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IMPORTANCE OF ECONOMIC FREEDOM IN GEORGIA'S DEMOCRATIZATION
EFFORTS

by

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B.A., International Black Sea University, 2020

A Research Paper
Submitted in Partial Fulfillment of the Requirements for the
Master of Arts

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in the Graduate School
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RESEARCH PAPER APPROVAL

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Fulfillment of the Requirements

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in the field of Political Science

Approved by:

Dr. Stephen Bloom, Chair,

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TITLE: IMPORTANCE OF ECONOMIC FREEDOM IN GEORGIA’S DEMOCRATIZATION EFFORTS

MAJOR PROFESSOR: Dr. Stephen Bloom

The breakup of the Soviet Union gave the 15 republics a unique chance to transform their states into democracies. Although more than 30 years later we are seeing very mixed results in the democratic transitions across the post-Soviet space. Despite overwhelming efforts from scholars in this field to come up with comprehensive theories explaining the reasons behind such large variance in the degrees of democratization between the states, still, the discipline is quite far from providing us with a single firm answer to such crucial questions. This paper is therefore aiming to contribute to this debate through a qualitative analysis of the relative success of Georgia’s democratization efforts and the reasons behind such outcomes. Based on the results of the inquiry it is possible to firmly suggest that major periods of democratization were always preceded and/or accompanied by pro-market reforms and policies, while simultaneously the periods of democratic backsliding or authoritarianism were significantly more prevalent under the administrations, that either neglected the need for such changes or simply enacted anti-market policies. All of which is pointing toward the fact that pro-market reforms, that result in the weakening of the state power, are crucial for successful democratic transitions as such changes are dramatically reducing the possibility of abuse of power.

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CHAPTER 1

INTRODUCTION

The relationship between capitalism and democracy is a well-discussed issue in the field of political science. On the one hand, we have “skeptics” who argue that these two concepts are not only incompatible but even highly conflicting as they often cite the unequal nature of the free-market decision-making system in order to bring validity to their arguments (Outhwaite 2011). While at the same time, another camp, that is supportive of the idea of successful cooperation between the two, points towards a vast amount of data and correlation as proof for the existence of the particularly important link between these two ideas. (Farr, Lord and Wolfenbarger 1998).

This issue becomes especially pressing when we put it in the context of the post-Soviet countries. After the dissolution of the Soviet Union, countries with newly regained independence faced a need for making important political decisions regarding both issues. With more than 30 years passing after the occurrence of such a significant event, a need for testing the existence of the connection between capitalism and democracy in the cases of these countries is becoming increasingly important. A major reason for this is a huge variation in the outcomes of reforms between the different countries that all used to be a part of the single system. Any research with the intention of testing the connection between capitalism and democracy must come up with proof that either existence or the absence of a free-market system has significantly contributed to defining the degree of democratization, which is exactly what this paper has done.

To be more specific, through the paper I review the different periods of economic and political changes in post-Soviet Georgia, and through assessing the state of the economic system and democratization level at these different times based on the information gathered through text

analysis that includes various credible sources, such as reports by major international and local organizations, I uncover a significant historical link between the two. With the results of the research indicating to both philosophical and causational reasons behind such a firm connection between these concepts through the modern history of Georgia.

CHAPTER 2

METHODOLOGY

In order to establish a cause-and-effect relationship between the two variables, this study, looks at the historical development of Georgia's economic system and democratization and attempts to find connections between the two during the different the periods of history. Therefore, a qualitative study, that would be heavily based on the text analysis was designed for these purposes. A qualitative study is preferable, because of two core reasons. First of which is the lack of reliable quantitative data. As, currently available indexes can't be used in order to understand the relationship between these two subjects, due to the fact, the variables and the data for measuring them, that the existing indexes use are overlapping quite commonly.

Secondly and most importantly, even though the literature regarding the correlation between economic systems and democracy is vast, the amount of papers specifically about the case of Georgia is pretty limited, therefore before we begin analyzing this relationship quantitatively in the context of Georgia, first there is an urgent need for producing the kind of literature, that is not only going to close the gap of just information, but also a gap of knowledge as well. As for the analysis itself, the kinds of information used for it are split into two categories. This is due to the fact that there aren't as many papers written about Georgia's regime transformation after the important 2012 parliamentary elections. This is the reason why pre-2012 analysis mostly includes various reports (about elections and the conditions of the democracy), historical books, and prior research, while the pre-2012 part of the research mostly consists of the analysis of laws, articles, and major macro-economic data.

