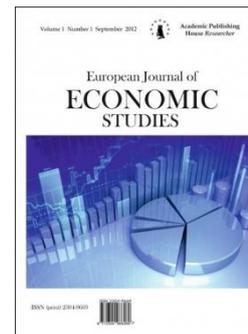


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Published in Slovak Republic
European Journal of Economic Studies
Has been issued since 2012.
E-ISSN: 2305-6282
2019, 8(2): 143-151

DOI: 10.13187/es.2019.2.143
www.ejournal2.com



On the Non-Economic Policy and the Post-Communist Experience of Georgia

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Abstract

Economic policy is an integral part of public policy and is to be based on the accomplishments of economics. If an economic policy is not only far from economics, but in certain cases contradicts its basic postulates and rules, then such an economic policy carried out by the government represents a “non-economic policy.” Among the causes that lead to “non-economic policies,” first and foremost, is the unprofessional economic team of the government and false opinions entrenched in economics or economics lagging behind the processes unfolding in the economy. The present article offers the typology of a non-economic policy. The experience of post-Communist Georgia illustrates a number of clear examples when the governments in the country implemented non-economic policies which quite negatively affected the development of the country. As a result of developing a successful economic policy such economic reforms were carried out which allowed the country to overcome hyperinflation in the 1990s and macroeconomic stability was achieved. After carrying out currency reform, the national currency, the lari, was introduced. The reforms were fully based on economics. The main challenge is to approximate the economic policy to economics which can be achieved only in the case when economic policy-makers are highly skilled economists.

Keywords: economic policy, economics, economic reforms, economists, international financial institutions.

1. Introduction

The success of an economic policy largely depends upon the extent to which it reflects the modern accomplishments of economics.

There are such cases when an economic policy carried out by a country fails to be aligned not only with economics but is beyond common sense.

This paper aims at highlighting the nature of mistakes commonly made in the formation of economic policies and identifying their typology while analyzing the experience of post-Communist Georgia in developing economic policies and implementing them (Papava, 2012) in order to detect those key problems whose solutions are of high priority for achieving stable economic development in the country.

2. A Non-Economic Economic Policy and its Types

Economic policy, as a field of study and a scientific discipline, is one of the distinguished fields of modern economics (e.g., Bénassy-Quéré et al., 2010).

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Economic policy is a set of actions that governments take in the economy and includes taxation systems, national budgets, a monetary system, labor markets and foreign trade regulations, etc.

According to Ludwig von Mises: "... the best economic policy is to limit government to creating the conditions which permit individuals to pursue their own goals and live at peace with their neighbors. Government's obligation is simply to protect life and property and to allow people to enjoy the freedom and opportunity to cooperate and trade with one another" (Mises, 2006).

It does not cause raise any doubt that not only the "best economic policy" as referred to by Mises, but economic policy in general, should be based on the accomplishments of economics. In reality, it is unfortunate that oftentimes economic policy is clearly far from those accomplishments of economics. In other words, economics does not necessarily underlay economic policies.

Such an attitude of the government towards the economy and the consequent product cannot be called economic policy per se as it contradicts not only economics but even common reason; it would be more appropriate to name it "*non-economic economic policy*" or, more briefly, "*non-economic policy*."

I consider that there are the three types of non-economic policies.

Namely, ***the first type*** of non-economic policy is such when the persons defining economic policies do not take into account the knowledge offered by economics.

In the case of ***the second type*** of non-economic policy, the policy developers usually apply the knowledge created by economics but this knowledge is false.

In the cases of ***the third type*** of non-economic policy, some significant economic phenomenon has not yet been explored by economists and, therefore, the economic policy developers, regardless of their commitment, cannot use knowledge which is not yet available.

The first type of non-economic policy may be due to the following reasons:

1. Economic policy developers (especially in the developing countries) are not professional economists or have very poor qualifications and, consequently, lack knowledge of the basics of economics, not to mention its accomplishments;
2. Economic policy developers may be quite qualified economists but it does not suit them to integrate the accomplishments of economics into the economic policy on which they are working.

It is to be noted that it is quite often that politicians approach the country as if it were a company and they believe that managers, not professional economists, should hold senior positions of economic policy developers (Papava, 2018b). The simple truth that there is a principal difference between a country and a company (Krugman, 1996) is not recognized, regretfully, by most politicians. In reality, the place for managers is in businesses and not in politics.

When the decision makers of economic policy do not have economic education, this is usually balanced by the professionalism of those persons who prepare draft decisions for such senior public officials. This said, even in this situation it is quite possible that senior public administrators will disregard the above mentioned draft projects and abide only by political expediency.

Even if the decision makers of economic policy are equipped with a special economic education, there are frequent cases when they rely not so much on the knowledge accumulated in economics but make decisions based only on political expediency.

