

GEORGIAN FOUNDATION FOR STRATEGIC AND
INTERNATIONAL STUDIES

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**LESZEK BALCEROWICZ
AND
GEORGIA
(A PAMPHLET)**

Special thanks to TBC Bank for support in publishing.

ISBN – 99928 – 0 – 314 – 2

TBILISI

2002

1. POST-COMMUNIST, I.E. CAPITALIST...

Socialism was an absurd system.

Democracy requires capitalism.

Economic development requires capitalist system.

Laszek Balcerowicz

Among social and economic developments that took place in the world over, at least, the last decade, transition to market economy is one of the most important ones. Numerous theoretical works were devoted to this issue. However, despite multiplicity of research and analytical studies, many issues still have to be discussed and some complex problems – whether theoretical or practical – still need solutions. In most cases, however, these problems are typical ones, for which reason developing some universal approaches for their solution becomes an issue of particular importance.

At the same time, it should be emphasized that still quite widespread is the practice of using uniform approaches to economic policies (with complete or almost complete disregard for peculiarities of individual countries). This is, by the way, one of the reasons (not the only one, however) for which theoretically faultless schemes often fail to bring about successful reform programs. Today few would disagree with the assumption that the government of any country has to take due account of the country's specific national characteristics if it wants its economic policy to be a success story.

President Harry Truman is said to have stated that he was looking for a “one-armed” economist, because every time he asked his economists an advice on economic matters they would build their answer on the following wording: “On the one hand..., One the other hand...”.

(Mankew, 1998, p. 27). A true economist, however, can not be “one-armed”; in other words, while applying universally proved approaches to the process of post-Communist transformation, one has to attach due importance to specific national context as well.

The problem of transition to market economy has been subject matter of numerous interesting studies. Professor Leszek Balcerowicz belongs to those “two-armed” economists who can be distinguished not only as internationally recognized researchers, but also as equally authoritative politicians and statesmen. All his works are products of both a brilliant theoretician and a practicing politician.

As far as the issue of post-Communist transformation is concerned, Balcerowicz is a follower of economic teachings of the leader of Austrian economic school Ludwig von Mises, and the Nobel Prize winners in economics Fridrich A. Hayek and Milton Friedman. It is no surprise, therefore, that the phrase “democracy requires capitalism” appears as a leitmotif of almost every work by Balcerowicz.

It is a common knowledge that democracy means primarily freedom of choice. Choice is a precondition of competition, whereas competition is a driving force of development.

Sociologists have pointed out many times that if substance of any type of society is not discerned entirely, in order to avoid any misinterpretations, it would be reasonable to add prefix “post” to its definition (consider, for example, concepts like “post-industrial”, “post-economic”, “post-Communist”, “post-Soviet”, etc.). The works of Professor Balcerowicz are aimed at replacing obscure terms like “post-Communist” and “post-Socialist” with a more unambiguous concept of “capitalist”. We, economists (and not only us) are obligated to have enough professional responsibility and civil bravery to call the process of transition to market economy the process of *capitalist transformation of Communist economy*.

2. “INVISIBLE” BALCEROWICZ

They say that repetition is the mother of knowledge, but it may become the mother of ignorance too, if we do not know all the time what we are going to repeat and for what purpose.

Otar Chiladze

Experience is the name everyone gives to their mistakes.

Oscar Wilde

The key reason for fast development or, on the contrary, non-development should be looked for within the country itself.

Laszek Balcerowicz

The first “appearance” of Professor Balcerowicz in Georgia came to nobody’s notice, except professionals (even some professionals did not know anything about it). But to explain why it happened so, let me first give a short historical account of early years of transition to market economy in Poland, Russia and Georgia.

In late 1980s, Poland, under Balcerowicz’s leadership, embarked on a so-called “shock therapy” model of transition to market economy (Lipton, Sachs, 1990; Schaffer, 1992; Sachs, 1993; Blanchard, Dornbush, Krugman, Layard, Summers, 1994, pp. 17-22; Balcerowicz, 1994, 1995, pp. 273-369; Johnson, Kowalska, 1994; Aleksashenko, 1990; Narinskij, 1990).