CHAPTER 3

CASE STUDY

Unlike some other Post-Soviet republics, Georgia never had a single full economic and democratic transformation. Instead, the recent history of the country in regard to those areas of politics has been rather turbulent. Since the dissolution of the Soviet Union, the country has experienced many ups and downs and even till this point hasn't reached a large political consensus on its type of system, that would be grounded both in legislation and in daily practice. Instead of thinking about Georgia's transformation as one process on a single axis, it would be far more fruitful to analyze it in many dimensions. In order to bring more clarity to this process, the Georgian regime change will be explained in three parts: Pre-Rose revolution (Which was characterized with very mild changes), post-Rose revolution (Full of pro-market reformation, and democratic progress with a fair amount of controversies) and Post 2012 elections (Which can be described as a period of moderate anti-market reforms and democratic backsliding).

CHAPTER 4

PRE-ROSE REVOLUTION

Shortly after the declaration of independence in 1991, the country also elected its first-ever president – Zviad Gamsakhurdia. Even though his presidency was quite short-lived (less than a year) he still managed to capture a lot of attention because of his nationalist policies and attitudes. One of the clear examples of which is a popular phrase of that time – “Georgia for Georgians”, which indicates to a fact that the first administration wasn’t necessarily favoring the ethnic minorities, that were present in the country in large numbers at that time. It is fair to say, that the country was facing major issues at that time.

A couple of which for example was the unification of Georgia and its relation with the Soviet Union. Therefore it was due to this why Gamsakhurdia’s government disregarded the need for major and much needed long term economic and democratic changes and instead chose to focus on resolving immediate minor issues. Due to this the super presidential government kept full control over the economy and the country remained so undemocratic, that it managed to capture the attention of Helsinki Watch, which in its report harshly criticized Gamsakhurdia’s government for the political repressions, violent treatment of protesters, opposition to free media and multiple other major wrongdoings. Furthermore, the issue was not only the neglect of the need for reforms. Gamsakhurdia’s government actually passed undemocratic reforms such as presidential slander law, that prohibited a kind of criticism that would harm the honor and dignity of the president, which included a fine or 2 year long corrective labor for civilians. Due to this, opposition towards his presidency grew, which resulted in a military coup in less than a year after his election as a president. Which became first, but (as we are going to see) not the last case of non-peaceful change in Government. (Human Rights Watch 1991)

After a successful coup, the new military council put former Soviet man, Eduard Shevardnadze as a head of state, who was later in 1995 elected as a President. Due to internal crises in the country, Shevardnadze also continued to neglect the need for democratic and economic transformation (Papava, *The Political Economy of Georgia's Rose Revolution* 2006). In the first couple of years of his leadership, the country was engaged in two wars. First, the administration had to defend the country as separatists in the region of Abkhazia, motivated by the Russian Government started a war for independence, which lasted for longer than a year and eventually resulted in a loss of a major amount of territory. Secondly, the war was waging internally as well between Shevardnadze's government and the supporters of the previous administration. Therefore, because of such issues, regime transformation wasn't the primary matter for the discussion. Neglecting of such pressing issues caused the continuation of the problems that were prevalent under Gamsakhurdia's government. Namely, those were – corruption, clientelism, and disregard for civil liberties.

The first real steps forward in terms of regime change were made in the middle of the decade. As the Georgian Government started implementing the “Washington's consensus” (Aydin 2011), which is a basic set of mildly pro-free market and anti-government intervention reforms, which should have contributed to the reduction of the power of the government. Afterward, the government finally approved the constitution, which recognized basic human rights and civil liberties. On the surface, the country was finally making some actual changes and was on the track of regime change. Such changes did actually result in weakening of the state power, and soon the moderate democratic advances become obvious. Although, still at that time Georgia had a very negative score in terms of the corruption perception, the reasons behind which was the unreformed bureaucratic and corrupt system, which due to concentration of

economic power in the hands of the government and the government allies had control on almost everything and everyone. A vivid example of which was a suspicious kind of privatization of the government resources from what was supposed to be based on the voucher type of privatization. The aim of which as a policy was to equally distribute the assets. Although the resources that were privatized as a result of brief economic reforms of Shevardnadze's regime ended up being concentrated into the hands of the same exact elite, that consisted of his allies (Gould and Sickner 2008).