This phenomenon, when political expediency is preferred over applying economics in drafting economic policies, is explained by the well-known "public choice theory" (Buchanan, Tullock, 1962).

The second type of non-economic policy is caused by the mistakes made by economists. A textbook example of this is the global financial and economic crisis in 2007–2009 when the approaches that the economists came up with in order to regulate economy, unfortunately, turned out to be false (Cliffe, 2019; Stiglitz, 2010).

The relation between economics and economic policy (more precisely, public policy) may be compared to that of biology and medicine, or that of physics and engineering based on which we can infer that some mistakes made in medicine are not the fault of biology. Similarly, it is unjustifiable to blame physics for engineering errors (Hausmann, 2019). Such an interpretation is clearly not correct, since if a source of error is found in biology, it will consequently affect medicine.

Similar cases in regard to economics and economic policies are not rare, regretfully. For instance, the so-called Modern Monetary Theory (MMT) is drawing quite the attention and a relevant textbook has already been published based on this theory (Mitchell et al., 2019). This so-called revolutionary theory holds that a budget deficit does not have any impact, and the gap between national budget expenditures and tax revenues does not result in inflation, if it can be filled by money emission. An obvious weakness of this theory is that it is built on a closed economy in which there is no place for foreign trade and the outflow and inflow of capital into the country do not take place and there is no problem of a fluctuating exchange rate. Although the leading economists in the world openly criticize MMT (e.g., Krugman, 2019a, 2019b; Rogoff, 2019), there is a growing expectation that this theory will be followed in the not so distant future, provided that leftist politicians will come into power in the USA, Australia, the UK, Canada and in some EU countries, and even in Japan (Moiseev, 2019).

A vivid example of the third type of non-economic policy is the transition from the command economy to the market economy in the absence of relevant economic theory (e.g., Papava, 2005). Only the generalization of the experience accumulated as a result of reforming markets in the post-Communist countries (Åslund, 2007) made it possible to develop a more or less comprehensive framework of the economic theory of transitioning from the command to the market economy (e.g., Hare et al., 2013).

Not less important is the phenomenon of cryptocurrency emerging all over the world in the absence of a more or less well-reasoned theory about it (Papava, 2018a: 95-97). Although cryptocurrency; namely, bitcoin, has been around for ten years already and there are many publications on the topic (e.g., Stolbov, 2019), the economic nature of cryptocurrency has not yet been fully understood (Simanovski, 2018). According to Robert Shiller, Nobel prize winner in economics, the economic mechanism of cryptocurrency emission has been unclear so far (Shiller, 2018).

Notably, under the conditions of the post-Communist transformation, the third type of non-economic policy has been crucial while the first type of non-economic policy comes to the forefront upon completion of the transition to a market economy.

It is known that the nature of economic policy varies from the Laissez-Faire economy to the command economy which is characteristic for Communist-oriented economies. The essence of transitioning to a market economy during the post-Communist period is moving from the second extreme condition to the first extreme one; in other words, the economic policy of moving to a market economy implies the behavior of a government when the extent of its intervening in managing the economy not only decreases gradually but also changes in essence and it attempts to create such an institutional environment in which the relevant regulatory authorities offer businesses a more or less formalized framework for their activities.

3. Initial Non-Economic Policy of Post-Communist Georgia

In 1990–1991, the economic policy carried out by the Georgian Government was distinguished with timid attempts to liberalize the Communist methods of the economy's governance. Hence, it is not surprising that the government announced during that period that Georgia was to introduce state capitalism. It is noteworthy that moving from a command economy to a market economy based on state capitalism actually meant keeping the non-market foundations of the economy or moving to a market economy by only changing the 'façade.'

A revolutionary turning point of the government's interference in managing the economy started in 1992 which was mainly accompanied by the almost universal, general liberalization of prices and allocating agricultural plots free of charge (Papava et al., 1998). At the same stage, the banking sector was practically subject to a complete liberalization as a result of which issued loans reached immense scales. Thereafter, commercial banks were established although supervision by the central bank, the National Bank of Georgia (NBG) over the activities of the banks, was not carried out. Similarly 'impressive' was introducing a clearing mechanism of purchasing natural gas from Turkmenistan which enriched the corrupted public servants and accumulated the state debt of Georgia to more than USD 400 mln. It is notable that as of 2001 the clearing mechanism was reactivated in order to pay off the debt to Turkmenistan.

Such actions of the government vis-à-vis the economy cannot be called economic policy as they contradict not only economics but common sense as well.

The non-economic policy carried out in Georgia in 1992–1993 created fertile soil for hyperinflation which imposed a major threat to the country's statehood (Gurgenidze et al., 1994).