“Shock therapy” (as it has been referred to primarily in Russia), or “big bang” (Kowalik, 1994, p. 116), or “bitter pill” (Adams, Brock, 1993, p. XIII) means maximization, in a shortest possible time period¹, of radical

¹ It is important to note that very often the key reason for debates on economic issues rests on the speed of post-Communist reforms rather than principal theoretical disagreements (Birman, 1996, p. 521).

transformations, of which major ones are targeted at liquidating (or, at least, minimizing) state budget deficit and pursuing strict monetary policy under the conditions of nominal money supply or fixed exchange rate. The concept of “shock therapy” is derived from the orthodox scenario of macroeconomic stabilization (for example, Kiseleva, 1996, p. 113), which implies that the aims of liquidating (or, at least minimizing) state budget deficit and ensuring strict monetary policy under the conditions of nominal money supply or fixed exchange rate should be achieved very quickly, in a very limited period of time. At the same time, success depends largely on political stability (Jochem, 1999).

It is also noteworthy that the concept of “shock therapy” is identical to so-called “Washington Consensus” (see, for example, Popov, 1998, p. 42), a foundation on which IMF’s approach to transformational issues is built (for example, Stiglitz, 1998).

The method of “shock therapy” was applied first in West Germany shortly after the end of World War II. As was stated above, post-Communist Poland breathed “new life” into the “shock therapy” method and after that it was implanted, with different variations and different levels of success, in some post-Soviet republics as well (for example, Stroeve, Bliakhman, Krotov, 1999, pp. 285-352). For example, if in Poland was developed the “Balcerowicz Plan”, in Yugoslavia they had the “Markovic Plan”, in Hungary – the “Kupa Plan”, In Czechoslovakia – the “Klaus Plan” (Alekseev, Volkov, et al, 1995, p. 465). It must be noted that each such plan was practically identical to another, except some insignificant details in which they differed in some way.

In January 1992, Russia joined those countries that had already applied the “shock therapy” method and the vice-premier of the Russian government, Egor Gaidar took the lead. (What differed Russia from other countries, though, was the fact that officially nobody used the expression “Gaidar Plan” in reference to the set of ongoing transformations.) A month later, the “Balcerowicz Plan” of “shock therapy”, in its Russian version, was put on agenda in Georgia too. Like

in Russia, the vice-premier of the Georgian government, namely Roman Gotsiridze, assumed responsibility for that plan. (Remarkably, like in Russia, in Georgia the plan was never called the “Gotsiridze Plan”.)

Logical question which arises in this regard is such: Was Georgia ready at that time to apply that famous method of reforms? To answer to this question, one has to emphasize a fundamental difference which exists between the countries with and without statehood on the threshold of reforms; the former include Eastern and Central European countries, like Poland, Hungary and Bulgaria; the other group consists of new independent states emerged as a result of disintegration of the former USSR, Yugoslavia and Czechoslovakia. From the second group of countries, one must distinguish those which became successors of their disintegrated predecessors, as they preserved for themselves almost all attributes of state (such as embassies, customs, independent monetary systems, etc.). After the breakdown of the former Soviet Union, Russia also preserved all attributes of its predecessor, for which reason Russia could be “equated” with the first group of post-Communist countries. As regards the other ones, they had to restart building their governmental institutions from the very beginning (perhaps with the partial exception of Ukraine and Belarus which, although just formally, were the UN members even under the Soviet Union). Georgia was one of those. Actually, Georgia had to address simultaneously two – almost equal in terms of complexity – problems: to create its own governmental institutions, and to embark on the transition to market economy. Of course, this was by far more difficult a task than to address just the second of those two problems (Schmitter, 1994; Balcerowicz, 1995, p. 146; Papava, 1996A, p. 252; Milanovic, 1998, p. 3).

