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Whither Economic Policy?

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In the contemporary world, it is impossible to find a country that does not have a more-or-less severe confrontation between the economic policymakers and the academic economist. Post-Communist Georgia is no exception to this. In such a situation, the question of why this conflict has arisen in the first place must be answered.

The essence of the problem is that quite often economic policy is not simply distanced from economics but in certain cases, is even in conflict with its basic tenets. Such an economic policy, which is not in convergence with economics, we would call a “non-economic economic policy” or to make it even shorter – “non-economic policy.”

In order to determine the main source of the primacy of non-economic policy is, it is necessary to consider three types:

In terms of the *first type* of non-economic policy, those who determine the economic policies do not take the knowledge created by economic science into account.

The *second type* of non-economic policy takes place when the economic policymakers do heed the knowledge created by economic science, yet the knowledge itself is false.

The *third type* of non-economic policy is a case when economic science has not yet studied certain important economic phenomena, hence economic policymakers would be unable to utilize the hitherto non-existent knowledge, even if they were highly motivated to do so.

The first type of non-economic policy could arise due to the following reasons:

- The economic policymakers are not professional economists or are economists of extremely low qualification and, therefore, are not sufficiently familiar with the achievements of economic science but sometimes also even with the basics of economics.
- The economic policymakers may be sufficiently qualified economists but do not find it beneficial to reflect on the achievements of economics in economic policy.

It is noteworthy that politicians very often look at their country as though it were a company which is why it is considered that the key positions determining economic policy must be filled with managers rather than [professional economists](https://www.gfsis.org/blog/view/871) (<https://www.gfsis.org/blog/view/871>). A famous article by a Nobel Prize-winning economist, Paul Krugman, entitled [A Country is not a Company](https://hbr.org/1996/01/a-country-is-not-a-company) (<https://hbr.org/1996/01/a-country-is-not-a-company>), clearly shows that there are principled differences between a country and a company. Regrettably, a large number of politicians do not realize this. In reality, the place for managers (not to mention businessmen themselves) is in business, not in politics.

When the governing persons authorized to make political decisions in the field of economy do not possess a specified economic education, their lack of knowledge is usually compensated by the professionalism of the individuals who prepare draft decisions for the governors. However, even in this case, it is entirely possible to get a situation when the governors of economic policy, despite the abovementioned drafts, will only consider the political viability of their decisions when making them.

Even when the governing persons authorized to make decisions regarding economic policy do in fact have an economics education, it is still often times the case that they do not use the knowledge accumulated by economics when making decisions, but rather base them entirely on the considerations of political advisability.

This phenomenon of political viability being prioritized over economic science during the formulation of economic policy is explained by the world-renowned [“Public Choice”](https://www.econlib.org/library/Buchanan/buchCv3.html) (<https://www.econlib.org/library/Buchanan/buchCv3.html>) theory.

The cause of the second type of non-economic policy are the mistakes made by economic science itself. According to the Nobel Prize-winning economist [Joseph Stiglitz](https://www.ineteconomics.org/about/news/2010/joseph-stiglitz-in-the-financial-times-on-the-need-for-a-new-economic-paradigm) (<https://www.ineteconomics.org/about/news/2010/joseph-stiglitz-in-the-financial-times-on-the-need-for-a-new-economic-paradigm>) the 2007-2009 global financial and economic crisis is a clear example of this. More specifically, the approaches of economic science towards economic regulations [turned out to be incorrect](https://www.project-syndicate.org/commentary/macroeconomic-models-three-lessons-2008-crisis-by-mark-cliffe-2019-09?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=aabf9c90ac-sunday_newsletter_15_9_2019&utm_medium=email&utm_term=0_73bad5b7d8-aabf9c90ac-93567601&mc_cid=aabf9c90ac&mc_eid=e9fb6cbcc0&barrier=accesspaylog) (https://www.project-syndicate.org/commentary/macroeconomic-models-three-lessons-2008-crisis-by-mark-cliffe-2019-09?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=aabf9c90ac-sunday_newsletter_15_9_2019&utm_medium=email&utm_term=0_73bad5b7d8-aabf9c90ac-93567601&mc_cid=aabf9c90ac&mc_eid=e9fb6cbcc0&barrier=accesspaylog).

The connections between economic science and economic policy (or, more precisely, public policy) can be compared with the links between biology and medicine or physics and engineering on the basis of which a conclusion is reached that if a mistake is made in medicine, this is not the fault of

biology, just as it would be unjustified (https://www.project-syndicate.org/commentary/blame-public-policy-not-economics-by-ricardo-hausmann-2019-08?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=d58b1700af-sunday_newsletter_8_9_2019&utm_medium=email&utm_term=0_73bad5b7d8-d58b1700af-93567601&mc_cid=d58b1700af&mc_eid=e9fb6cbcc0&barrier=accesspaylog) to blame physics for the mistakes made in engineering. I believe that such an interpretation is not fully correct since if the root of the mistake turned out to be within biology, it would consequently show up in medicine as well.

A clear example of the third type of non-economic policy is the transition from a command economy to a market economy in the absence of an appropriate economic theory.