It is noteworthy that at the time of the collapse of the Communist regime and the disintegration of the Soviet Union, as mentioned above, there was no theory of moving from a command economy to a market economy (Papava, 2005). Considering this, we may not blame the economic policy developers at that time that they did not apply a relevant economic theory as it was not even laid out. Therefore, it is apparent that at the beginning of the post-Soviet period, the third type of non-economic policy was in place.

Georgia started carrying out radical economic reforms at the beginning of 1992 by applying a Polish version of the well-known method of “Shock Therapy” (Balcerowicz, 1995). Namely, the Georgian version of the so-called “Balcerowicz Plan” (Aleksashenko, 1990: 21) which was named after Leszek Balcerowicz, the Vice Prime Minister and Minister of Finance of Poland in 1990s, was implemented.

During that time in Georgia, English or any Western-European language was spoken by a very limited number of persons and actually the only foreign language which the majority of the population spoke was Russian which enjoyed the status of the state language during the Soviet period. The above referred “Balcerowicz Plan” was translated into Russian for the reforms to be carried out in Russia starting January 1992 and a month later the Georgian Government had it translated into Georgian for the economic reforms to be carried out in the country.

For Georgia, the “Balcerowicz Plan,” unfortunately, was doomed for failure as unlike Poland and Russia, Georgia did not have one of the main instruments for the “shock therapy” which is a national currency. Further, the government made a number of mistakes (Khaduri, 2005; Papava, 1996) which led to the discretization of “shock therapy” in Georgia.

The goal of the economic reforms in the country in 1994–1995 was to create macroeconomic stability which was not only achieved (Papava, 2011) but it also made it possible to successfully introduce the national currency, the lari (Kakulia, 2008).

4. Non-Economic Policy of Georgian Libertarianism

In 2003, a few months later after the so-called Rose Revolution, the Georgian Government invited a Russian oligarch, Kakha Bendukidze, an ethnic Georgian businessman with whom the recognition of libertarianism as the official ideology in the economic policy of the Georgian Government is associated. Having been the Chief Executive Officer of the industrial holding, ‘United Engineering Plants,’ he was quite closely related to the regime of Putin which is only natural, considering that the factories that composed the holding were producing quite complex equipment and machinery, including equipment for nuclear power.

Official public statements made by the government and their promotion abroad created an attitude that the post-revolutionary reforms were assessed as libertarian at the international level as well (e.g., Burakova, 2011; Burakova, Lawson, 2014; ESI, 2010; Gilauri, 2017; Udensiva-Brenner, 2010).

This opinion was reinforced by abolishing numerous licenses and permits necessary to start a business in Georgia and the rules for the remaining ones were simplified along with an essential simplification of the system of issuing various documents by the government, reducing the tax burden and moving to electronic system of paying taxes, etc. It was these types of reforms that resulted in Georgia holding one of leading positions in the well-known ranking of the World Bank's Doing Business (Papava, 2009a).

However, the dynamics of a generalized indicator, the gross domestic product (GDP) per capita, demonstrates that these types of economic reforms should not be regarded as successful. Namely, by this economic indicator Georgia lagged behind its immediate neighbor, post-Soviet Armenia, which did not have a libertarian government (the economic growth of neighboring Azerbaijan is not comparable since it was a result of oil and gas production and export). Specifically, according to the World Bank data in 2003, the GDP per capita in Georgia was little bit more than in Armenia and in 2010 this indicator made only 95.5 % of the same indicator for Armenia (WB, 2019).

In parallel to the reforms identified as libertarianism, the government of the National Movement (NM) ruling party systematically violated ownership rights and did not shy away from coercing businessmen to transfer part of their profits to non-budget funds (certainly, it did not

apply to the businesses close to the government members) and the judicial system was directly under the control of the Prosecutor's Office (Papava, 2013). Regretfully, no comment was made by so-called 'Libertarians,' who were members of the government, regarding these anti-libertarian facts. Hence, the façade of the reforms carried out by the NM was Libertarian but its content was neo-Bolshevik (Waal, 2011: 13).

It is well known that any person, as a rule, is Libertarian since no one wants anyone else to interfere in his business or they do not want their rights to be restricted. A true Libertarian is a person who, most of all, is Libertarian for everybody else as well and, thus, is generally Libertarian.

It was characteristic for the team in the government which rallied under the Libertarianism flag that most of them, like their leader, Kakha Bendukidze, did not have an economic education. Being unaware of the basics of economics, it was the easiest way for them to share Libertarian opinions: when one does not know about economic failures and how to overcome difficulties, it is very easy to recognize the maximum non-interference of the government in the economy as the only principle justified.

Thus, the difference between so-called 'Libertarians' and true libertarians is that for Georgians, Libertarianism was not an informed, conscious choice based on economics. Actually, Georgian Libertarianism was used to conceal their lack of knowledge of economics (Papava, Taphladze, 2015).

All of this allows us to conclude that Georgian Libertarianism by its essence is the first type of non-economic policy.