The “shock therapy” model requires consistent use of government’s monetary and budgetary institutions. In the absence of such institutions, it is totally impossible to apply the “shock therapy” model; furthermore, any attempt to do so is doomed to failure. The truth of this assumption can be verified, inter alia, by Georgia’s unlucky experience. It is not difficult to demonstrate this. We just need to review the “Balcerowicz

Plan” (which is considered the most recent and, at the same time, already classical model of “shock therapy”) and then analyze distortions that resulted from the blind reproduction in the Georgian context of a pale reflection of that “plan” in the Russian “mirror”, with total disregard of the unfortunate fact that institutions necessary for the implementation of such plans were non-existent in Georgia (Papava, 1995A; 1996A, pp. 252-255; 1999B, pp. 268-272).

The “Balcerowicz Plan” required the following simultaneous measures to be taken in Poland from the very outset (Aleksashenko, 1990, p. 21):

1. Effecting multiple increases in all types of prices; deliberate encouraging inflation with the purpose of setting equilibrium on the market.
2. Imposing “strict” restrictions on people’s incomes.
3. Raising drastically interest rates and reducing the amount of money in circulation; raising interest rates on savings and deposits with the purpose of encouraging people to save.
4. Cutting drastically state budget expenses by reducing central government investments and quitting subsidizing loss-making enterprises.
5. Issuing government bonds with the purpose of liquidating the state budget deficit.
6. Putting taxation system in order and establishing uniform taxes.
7. Setting a uniform exchange rate of the zloty to the dollar and ensuring the convertibility of zloty in the domestic market.
8. Instituting new customs tariffs with the purpose of limiting imports and encouraging exports.
9. Within the limits of actual capabilities of the government, providing social benefits to those groups that really needed this.
10. Eliminating monopolistic structures and relinquishing government’s administrative interference with enterprises.

Russia embarked on the “shock therapy” policy on January 2, 1992. As was mentioned above, Georgia did the same thing a month later. Now

let us check, item by item, to what degree (if any) was the “Balcerowicz Plan” implemented in Georgia:

1. The reform of price formation got started in Georgia as early as spring 1991, when free prices on some types of goods were first introduced. However, if in 1999 measures like that was the exception rather than the rule, since February 1992 (that is a month later than in Russia) some radical changes were made to the pricing system of Georgia: government-controlled prices on a certain group of goods and services were raised drastically. All this was done with the purpose of setting equilibrium on the market. If in 1991 the consumer price index stood at 1.8², in 1992 it grew up to 25. At the same time, compared to 1991, in 1992 the government-controlled consumer prices grew 68 times (e.g. the price on bread, one of the most important food products, grew 100 times). Thus, we can state that *the first item of the “Balcerowicz Plan” was completely fulfilled in Georgia.*
2. In 1992, the Georgian government carried out a significant indexation of minimum salaries and social benefits. If in 1991 the indexation took place just once, in 1992, in the course of comprehensive liberalization of prices, the indexation of incomes was carried out six times. In 1991, compared to preceding years, minimum and average salaries were raised by 1.85 and 1.26 times respectively and in 1992, compared to 1991, by 13.14 and 17.94 times respectively. Although the government of Georgia never took any preventive measures to control salary increases (as was done in Poland, where in the case of salary increases up to 2% of payroll the company in question would have to pay penalty 200 percent of increased amount, whereas any increases above 2% would result in penalties amounting to 300% to 500% of increased amount), the growth rate of salaries and social benefits clearly lagged behind

² This and other statistical data quoted in this paper have been provided by the Ministry of Economy of Georgia.

that of prices. It could be recognized, therefore, that *item two of the “Balcerowicz Plan” was also implemented to a certain degree.*