During that period the lack of democracy was also extremely visible during the election periods, it was especially evident during the 2003 one. OSCE's election observation mission reported the following in regard to that election: "The 2 November Parliamentary elections in Georgia fell short of a number of OSCE commitments and other international standards for democratic elections. The elections demonstrated that the authorities lacked the political will to conduct a genuine democratic process. This resulted in widespread and systematic election fraud during and after election day, most obviously in Adjara and Kvemo Kartli regions" (OSCE 2004). It was due to that and many other undemocratic practices, that were discussed above why Georgians rose up against their own government and changed the government through the revolution. This was already the second case of a non-peaceful change of Government in a period, that was a little longer than a decade.

CHAPTER 5

POST-ROSE REVOLUTION

Mikheil Saakashvili became the president of Georgia after a successful rose revolution attempt. This period in the history of modern Georgia is characterized by a high pace of reformation for the reasons discussed below. One of the first tasks at the hands of the new Government was to eliminate mass corruption that was caused by huge bureaucracy and a large size of the government, that was left unchanged by the previous administrations. As it is noted in the report done by the World Bank, Georgia achieved huge success in reducing corruption through promotion of the free market reforms or as it is written in the report itself: “Georgia’s anti-corruption efforts have been based in part on a strong belief in a smaller state, with fewer government regulations and greater economic liberties” (World Bank 2012) .

In terms of the actual reforms in the beginning of the post-Rose Revolution period, in 2003 there were more than 900 permits and licenses required by the state and as the process of obtaining them was thinly stretched in time most of the time government officials, which was leading to mass corruption. which was eventually reduced as the government cut the above mentioned 909 permissions and licenses to just 137. In General all of this reduction in the bureaucracy eventually lead to the abolishment of some of the state agencies, as they weren’t needed anymore after a couple of rounds of liberalization. (Gurgenidze 2009)

Although fighting corruption wasn’t the only goal of the government, as there were much more hurdles for the economy to operate successfully. One of the most notable reform was regarding the tax code of the country (Transparency International - Georgia 2010) Rose revolution also highly affected both the amount and the number of the taxes that

were paid in Georgia. Beforehand Georgia had a complicated system of tax payment, which consisted of 25 different kinds of taxes, while after the changes, there were only six more of them left. It is important to note as well, that changing the number of kinds of taxes people and companies paid wasn't the only change. There was a massive decrease in the specific tax rates themselves as well, for example the income tax rate was chosen to be 20%; Corporate income tax was fixed at 15%, while VAT became 18%, customs duty and excise became variable based on the value and the property tax was set as just 1% of the price of the property. At the same time the legislators also decided to strengthen the norm of low taxation and instead of only changing the tax code, they have also decided to make constitutional changes in regards to tax policy in 2011 called the "economic liberty act", (Government of Georgia 2011) which according to the constitution prohibits the government from raising the taxes without holding the referendum about it and even though there was an attempt to take this law out of the constitution, still it remains unchanged as it continues to play an important role in creation of the norm of low taxation.

Major changes were also made in relation to trade policy. Even in the early period of post-revolution reforms, the decision was made to cut tariffs on nearly all of the goods and to abandon all types of non-tariff barriers, this was an important step taken as it weakened the role of state in the economy even after all of those above-mentioned changes, that already put the state's involvement to nearly minimum in a country, that had was only recently freed from the Soviet Union. (Gurgenidze 2009) Simultaneously due to such changes. Georgia's democracy rating and it's positioning on the corruption perception index improved significantly. Even though on paper Georgia's economic transformation seems remarkable, still there were couple of major issues, that was and is still keeping it from being the country with an actual free market.

First of all, even though the government reformed a major part of the economy, it has still managed to keep a significant amount of power through neglect for the actual successful privatization project. Indeed as the data shows Saakashvili's government privatized less property, than the previous two governments combined (both of which were significantly more anti-market). (Economic Transformation Center 2021) As the data shows (measured in early 2003 – year of revolution) Government owned 74.7% of the entire land, that could be used for agricultural needs, while at the end of his party's rulership, the amount of agricultural land, that the state possessed totaled 59.5, which is one of the most firm proofs, that pro-market reformation under his government only affected several parts of the system, which has let them to keep significant amount of power, which resulted in slower decrease in the size of the government, compared to what would be expected by pro-market liberal-democrats.