The phenomenon of the dissemination of cryptocurrencies around the world when economic science has yet to create a more-or-less grounded theory about it is no less noteworthy. According to the Nobel Prize-winning economist, Robert Shiller (https://www.project-syndicate.org/commentary/cryptocurrencies-scientific-narrative-by-robert-j--shiller-2018-05?utm_source=Project%20Syndicate%20Newsletter&utm_campaign=c4c50cbcd2-sunday_newsletter_27_5_2018&utm_medium=email&utm_term=0_73bad5b7d8-c4c50cbcd2-93567601&barrier=accesspaylog), the economic mechanism for the emission of cryptocurrencies remains unclear to this day. Despite this, the former Managing Director of the International Monetary Fund and the current President of the European Central Bank, Christine Lagarde (<https://www.imf.org/en/News/Articles/2017/09/28/sp092917-central-banking-and-fintech-a-brave-new-world?cid=em-COM-123-35955>), is optimistic about the future of cryptocurrencies. This creates a danger that the third type of non-economic policy will be formed with regard to cryptocurrencies.

It is notable that at the beginning of the post-Communist transformation of economies, the third-type of the non-economic policy was taking place before the period of transition to a market economy was concluded. Thereafter the first type of non-economic policy is brought to the forefront. This is confirmed by the experiences of post-Communist Georgia, too.

At the beginning of 1992, radical economic reforms started to be undertaken using the Polish version of the well-known “shock therapy.” More specifically, the so-called “Balcerowicz Plan” (<https://www.britannica.com/topic/Balcerowicz-Plan>) was used which owes its name to its author, the Vice Prime Minister and Minister of Finance of Poland at the end of the 1980s and the beginning of 1990s, Leszek Balcerowicz.

For Georgia, however, the “Balcerowicz Plan” was destined to fail from the outset since at that time, unlike Russia and Poland, Georgia did not have one of the main instruments of “shock therapy” – its own currency.

After the so-called Rose Revolution of 2003, the supremacy of Libertarian views (https://www.esiweb.org/index.php?lang=en&id=322&debate_ID=3) in the economic policy of the Government of Georgia is connected to the name of Kakha Bendukidze who arrived in Georgia from Moscow at the invitation of the government. The economic policy of Georgian Libertarianism (<https://dfwatch.net/the-georgian-model-of-libertarianism-and-its-applicability-to->

[ukraine-53714-31393](#)) was based on the abolition of a large number of licenses and permits necessary for starting a business, the reduction of the tax burden and so on.

Parallel to the supposedly Libertarian reforms, the United National Movement government violated [human rights](http://www.humanrights.ge/files/REPORT.pdf) (<http://www.humanrights.ge/files/REPORT.pdf>), limited the [independence of media](http://www.humanrights.ge/admin/editor/uploads/files/Georgian%20Media%20after%20the%20Rose%20revolution.pdf) (<http://www.humanrights.ge/admin/editor/uploads/files/Georgian%20Media%20after%20the%20Rose%20revolution.pdf>) and systematically [violated property rights](http://www.humanrights.ge/admin/editor/uploads/files/Big%20Eviction.pdf) (<http://www.humanrights.ge/admin/editor/uploads/files/Big%20Eviction.pdf>), by which it managed to perform a forced redistribution of [property](https://www.transparency.ge/sites/default/files/post_attachments/Who%20Owned%20Georgia%20English.pdf) (https://www.transparency.ge/sites/default/files/post_attachments/Who%20Owned%20Georgia%20English.pdf). Taking these factors into account, unfortunately, the reforms undertaken by the then Government of Georgia carried the façade of a libertarian nature, yet according to my position as well as that of other researchers, it was [neo-Bolshevik](https://carnegieendowment.org/files/georgias_choices.pdf) (https://carnegieendowment.org/files/georgias_choices.pdf) with its content. It is clear that Georgian Libertarianism, with its essence, is a type one non-economic policy.

From 2016, the economic policy of the Government of Georgia was based on the “4-Point Plan of the Government” which was a clear example of [economic primitivism](http://cacianalyst.org/publications/analytical-articles/item/13444-primitivism-as-a-trait-of-georgia%E2%80%99s-modern-economic-policy.html) (<http://cacianalyst.org/publications/analytical-articles/item/13444-primitivism-as-a-trait-of-georgia%E2%80%99s-modern-economic-policy.html>) as it did not at all envisage the development of the real sector of the economy and was mainly oriented on [developing tourism](https://www.gfsis.org/blog/view/854) (<https://www.gfsis.org/blog/view/854>) in Georgia.

An even clearer example of economic primitivism is the privatization of the building of the Ministry of Economy and Sustainable Development of Georgia which took place in 2015. As a result, to this day the Ministry is forced to [rent a building](https://www.eurasiareview.com/27062017-features-of-governmental-business-in-post-soviet-georgia-oped/) (<https://www.eurasiareview.com/27062017-features-of-governmental-business-in-post-soviet-georgia-oped/>).

On the contemporary stage of economic development, it is especially important for Georgia to formulate and implement an economic policy that will be based on the achievements of economic science for which it is necessary for the government to intensively [cooperate with economists](https://www.gfsis.org/blog/view/871) (<https://www.gfsis.org/blog/view/871>).