3. In 1992, compared to 1991, annual interest rates grew from 2 to 5 percent and from 9 to 80 percent on demand deposits and up to 10-year time deposits respectively. But even that pace of growth of interest rates was not in line with the rate of inflation. It should also be noted that no increases in interest rates could help with controlling the amount of money in circulation, as at that time the country had no monetary system of its own: Georgia was still using the ruble of the already disintegrated Soviet Union and the newly issued Russian ruble. In summer 1992, the government decided to double deposits on an ahead-of-time basis. In particular, on July 25, the government announced that because of devaluation of deposits these latter would be doubled as of August 1, 1992. In response, people rushed to banks to make more deposits. On August the 1st the government decided to extend the doubled deposit deadline by August 10, 1992. A surplus gained as a result of doubling could be withdrawn only after the expiration of a one-year period except that for the purposes of privatization it could be used without any restriction (however, at that time the process of privatization actually was at a deadlock). Because since the second half of 1992 it became much harder to get from Russia necessary amount of Russian ruble bills in a timely manner (of course, no country but Russia could issue Russian currency), moneys accumulated on the deposit accounts in the above-described way were paid out as salaries and pensions. Such circumstances practically disabled the reformist government’s intention to control the amount of money in circulation. We, therefore, may conclude that in Georgia *item three of the “Balcerowicz Plan” was not fulfilled.*

4. In 1992, the share of central government's investments in total state budgetary expenses did not decline and by 1992 ranged between 20 and 25 percents. Compared to 1991, in 1992 the factual amount of subsidies grew almost 5.1 times. Although in 1992 the share of government's subsidies in state budgetary expenses dropped to 30.1 percent down from 47 percent in 1991, *because of multiple increases in actual amount of subsidies, this argument is not strong enough to convince us that requirement four of the "Balcerowicz Plan" was met.*
5. Government's domestic bonds were issued in 1992. However, they were offered for sale only in the fall of 1993. Furthermore, this was done primarily with the purpose of replacing the old bonds of the former Soviet Union with new Georgian ones. As for the use of government bonds for filling the state budget deficit, such a tool was not used at all at that time. Obviously, *item five of the "Balcerowicz Plan" was not implemented either.*
6. The reformation of taxation system according to the requirements of market economy was launched as early as the summer of 1991. Consequently, *generally speaking, item six of the "Balcerowicz Plan" should be considered fulfilled*, although it must also be noted that like in many countries of the world, in Georgia the optimization of taxation system is a rather continuous process.
7. In 1992, Georgia had no national currency, for which reason *it was practically impossible to fulfill item seven of the "Balcerowicz Plan"*.
8. In 1992, uniform customs tariffs were introduced. Imports and exports were taxed by 2 percent and 8 percent respectively. Obviously, with such a policy neither imports could be controlled, nor exports could be encouraged. The fact is that

neither item seven of the “Balcerowicz Plan” was implemented in Georgia.

9. As was mentioned above, in 1992, like in 1991, the government carried out indexation of incomes. At that time, no special social program for the benefit of low-income families was in existence. In other words, the national social security system was “not familiar” with a mechanism of differentiation of social benefits by income levels. Under such circumstances, if the incomes doubled, for example, so would the difference between the earnings of low-income and high-income households. As a matter of fact, under the circumstances of general indexation, the status of low-income families deteriorated even more. In 1992, as an immediate effect of such indexation, real minimum salary made up just 86 percent of that of 1991. Since the income indexation program of 1992 did not help in any way to reach the objective of providing targeted assistance to the poor, we have to admit that *Georgia failed to meet requirement nine of the “Balcerowicz Plan” too.*

10. In 1992, Georgia’s legislative and executive authorities made first decisions towards restricting monopolistic practices and encouraging competition. However, from the outset those decisions could not work at full capacity. Although as early as 1991 the Soviet centralized system of resource distribution had already collapsed, the practice of government’s administrative interference with enterprises still survived (for example, the mechanism of state order still existed). This means that, *neither item ten of the “Balcerowicz Plan” was satisfactorily implemented in Georgia.*

Consequently, in 1992, Georgian government, due to objective or subjective factors, failed to meet seven out of key ten requirements of the “Balcerowicz Plan” (fulfilled were just the first, second and sixth items) which by then had become a classical scheme of “shock therapy” for the

post-Communist countries. Among those not fulfilled, should be emphasized such important elements of “shock therapy”, as quitting budgetary donations and subsidies and controlling the amount of money in circulation.

