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Why the Population of Georgia does not Perceive Economic Growth Positively

2018 / 11 / 30

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For the past two years, the Georgian Economy has been experiencing moderate economic growth. While GDP growth amounted to 2.8% in 2016, it had already increased to 4.9% in 2017. The growth of GDP in the first half of 2018 is already 5.4%. Despite this, polling suggests that public attitude towards the government's economic policies remains negative. We often hear that economic growth is not being reflected in the welfare of citizens, or that the country is developing in a wrong direction.

In order to examine this issue, we must separate the problems that generally characterize GDP indicators from the problems of incorrect economic policy in Georgia.

It should be stated from the outset that most economists today agree that GDP provides a very rough image of the economic situation and is not much use for assessing the welfare of individuals. This is illustrated by a report initiated by the President of France, Nicholas Sarkozy and produced by an authoritative commission of economists parallel to the global financial and economic crisis. The commission was led by Nobel Prize winners in the economics, Joseph E. Stiglitz and Amartya Sen, and famous French economist, Jean-Paul Fitoussi. The uniquereport they prepared explains why GDP indicator does not provide enough information to make correct decisions.

The report of the aforementioned commission presents numerous clear examples, when GDP not only does not reflect the increase in human welfare, but rather GDP growth is sometimes actually caused by the reduction of human welfare. For instance, the higher the number of road accidents is caused the higher the GDP. More specifically, if road infrastructure is damaged, the cost of its repairs as well as the costs of repairing damaged vehicles, expenditure necessary for treatment of persons involved in the accident and, in the case of death, respective funeral prices, are added to the GDP.

The fact that GDP indicator cannot describe human welfare is no longer debated among economists and there have been multiple attempts at creating alternative indicators reflecting different aspects of human well-being. One such indicator is the Human Development Index. TheHappiness Index, which is becoming more popular each year should also be mentioned.

Despite the diversity of such indicators, economists still believe that refusing to use GDP at all would be a mistake. Despite its many flaws, GDP indicator still manages to assess economic growth on a certain level. At the same time, we must always remember that this growth does not necessarily equal a growth in human wellbeing.

As already stated, what fuels economic growth in Georgia is a whole separate issue. Delving into this will enable us to explain why the population does not perceive economic growth positively.

With economic growth in the first quarter of 2018 at 5.3% as compared to the same period of the previous year, especially high growth was recorded in economic activities such as mining and quarrying – 11.4%, electricity, gas and water supply – 10%, hotels and restaurants – 10.9%, financial intermediation – 9.1%, real estate, renting and business activities – 13.4%, other community, social and personal service activities – 13.4% and financial intermediation services indirectly measured – 13.6%.

As you can see, the areas of high growth tended to be economic activities that either do not have impact on the well-being of citizens. Specifically, this includes financial intermediation, real estate operations, renting and consumer service and financial intermediation services indirectly measured. As for economic growth in the field of hospitality (hotels and restaurants), this is mainly caused by the development of tourism. Given Georgia's negative trade balance and the quadruple amount of imported goods as compared to locally produced ones in consumer and food baskets, this is pulling the country towards a "tourist trap".

This ugly situation, characteristic to the current stage of Georgia's economic development, escalated in the second quarter of 2018. More specifically, the growth of GDP in this period was 5.5% as compared to the same period of 2017 while financial intermediation, for example, increased by 22% and financial intermediation services indirectly measured increased by 19.9%. Thus the negative trends characteristic to the first quarter of 2018 have become even more pronounced in the second quarter.

When an economic activity, such as financial intermediation, grows with such an excessive rate, it must not be surprising to us that the main problem facing about 630,000 Georgian citizens is overindebtedness. According to the statement by Prime Minister Mamuka Bakhtadze, a large part of the population spends 25-30%, or even as much as 40% of their income on servicing loans. Naturally, given such conditions, the pronounced growth of a factor of GDP such as financial intermediation does in no way improve the welfare of citizens.

In order for the economic growth to be more-or-less positively reflected on human welfare, it is necessary for the economy of the country to move to an inclusive growth model, that requires more citizen involvement in production and which was correctly underlined in the document the Strategy of Georgia's social-economic development – Georgia 2020. Unfortunately this document, confirmed by the Government of Georgia in 2014, was soon forgotten and was not implemented.

The initiative of the Government of Georgia to build an electric car factory in Georgia should be seen as heartening. It is exactly these kinds of projects that will facilitate not only inclusive economic growth but also the industrialization of our country by creating and developing a knowledge-based economy. For the latter, it will be vitally important to implement many such projects and to prioritize the funding of science and university education at a government policy level.