

ROLE OF EFFECTIVE INSTITUTIONS IN COPING CRISIS AND ECONOMIC DEVELOPMENT OF THE COUNTRY

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Abstract

The goal of the present research represents a special role of the political and economic institutions functioning in Georgia in the recent worldwide pandemic situation. Nowadays the ideas of the society and experts are split into two parts: some consider that the role of state institutions should be increased in the pandemic conditions and they are so called „powerful government“ supporters, but according to the others the government should not interfere in economy functioning and should not set strict restrictions.

It is obvious that the significant part of economy of Georgia and afterwards one of the greatest and largest branches of economic development of the country is tourism and service. At present it is difficult to predict anything and to work out long-term strategies for developing economics in the country as the situation is permanently changing. It is hard to have an expectation for the situation stabilization in the nearest future; it is crucial to make accurate and adequate conclusions and to make optimal decisions on the example of the experienced countries.

COVID-19 Pandemic changed individuals' attitudes towards many issues. Business and governments are prudent to make venturesome steps. In order to survive and adapt to the new reality the business sector ought to seek new and alternative ways of business production. Now, we can say, total domination and supremacy period of digital technologies is upcoming. Great part of the businesses completely turned to online working regime. Manufacturers have to adjust delivery and service to the customers' interests that is connected with additional expenditures and it considers working out and establishment permanently new types of relations between producers and clients. This is a marathon process and the individual who will adapt to the new reality on time and will be maximally oriented on setting novelties will be survived in the race.

Generally, engagement of the whole society is necessary in the economic processes for economic growth and development of the country that means inclusive institutions formation and provision of inclusive growth. Such institutions should provide more or less equal distribution of incomes among the society members in order to Georgian citizens have motivation for commitment in the political and economic life of the country more actively. Synchronous development of macroeconomic indicators is of great importance as well for economic development of the country which can be result of planning and implementation of strategic economic policy.

Key words: economic crisis, institutions, economic development, inclusive growth.

1. Introduction

According to the optimistic prognosis economy of Georgia may have come back to the level of 2019 by 2022 and if it happens it will be a good outcome. Though for it the great effort is necessary. With the united forces the state and business with massive engagement of the society can help the country out of crisis. Experience of crisis management revealed that the role of the state is crucial at that time. So active nego-

tiations and discussions are being carried out among the economists and politicians even now on the issue whether the current crisis will cause reevaluation of the state role or this is only temporary antirecessionary actions.

Generally, is receding the neoliberal ideas and theories being carried out and is the state becoming a main player on the subject of creating legislative base as well as regulation of marketing relations? Nowadays only the state is a key actor having political responsibility. At present all over the world there is such a situation when the governments of all the countries are facing the challenges that on the one hand, population should have income and they should assist the private sector to overcome the crisis and simultaneously, they have to take care on health of its own population, to strengthen healthcare services, to set some kinds of restrictions so that to avoid infringement of constitutional rights of the population and deviation from democratic principles. The type of the state role and economic policy will be in future depended on the way chosen by the government of the certain country.

2. Presentation of the main research material

For the last decades the incomes received from service field have exceeded the incomes earned from production and the important part of the incomes for economy for a lot of countries including Georgia is gained from just service field. Exchange cost of production is the one that is paid by a customer to purchase a product. By this approach, financial sector and advertising industry representing one of the most profitable and lucrative branches of market economy do not create a social cost. That's why in the periods of crisis the state should take responsibility to develop the fields such as healthcare and social sector. So the governments should suggest new economic policy models and undertake missions to resolve social problems. Thus during the crisis and post-crisis periods the state should become an investor and should fulfill strategic investments for achieving sustainable economic development.

The aim of any socially oriented and people-focused country represents to discover an ideal balance between the society, business and the state. At the contemporary stage of economic development for formation of this kind of state in parallel with establishment of socially oriented market economy it is necessary to support and promote inclusive growth in order to create advantageous conditions to provide equal access to the economic activities for people and to establish constant interrelations among the social classes.

For example, we can name Davos Economic Forum 2018 where the inclusive development issues were being actively discussed and Inclusive Development Index – IDI was suggested (the assessment criteria of which was determined in the terms of economic growth of the country, justice and sustainability. So far Gross Domestic Product – GDP was considered as the main indicator of economic development, but a little attention was focused on the population's standard of living. „Upon defining economic policy priorities more attention should be paid to coping vulnerability and inequality that is connected with globalization and rapid development of technologies. The very sustainable and comprehensive progress when together with the population's incomes the quality of their economic opportunities, standard of living, safety and security will be risen, should be acknowledged by politicians as a key goal of economic development and not GDP growth“ – the report of World Economic Forum says. [1].

Eradication of social inequality is necessary for reaching sustainable economic development. One way of coping social inequality is establishment of industrial zones, business incubators, techno parks where realization of people's talents and skills will be accessible for comparatively more masses of society. Upon launching such programs a great attention is paid to the education as an instrument considered in the role

of so called „social lift“, and innovations represent a motive power directed towards this goal. But as for startups and innovational projects – cheap cars, mobile phones gives opportunities to more and more people to live actively and feel themselves as a valuable member of the society.

In addition, allocation of innovation mechanisms facilitating inclusive development is of a great importance. These mechanisms may include preferential credits for rural residents of the population, implementation of infrastructural projects, availability of internet usage in all regions and etc.