To do justice, we have to admit that some of the unmet requirements could not be met at all, because at that time Georgia did not have monetary system of its own. Under such circumstances, any pale imitation of the “shock therapy” method, based primarily on the liberalization of prices, would be doomed to failure.

Year 1993 and the first half of 1994 were marked by the government’s extensive anti-reform steps (for example, Gotsiridze, 1999, p. 259-260; Gurgenidze, Lobzhanidze, Onoprishvili, 1994; Papava, 1995B; Papava, Beridze, 1994). That period came to an end in the second half of 1994, when cooperation with the IMF and the World Bank resumed with a new impetus (for example, Basilia, Bakradze, Begisahvili et al., 1998; Papava, 1996B, 1998; Papava, Beridze, 1998; Wang, 1998). To a large extent, the resumed economic reform had an objective to “fill” the gaps remaining after the poorly implemented “Balcerowicz Plan”, which objective apparently became quite achievable, as by then appropriate governmental institutions had already been established and some professional economists had taken up a number of important offices in the government.

From 1990 to 1994, Georgia’s economy declined three and more times. Here it must be noted that as a general rule, decreases in GDP, industrial output, productivity, investments and real incomes have always been associated with post-Communist economies in transition (Nove, 1993, p. 22; 1995, pp. 227-230). To be more specific, we must emphasize though that decline of production output mostly happens to those enterprises which went into business before the beginning of transformations (Konings, Walsh, 1998). It is also believed that if the post-Communist reforms are successful, decline is likely to be replaced with growth, for which reason that process has been described as a U-shape curve

(Blanchard, 1997, pp. 1-20). Remarkably, economists have not come to consensus yet regarding the reasons for such economic growth (Tanzi, 1997, pp. 315-316).

The experience of fast economic reforms shows that the cause of “transformational falls” (for example, Kornai, 1993), “transformational crises” (for example, Schmieding, 1993; Nikepelov, 1996, pp. 189-190), or “great post-Communist depressions” (Milanovic, 1998, pp. 23-30) rests not on the acceptance of “shock therapy”, but rather on its rejection (Mau, 1999, p. 11) and the collapse of the old system (Sachs, 1995, p. 53), because all countries that opted for “shocking” reforms, were first to achieve the economic revival (de Melo, Denizer, Gelb, 1997; Gaidar, 1997, p. 11). Correctness of that assumption may be proved by Georgia’s experience too. Specifically, in 1995, as a result of the implementation of the drawn-out “shock therapy” model, a five-year-long economic decline turned into growth: that year GDP grew by 3 percent, while in 1996-1997 it reached the level of a 10-11 percent growth a year.

The practice has proved that “shock therapy” was successful mostly in those countries the pre-reform (or, more precisely, the “pre-shock”) economic statuses of which had been so unacceptable that people were prepared to tolerate everything which was necessary to overcome the existing problems (Gaiger, 1996, ch. 13). In such cases, usually, negative effects of the “shock” are so minimized and, on the other hand, positive ones are so noticeable, that “shock therapists” should not have any political problems with effecting reforms. (Georgia in 1994-1995 could be considered the best example for this assumption.) Hence, success of “shock” therapy depends on the paradox: “*The worse, the better*”. This means that for a country whose existence is under question mark, there should be no question about applying or not applying “shock therapy”. Furthermore, in fact, that country has no alternative, but to resort to this method, as positive effects are practically guaranteed. Such cases could be qualified as “*minimal shock with maximum therapy*”, or “*soft big bang*” (Papava, 1999A, 2000).

