the basis of a final comprehensive written exam (40 percent of the final mark), their work on the country case studies (30 percent), and the quality of class participation (30 per cent). Attendance is imperative.

Students are requested to read the distributed papers in advance to facilitate discussion and to participate in preparation of the country case studies.

Books and other materials required:

See recommended books in the bibliography. Selected papers (one or two per session) will also be distributed at the end of each session for preparing the following session.

Course Outline:

1. Capturing the transition process

The course starts with a collective and interactive identification of the transition process. What exactly does it mean? When can we say that the process has started or has been completed? Is it a linear movement or can it take different forms and follow different routes? This first session will help students get familiar with the transition process from a planned to a market economy in terms of process – in economic but also in cultural, political and social terms. From concrete country examples it will provide a first overview of the transition so far in Central and Eastern Europe and Asian countries.

2. Does the speed and sequence of transition matter?

Along the transition years a sort of theoretical debate took place between those who were convinced that the transition and its necessary reforms had to be implemented as fast as possible, a belief that led to the implementation of a shock therapy approach in many Central and Eastern European countries and those who rather insisted on the need to take time to carry out the reform process. What different or common reform packages were in the end put in place? And with what speed and in what sequence? What can we say of these respective beliefs after more than 17 years of transition? Was the speed of the reform such a determinant factor in the end? Or were other elements also to be taken into account?

3. Putting the Macroeconomics Right: The Limits of Blueprint Policies

The macroeconomic stabilization programs in which most transition countries have been involved share common guidelines on fiscal and monetary policy, as well as inflation and incomes policy. Such macroeconomic packages have been founded on the basis of three main

reform pillars: stabilization, liberalization and privatization. How were they implemented? And through a synoptic overview of the transition, what can we say have been the most important achievements and failures in this regard?

4. Microeconomic developments and the role of individual actors

Some policy reforms turned out to be successful, while others turned out not to be adaptable at all to local circumstances. What was the role left to individual actors, in their capacity of workers, employers, consumers or producers? What have been the microeconomic developments? And what impact did they have on the overall reform process? With regard to both the macro and micro dimensions, what are the relevant indicators and appropriate statistical techniques/data bases? What are the balances and tradeoffs?

5. Balancing Institution-building: From the State to Market Actors

One of the main difficulties in relation to transition is the progressive withdrawal of the state to leave room for the free initiative of individual actors, while retaining strong policy making and governance in order to successfully implement the necessary reforms. In this progress toward a free market economy what are the necessary institutions (legal, political, financial, and social)? How can we achieve successful governance while bringing about the necessary decentralization? What have been the success stories and the failures in the different transition countries so far?

6. Privatization Routes: What Works Best?

The session starts with an interactive identification of the aims of privatization, its different possible routes (mass privatization, domestic or foreign capital, employee-ownership, etc.) and their respective advantages and disadvantages. This session highlights what have been the main privatization surprises in the transition. We study in particular which countries have been the most praised for their privatization process, before analyzing what have in reality been the most efficient ownership forms, in terms not only of speed but also of governance and their respective economic and social effects.

7. Social Cohesion: What Limits to Social Costs?

This session analyses the different social effects of the transition, in particular the tradeoffs in respect of macroeconomic, industrial, and privatization policies. The social burden of transition has often been too heavy to bear for a majority of people. The respective performances of the transition countries are also scrutinized on the basis of key social indicators, such as wage and income differentials, access to social protection, working and employment conditions, and poverty reduction. Their long term implications will also be identified. The messages delivered on social policy from the European Commission in the negotiation process for EU membership of many of these countries will also be identified, as well as their concrete implications on policy developments.

8. Sustainability Lessons for other Countries

This session will try to identify what experiences and policy lessons from the transition process may be relevant for other countries, especially for those many developing or emergent economies from Latin America, Asia and Africa that seem to be confronted with similar policy choices. This policy analysis will be done on the basis of different sustainability indicators (political, demographic, economic, and social). What are the main elements for long-term survival? What could be the respective roles of domestic and international actors? This will then allow students to analyze the respective sustainability – as well as the responsibility of the relevant actors to ensure it – of the policies followed so far, not only in the transition countries but also in other countries of the world.

9. Policy issues in the new International context

A final interactive session will try to identify main economic and social concerns and policy options in the new International context. What are the effects of growing trade, increased capital and labor mobility? How to respond to increased capital volatility and the declining wage share observed worldwide? What will be the impact of most recent economic developments such as the economic recession and the International food crisis? What should be the role of macroeconomic, microeconomic, institutional and social policy developments? This final session will allow students to identify policy answers to the new challenges faced at both International and national level and help them to define the balanced and sustainable policy mix.

General Bibliography:

Eatwell, John, Michael Ellman, Mats Karlsson, Mario D. Nuti, and Judith Shapiro, *Hard Budgets and Soft States – Social Policy Choices in Central and Eastern Europe*, London: Institute for Public Policy Research (IPPR), 2000.

Lavigne, Marie, *The Economics of Transition: From Socialist Economy to Market Economy*, second edition, St. Martin's Press, 1999.

Transition Report 2005, European Bank for Reconstruction and Development, 2005.

Uvalic, Milica and Daniel Vaughan-Whitehead, *Privatization Surprises in Central and Eastern Europe*, Edward Elgar, 1997.

Vaughan-Whitehead, Daniel, *EU Enlargement versus Social Europe ? The uncertain future of the European Social Model*, Edward Elgar, 2003.