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Georgia 18th Freest Economy in Europe: Index of Economic Freedom

Experts' Feedback Varies

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Georgia's economy is 69.2% free, making it the world's 32nd freest economy, says the Index of Economic Freedom 2008. Its overall score slipped 0.1% compared with 2007. However, the country still ranks 18th out of Europe's 41 measured countries with its overall score equal to the regional average.

The rating, assessing 10 freedoms – from property rights to entrepreneurship – in 161 countries shows that Georgia has performed particularly well in labour freedom (99.9%), fiscal freedom (90.7%), business freedom (85.0 %), government size (81.3%) and investment freedom (70.0%), while it scored the lowest in terms of freedom from corruption (28%) and property rights (35%).

The rating is prepared by the *The Wall Street Journal* and *The Heritage Foundation*, a pre-eminent Californian 'think tank', which launched the Index in 1995. Its authors base their methodology and reasoning on famous economist Adam Smith's theories about liberty, prosperity and economic freedom. "With its user-friendly format, readers can see how 18th century theories on prosperity and economic freedom are realities in the 21st century," the organizers state on their webpage.

The 2008 assessment was released last week and for the first time, it also analyzes individual regions to showcase economies in every part of the world.

"A very low top income tax rate complements the low corporate tax rate, and tax revenue is fairly low as a percentage of GDP. The strongest national institution is the labour market, which is highly flexible and far freer than those of most advanced economies," the document says as it analyses Georgia's scores.

Evaluating business start-up opportunities in Georgia, the rating paints an attractive picture, saying "starting a business takes an average of 11 days, compared to the world average of 46 days. Obtaining a business licence requires less than the world average of 19 procedures and 234 days."

The top ten countries according to the Index are Hong Kong, Singapore, Ireland, Australia, United States, New Zealand, Canada, Chile, Switzerland and United Kingdom. North Korea is listed as the least free economy in the world.

Although outstanding Georgian economist Vladimer Papava says such studies are important, he is very sceptical of any rating. “The reason for my scepticism is that these sort of documents are based on questionnaires which in most cases will give results which differ widely from the real picture.”

He says that, while such ratings are intended for mass consumption, economists always rely simply on just statistics like gross domestic product, inflation rate, purchasing power parity etc. to make a judgment.

Unlike Papava, Georgian government officials are very happy to get ‘good news’ from the United States. Vakhtang Lezhava, Deputy Economic Minister, commented: “The rating of The Heritage Foundation and The Wall Street Journal is highly reputable. This year’s 32nd place is a step forward for Georgia as in the previous rating we ranked 35th.”

In the Minister’s opinion, the low scores on property rights (35%) and corruption (28%) give the country a clear recommendation to change. However, Lezhava said, it is important that when drawing up the study, the authors take into account indexes prepared by Transparency International. “In the TI index Georgia jumped 26 places and I am sure this will be reflected in the next rating,” he told GBW. However the Minister expects Georgia will perform worse next time in terms of freedom from government (81.3 %), as the central budget’s share in GDP is to rise.

While Lezhava is optimistic about the Index, Papava gives more arguments against ‘such documents’. He says that even those countries which have very similar economic data, and are rated by organizations which apply almost analogous criteria, rank quite differently on the various ratings, be they from The World Bank or The Heritage Foundation. “The conditioning factor is what the [personal] attitude of a visiting researcher is. We can sometimes find a lobbying factor. This is why I am neither happy nor unhappy if Georgia moves up or down on any rating.”

As evidence of this Papava quotes the fact that on the World Economic Freedom Index Georgia comes after Spain and is several places ahead of Latvia, with France ranking 48th which, he says, already questions the accuracy of the rating. “So against this background Armenia’s 28th place looks rather funny,” Papava commented for GBW. And he has one more question: “We have rated 18th on a Doing Business study which uses similar parameters to assess an economy. So how do we get this [worse] placing here?”

As for the content of the Index, Papava says: “in a country where private property is unprotected, and confiscated without a court verdict, can we speak of any freedom at all?! We know that businesses with close links to the authorities feel good but let’s ask others how they feel! During any election large businesses are asked to finance the government’s election campaign.”

Concerning this complaint, the Index says: “Both foreigners and Georgians continue to doubt the judicial system’s ability to protect private property and contracts. Enforcement of laws protecting intellectual property rights is weak.”

Vladimer Papava, who is a long-time critic of the Georgian government’s economic restructuring, headed by Minister for Economic Reform Kakha Bendukidze, now sits in

parliament as an Independent after quitting the ruling National Movement faction and resigning from his position of Deputy Chair of the Parliamentary Budget and Finance Committee. He made this decision just a day before the November 7 dispersal of opposition demonstrators.

While part of the faction, Papava used to protest against the government's reform of the Department of Statistics. Having become a part of Ministry of Economic Development, the body responsible for statistical information about the country is no longer a reliable source for him. "The government does not like statistics, and has dismantled this agency. Rather, the government likes PR and such ratings are good tools for PR. So we can convince ourselves that property rights are guaranteed in our country."

Evaluating fiscal reforms in Georgia, Papava says "I welcomed the decision to reduce the tax burden made by [late Prime Minister Zurab] Zhvania. But do not forget that {former} Prime Minister Zurab Nogaideli annulled social tax. That was good of course but income tax has now become a quarter of one's income. Employers are happy but what about those hired?! I guess this trend will be reflected in next year's Index." Against such a background, he sums up: "let's have property rights protected and give up boasting of top places on any rating."

Lezhava's conclusion is different: "To sum up, if we make an optimistic prediction, Georgia will probably rank among the top 30 countries, like Armenia which comes 28th on the rating this year. Armenia's position is kind of a challenge for Georgia to upgrade its rating. It is also good news that we have a neighbour with a free economy."

He justifies his position by saying that the Index targets the mass of the population as well as being used by intellectual circles and most importantly, investors with poor knowledge of Georgia.