Finally, I am confident that although “shock therapy” is not right tool for creating market institutions (for example, Stiglitz, 1999; Kolodko, 1999), a mere acceptance, even just theoretically, of the assumption that post-Communist reforms should have started with institutional transformations and, therefore, liberalization and stabilization programs should have come next, would mean nothing but the turning down of all plans for creating market mechanisms aimed at developing businesses in a long-term perspective and the “freezing” of the Communist-style mechanisms of managing national economy. Hence, to accept the assertion that post-Communist reforms should always be started with mere institutional transformations means to have the country turn off the path of market economy and democratic foundations of national economy. On the other hand, all countries that have not inherited many attributes of independent statehood, before taking any “shock therapy” measures, need to take steps towards, at least, laying foundation of appropriate governmental institutions, there is no question about it.

3. “VISIBLE” BALCEROWICZ

Economic policy can result from governmental inaction as well as governmental action.

John F. Kennedy

Understood as a central consolidated power, managing and directing the various general interests of the society, all government is evil, and the pattern of evil . . . The best government is that which governs least.

John O'Sullivan

Program is a country's perspective for which a political party should strive after its coming to parliament or power.

Leszek Balcerowicz

His first visit to Georgia Professor Balcerowicz paid in the fall of 1995. It was a time when the country was just entering the phase of currency reform and, generally, the final phase of drawn-out “shock therapy”. It was a short visit, during which Balcerowicz got familiar with Georgia’s economy and ongoing reforms.

During his short stay in Georgia, Leszek Balcerowicz attended several meetings with his colleagues from the Georgian governmental agencies. One of such meetings took place in the Ministry of Economy as well, which lasted about two hours and during which leading officers of the ministry, together with the guest, discussed the problems and difficulties related to the transition to market economy and the formation of market institutions.

When the meeting was over, Balcerowicz came up and asked me how I managed to bring together in the Ministry of Economy so many older people who were so comfortable with the concepts of market economy. (At that time, the most of department heads in the Ministry of Economy were representatives of older generation.) It's common knowledge that Communist mentality usually characterizes people of that age. He could not help being surprised to hear, like I, as a Georgian minister, could not help being proud to tell him, that those old people used to be the officers of former State Planning Committee, that they had never received any special training in market economy, that they were true professionals who relied exclusively on their experience, and that they were smart enough to adapt easily with new economic and political realities. I told him that those old people were an asset to the ministry and that younger employees were lucky to work with them and to learn a lot from them. In reply, Professor Balcerowicz expressed deep regret at the fact that they in Poland, while dealing with the Communist regime, had hurriedly abolished the Planning Committee instead of transforming it into the ministry of economy.

One of the most important steps which was made in Georgia during the process of transformation of the former Planning Committee into the Ministry of Economy was the endowing of the newly established ministry with an inter-sectorial, economic reform coordinating function. In this respect particularly impressive was the initiative of Professor Mikheil Jibuti, the Minister of Economy in 1992-1993, to introduce a practice of indicative planning, which up to now has no analogy among the post-Communist countries. It was assumed that under the conditions of market economy, indicative plan would play a role of economic development program and that every interested person would find in such a plan some "food" for the economic sector of his interest.

At the time of Balcerowicz's visit in Georgia, the Ministry of Economy was, I would say, the best model of "good" government, as it played the least possible role in economic life and provided maximum liberty to competitive market forces for the benefit of economic development. (It

was the Ministry of Economy initiative to liberalize prices and trade, to abolish the quota system in foreign trade, to reduce the license constraints by the minimum so that the Georgian licensing system could be harmonized with international practice, etc.)

I regret that instead of reproducing that positive model of Ministry of Economy in other governmental agencies as well, in 2000, the Georgian government merged the Ministry of Economy with the ministries of industry and trade. As a result, in place of inter-sectorial agency, we got a multi-sectorial Ministry of Economy, Industry and Trade which became “overburdened” with non-market-based governing functions (basically, the industrial sector governing function).

By the way, a bit later a ministry of economy was established in Poland.