According to the Social-Economic Development Strategy of Georgia 2020 the following types of plans exist for inclusive economic development in Georgia: economy policy of the Government of Georgia should be programmed in order to maximally facilitate the process providing that the achievements existing in the country should be available for all the citizens and more and more people should be engaged into the development of the country. In order to provide inclusive economic development completely the consequential decentralization and regional development are essential in this process. Moreover, the self-governments complete involvement is crucial and necessary in the process of regional projects planning and implementation. [2; 2013; pg.4]

Therefore, a range of the priorities and approaches needed to achieve and provide inclusive economic growth are defined in the „Social-Economic Development Strategy of Georgia 2020“. There are the following approaches: improvement of investment and business environment; mobilization of investment resources and financial market development; promotion of export growth; support to the innovations and technologies development; infrastructure management and maximal application of transit potential; optimization and re-training of labor resources; establishment of effective healthcare and social system and etc. [2; 2013; pg.5]

In order to accomplish these goals, first of all, fundamental research of the inhibiting circumstances for economic development, identification of problems and formulation of coping ways are needed and required. Upon fulfilling the present work the following challenges were revealed requiring rapid response: weakly developed and low-competitive private sector, low qualification of labor force and restricted access to the financial resources [3].

What could be considered or improved during working out the strategy? Since inclusive development includes initially increased expenditures as well, much more activity from the state’s side is necessary, even in the taxation system with the possibility of setting **progressive tax**. As one of the ways of reducing unequal distribution of incomes we can consider to move to the system of incomes progressive taxation (although it is established by the constitution that the amendments to the taxes can be occurred only on base of conducting a referendum). It will be additional financial source for the social classes with low-incomes to increase expenditures in the education and healthcare fields.

Inclusive development does not mean only artificial equalization of incomes distribution. It does not consider to set any additional restrictions for the rich and the social classes with high incomes or application of the similar rough and artificial methods for equalization of incomes more or less. Likewise permanently issuing allowances for poor, unemployed or vulnerable population is not considered. This is elaboration and implementation of the complex measures for infrastructure arrangement, business promotion, relevant institutions formation, opportunities equalization and creation of competitive qualified labor forces. Thus for encouragement to the employment of the vulnerable population in the long-term perspective undertaking various kinds of facilitating measures will have much more valuable and reasonable outcome for the

country in the terms of inclusive growth. Otherwise the way considering more and more funds in the budget in order to increase social allowance packages will not give us the desirable result the country should be striving for.

With reference to promoting inclusive growth in Georgia the steps undertaken by the government may include the following measures – Program „Trade with Georgia“ and Investment Program „Startup Georgia“ launched by the government within the framework of economic development and intensification of private sector.

The purpose of the abovementioned projects represents provision of financial, informational, technological and juridical support for the people with the limited financial-economic opportunities (for motivated and active persons having innovative ideas) that facilitates realization of their abilities and generally rising economic activity in the country finally leading to the inclusive growth.

In Georgia until the age of COVID-19 and probably in future as well one of the greatest field of economic development of Georgia was and will be tourism and service. Nowadays it is difficult to predict anything generally and to elaborate long-term strategies for economic development of the country as the situation is permanently changing. We find it hard to expect that the situation will be stabilized in the nearest future, it is important to make accurate and adequate conclusions and to adopt optimum resolutions on the examples of the experienced countries.

According to the information posted on the official website of the Government of Georgia since outbreak of the pandemic the government of Georgia has implemented a number of social projects and is still implementing within the framework of promotion of business development, is also subsidizing communal utilities bills for the population and issuing compensations for the people facing loss of jobs. The suspended income taxes are written off, property taxes remissions are done, bank loan interests are subsidized for the hotels, micro grants programs are implemented and etc. For the second wave of the pandemic the total budget of the new package of allowances amounts to 1.1 billion GEL [4].

The government suggests the packages of various social allowances to the population and business sector and it is the very necessary measure to be undertaken during the crisis period. But it is essential for the government to abolish a great part of the social packages successively and step-by-step and make investments in the fields of economy promoting inclusive development of the country.

In the crisis situation it is significant for all the governmental institutions to be coordinated and their whole efforts to be directed towards coping and overcoming the crisis. In such comprehensive crisis circumstances the whole world exists at present, it is difficult to demand and make the business sector to undertake social responsibility even for their own employees. It means that still individuals having lost jobs and staying without incomes are dependent only on the state aids and allowances.

Raising social responsibility of businesses is also required that represents increasing motivation by setting reasonable and sensible preferences from the government's side. Nowadays when a lot of people stayed without incomes the state and business should manage to overcome the crisis and provide economic development of the country by the coordinated and consequential steps and measures. It does not mean that the state should intervene in the business activities of the companies or force them to make economically and financially unprofitable resolutions. But simultaneously the businesses should undertake their own responsibility for their own employees and they should not remain them to figure on only the state aids and subsidies.

3. Conclusion

In conclusion, the state role, numerous social aid packages, state regulations, of course, will be regulated and weakened gradually after diminishing the pandemic. The fact that the state plays a key role in overcoming and coping the crisis is obvious and unquestionable but this worldwide crisis, with great probability, will not cause radical transformation of the state anyway. Upon ending pandemic the state should diminish social aid packages. They should include specific and purposeful allowances for only poor and vulnerable population. At the same time the government has to undergo the economic reforms and determine the courses which will result into the inclusive economic growth in future.

References

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