5. Non-Economic Policy of Primitivism

A vivid example of the primitivism of non-economic policy is the *4-Point Plan* initiated by the Georgian Government from 2016 and consisting of the following points: 1. Economic Reform, 2. Education Reform, 3. Spatial Planning and 4. Governance Reform.

Although the name of Point 1 of the Plan is very general, it was reduced to exempt businesses from profit taxes in case they would reinvest their profits.

Point 2 meant that the vocational education system would be oriented on a dual or a work-based approach according to which educational institutions and potential employers were to implement the training programs jointly while university education would be oriented on the actual needs of the economy which would be identified by analyzing labor market data.

Point 3 aimed at facilitating the development of cities and villages and the development of transportation infrastructure connecting the regions in the country with the final objective to make Georgia a four-seasons tourist destination.

Point 4 envisaged the increased effectiveness of governance.

Due to the undeveloped real economic sector in Georgia, unfortunately, the country consumes more than it produces and, consequently, its import has exceeded its export three times over the years with imported products accounting for 80% of the consumer basket (as well as the food basket). As a result, a non-manufacturing and consumer economic model was developed in Georgia (Papava, 2015).

Given the circumstances, the first three points of the Plan mainly facilitate the development of existing business; in other words, it facilitates the expansion of the networks of hotels, restaurants and credit institutions. Unfortunately, these points are not oriented on the economy of the future; namely, on establishing and developing a real sector of the economy oriented on a knowledge based economy. Consequently, the Four-Point Plan of the government promotes the maintaining and reinforcing of the above mentioned non-manufacturing and consumption economic model.

According to Point 4 of the government Plan, the Ministry of Environment was merged with the Ministry of Agriculture which is clearly a conflict of interest. Later on, the Ministry of Education and Science was merged with the Ministry of Culture and Sports which made it difficult to administrate the new entity. As a result, the goal to increase the effectiveness of governance actually remained unimplemented.

The 4-Point Plan of the government is a vivid example of a primitivistic approach in economics (Papava, 2017b) and it rejects even the fundamentals of economics. Thus, we have here the first type of non-economic policy.

Another clear example of economic primitivism was the privatization of the building of the Ministry of Economics and Sustainable Development. The privatization of the building carried out at the initiative of this Ministry brought USD 9,45 million into the state budget. A Chinese company, Hualing, a new owner of the building, decided to turn it into a hotel.

After the privatization, the Ministry continued to be in the same building (and the owner was paid rentals) until there was a fire in the building. Due to the fire, the Ministry of Economics had to pay a fine to the owner of the building, the Chinese company, and moved out to a new rental building.

Selling buildings for the purpose of turning them into hotels started by the Government of Georgia composed by NM members, although at first they decided upon a new location for a Ministry and then later they would move out and privatize the building it used to occupy. In 2007, the Ministry of Agriculture was moved to another building owned by the state; in the case of the Ministry of Justice a new building was built for the Ministry and only after it the Ministry moved out from the old building.

Since 2015, the Ministry of Economics and Sustainable Development has not had its own building and has had to rent other buildings for its personnel.

Such decisions of the government are senseless and, to say the least, this can be evaluated as the government's pseudo business (Papava, 2017a).

6. Conclusion

A major cause of non-economic policy is distancing economics from economic policies. This said, it is not excluded that the recommendations offered by economists maybe false or they might not yet have studied a given economic phenomenon or a process. Consequently, we have three types of non-economic policies.

During post-Communist Georgia, at its initial stage of economic reforms, the third type of non-economic policy was prevalent since there was no economic theory as to how to move from a command economy to a market economy.

At the later stages of economic development in Georgia, the non-economic policy carried out in the country was of the first type when the decision makers of economic policy rejected even the basic principles of economics. It was quite often mainly caused by the unprofessionalism of policy decision makers.

A logical question to ask is the extent to which we are protected from the new precedents of non-economic policies.

Conditionally, we may break down the guarantee to be protected from non-economic policy in two parts: the first one is the professionalism of the government's economic team and, secondly, the close cooperation of this team with international financial institutions (IFIs). In addition to the professionalism of the government's team, the professionalism of the management of the NBG is of equal importance and this should also be reinforced by close cooperation with IFIs. However, we should be conscious that IFIs are also not protected from mistakes (e.g., Eichengreen, 2008; Gregorio et al., 1999) and corresponding examples are available in post-Communist Georgia as well (Papava, 2003a, 2003b, 2009b).

It needs to be underlined that in parallel with considering the accomplishments of economics while developing economic policies, it is necessary to take into account the cultural factors as well (e.g., Bedianashvili, 2018; Guiso et al., 2006; Mokyr, 2016; Tambovtsev, 2018; Vidishcheva, Gunare, 2019) which is a separate issue to be studied.

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