4. BALCEROWICZ IN “AN INVISIBLE HAT”*

*Kings know about their ministers’
activities not a bit more than
cuckolds do about their wives.*

Voltaire

*They have learned nothing and for-
gotten nothing.*

Charles Maurice de Talleyrand-
Périgord

*Poor economic policy rests on the
backs of two strong twin brothers.
One of those is the pressure of
interests of certain social-political
groups, the other is ignorance, that
is poor knowledge of economic
science.*

Leszek Balcerowicz

After presidential elections of 2000, the top leadership of the Georgian government decided to ask the US government to provide funds for financing Leszek Balcerowicz’s working in Georgia as an economic adviser to the Georgian president. The US government accepted the request.

As soon as the Georgian government officially announced its decision to invite Professor Balcerowicz to Georgia, I publicly criticized it hurting, thereby, feelings of both the president and the speaker of parliament. At the same time, my attitude was a reflection of hurt feelings of Georgian economists. Here are the reasons for which we felt so deeply hurt.

In late 1980s and early 1990s, after the collapse of the Communist regime, nobody in the world, not a single economist knew an exact recipe for the transition from the Communist-style economy to the

* In Georgian fairy tales, a magic hat which enabled a wearer to be invisible to others.

market, i.e. capitalist economy. Naturally, under such circumstances, leaders of post-Communist nations would apply for advice not only international financial institutions, but also internationally famous individual economists. For example, Professor Jeffrey Sachs of Harvard University used to be an official adviser to the governments of a number of East European countries.

Nowadays, when at least a decade has elapsed since that epoch, almost all post-Communist countries in transition have been enriched by local professional staffs having more or less good experience of collaboration with international financial institutions.

Under such circumstances, I mean after ten long years of economic reforms, the inviting of a foreigner, even though a very experienced and highly qualified professional to Georgia, is nothing but an acceptance of the following two assertions: firstly, that the country lacks its own economists who would know (to say nothing about experience) how to implement reforms; secondly, that the country lacks people who, at least, would be capable of conducting talks with the international financial institutions. Luckily, none of the above assumptions is right.

On the other hand, here is some justification for the inviting of the internationally well-known expert, Professor Balcerowicz as a personal adviser to the president of Georgia: the most of key economic offices in the Georgian cabinet (which according to the Georgian Constitution is an advisory body to the president) have been occupied by non-economists. Furthermore, even those having some economic education do not have enough level of economic knowledge, the problem of which Professor Balcerowicz has talked unambiguously on several occasions. One has to assume that the initiators of inviting him to Georgia visualized him mostly in the role of an educator. Regrettably, even that intention was doomed to failure, because “a good speaker needs a good listener”.*

* A Georgian proverb.

Before giving examples of the last assertion, I would like to emphasize that so far all recommendations given by Professor Balcerowicz to the Georgian president have been strictly confidential and hidden not only from the public, but it seems that from the ministers (?!) as well. The Polish professor himself visits Tbilisi once in a quarter at best and this it's no wonder: shortly after he was approved as official adviser to the Georgian president, he was appointed as president of the central bank in his home country. Besides, to do justice, we must admit that there is no real need for his more frequent visits, as he keeps here in Georgia practically a permanent team of highly qualified experts who can keep him informed about current developments; furthermore, what really matters, there is nothing extraordinarily wrong with the Georgian economy, which because of "poor visibility" could not be seen from distant Poland. Thus, none of his and his team's recommendations (at least those ones, which despite their "confidential nature" have been known to the public) exceed the limits of knowledge of their Georgian colleagues (those from academic circles).

Now, let me review some of the recommendations of Professor Balcerowicz and his team, which have become known to the public:

1. One of the first recommendations of Professor Balcerowicz was that the Georgian leadership should have determined very shortly what kind of economic system it was intending to build and then make right choices. Regrettably, there was nobody among the hosts who (perhaps because of the lack of elementary knowledge) would be able to inform him that such a choice had been made by the Georgian people five years earlier by adopting the Constitution of 1995 (which provides for the foundations of the Georgian economic system) and then by voting in 1995 and 2000 for the presidency of Eduard Shevardnadze, if we assume that the people had expressed their support (even if not always conscious one) not only to Shevardnadze personally, but also to his electoral programs, which

- made plenty of room for economic matters. True, if the Georgian government officers are not familiar with the president's electoral programs, why should foreign experts be expected to be so?
2. The lack of coordination within the Georgian government caused obvious dissatisfaction of the Balcerowicz team. In the context of the Georgian Constitution and the Law on the Structure and Operational Procedures of the Executive Branch of Government (which clearly vest such functions in the State Minister), such a problem should not have overlooked by the Georgian professionals as well, and actually they never did. So, why was it so necessary to waste the precious time of foreign experts, if all they could do was to “discover” already obvious problems?
 3. One of the most famous recommendations of Professor Balcerowicz and his Tbilisi-based team consisted in the replacement of the progressive system of income tax (which means that in line with the growth of personal incomes of individuals, growing 12, 15, 17 and 20 percent tax rates should be applied) with the proportional system (a uniform 15-percent tax rate should be imposed), which would drastically simplify tax administration and, equally important, practically eliminate tax-payers' desire to hide incomes. It was as early as 1992, that I presented exactly the same recommendation to the Georgian government. Later, I raised this issue before the IMF on several occasions (Papava, 2001, pp. 41-43), but always in vain. Of course, we must welcome that advice of the Polish economists. Unfortunately, contrary to this recommendation of the presidential advisor, the Finance Ministry, which apparently is the follower of utilitarian economic policy (the key principle of which is “taking it away from the rich and giving it to the poor”^{*}), expressed an intention

^{*} Lines from the Georgian folk poem about a robber who fought against the rich to defend the poor.

- to raise the upper rate of income tax. Thus, obviously sensible advice of Polish experts was overlooked, and instead all their efforts were wasted for preserving the wrong income tax policy from its further deterioration.
4. In February 2000, the president of Georgia issued a decree by which the shares in the companies in which the government held at least 51 percent of interest were to be taken away from the Ministry of State Property Management and given to pertaining line ministries. Naturally, the Balcerowicz team demanded the revocation of that clearly Communist-style decree which, above all, might invoke conflict on interests. It is noteworthy, that decree was sharply criticized by the Minister of Health and Social Protection and myself at the time, when it was still under consideration. However, our criticism was not shared by others.
 5. One of the most progressive suggestions of the Balcerowicz team concerns the pension system. As they have rightly pointed out, today Georgia lacks such a system and a 14-lari pension has never played (and never will) the role of pension, as such. Given severe financial constraints of the Georgian government, the team recommended that the accent be put on private pension schemes, while the government focus on paying out old debts to the people (which by that time, in total, had exceeded GEL 300 million) and timely performing current obligations. The government's attitude (which has been supported by the World Bank and which seems to be the government's priority) consists in the reformation of the existing state pension scheme, along with creating private ones. As far as I am concerned, I think that under the conditions of huge debts to the population and chronic budgetary crisis it would be a pure waste of time and efforts to provide for the reformation of state pension system. Furthermore, it would be a big mistake to suspend the process of creating

private pension schemes because of that notorious state pension system.

The list of overlooked recommendations of Professor Balcerowicz and his Tbilisi-based team would presumably be much longer, if they had been made available to the Georgian public. (Who knows, maybe one of the reasons for keeping them confidential was to hide from the public obvious weaknesses of the Georgian government team.)

It is easy to notice that poor economic policy of the Georgian government rests on the backs of Balcerowicz's "twin brothers" – pressure from the social-political groups and ignorance. Moreover, those twins have never acted independently; instead, they always strengthen each other (Balcerowicz, 2002, pp. 15-18).

Professor Balcerowicz's tenure in the office of president's advisor proved that in Georgia neither foreign priests would ever be pardoned.* Unfortunately, it's little wonder; as one respected Georgian economist said: "In Georgia there is a deficit of intellectuals that can make use of the existing intellectual resources".

* It's a paraphrase of the Georgian proverb: "No domestic priest will ever be pardoned", meaning that nobody is paid tributes in one's homeland.

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