Speaking of privatization, it has to be said that prolonged privatization wasn't the only property right related issue at that time. While, (to some degree) the government was privatizing some part of the economy, it was also carrying out a process of deprivatization too. As scholars argue, often the government would push the companies, towards making "voluntary donations" falsifying bankruptcy, falsifying sales in the order to profit the party (UNM) and so on, which only led to an increase of power of the central government (Timm 2013).

Secondly, the involvement of the Government in the economy grew starting from the years following the August war when the Government started to open it's own enterprises, which still remain open till this day under the current leadership. Simultaneously the government also started to intervene more by setting the Free Economic Zones, which meant, that government directly started controlling investments, amounts of wealth in the regions, and so on.

In the first part of this case study, I showed you the part of Saakashvili's reforms that lead to the

weakening of the state power and control and how it increased the rate of democracy, while later on I moved onto showing the “darker part” of his presidency, showing that not all of his actions were leading to weakening of the state. Therefore in the following paragraphs, I will discuss how his increased involvement in the economy was translated in arriving at democratic stagnation.

Georgian courts are a prime example of delayed democratization. This was especially evident during the Saakashvili’s period, as he was continuously accused of imprisoning political opponents and using state institutions, such as police and courts to effectively fight the opposition. This is well discussed in the research done by the Georgian Young Lawyers’ Association (GYLA), where they legally analyze the cases of the political prisoners of that time (GYLA 2011).

Saakashvili’s record isn’t exciting concerning the execution of the 2008 elections either. During which according to OSCE’s report UNM(Government’s party) was using administrative resources, pressuring opposition supporters in the regions using the local representatives, stuffing the ballot boxes, beating the opposition members and using other illegal measures in order to secure a win in what later on became a highly doubted elections in terms of its legality and legitimacy (OSCE 2008).

Although the most tangible difference between the democratic values and the Saakashvili’s Government existed in regards to the freedom of speech. The most clear violation of which occurred on November 7th 2007, when the Government used excessive force against the protesters, which also eventually lead to the government using the special forces to enter and shut down one of the TV stations, that was under the ownership of one of the opposition members at that time. The violations were so harsh, that in a report Human Rights Watch wrote, that even though Georgia was viewed in the West as a country that was committed to democratic

transformation, governments actions in regards to handling this protest showed otherwise, or as the report says:” fragility of Georgia’s commitment to human rights and the rule of law was revealed on November 7, 2007” (Human Rights Watch 2007).

Furthermore prior to elections Saakashvili’s administration experienced another major crisis as the videos depicting the unhuman treatment of the prisoners was spread through the media. Years before, that the Ombudsman office has been indicating on this issue, although those tapes, were already a confirmation of the existing uncivil and most importantly highly undemocratic practice of abuse of power in the penitentiary system (Ombudsman of Georgia 2012). Despite of such harsh violations, during Saakashvili’s presidency the country still made a significant advancement in terms of it efforts in regards to democratization, which eventually and quite logically based on the democratic advancement, led to the first ever peaceful change in the government in 2012.

CHAPTER 6

POST-2012 ELECTIONS

After the first peaceful transition of power, new government party – “Georgian Dream” started with a major success. To be more concrete in 2014 they were able to sign the association agreement with EU. Which advanced the accession agenda of Georgia in EU, but most importantly for the purposes of this research it has set a an agenda of democratic reforms. After starting to execute, which Georgia kept receiving higher and higher scores in terms of degrees of democratization. This agreement between Georgia and the EU has also had a significant impact on the economic freedom of Georgia as well. As it also included a Deep and Comprehensive Trade Agreement (DCFTA), which positively impacted the trade freedom of the country. Although unfortunately, that brief period from 2012 to 2016 marked a general positive tendency of the “Georgian Dream” government towards the pro-market and pro-democratic transformation.

As soon enough the government, that held a constitutional majority in the parliament (after 2016 parliamentary elections) started to make major adjustments in the constitution, which affected both the democratic and economic state of the country. A clear example of new Government intervention in economy in post-2016 anti-market period was when the Government decided to restrict the right to sell a land that could be used for agricultural purposes to the foreigners under the property rights article in the new constitution, furthermore this article included a provision about the possible de-privatization too, which was a significant backslide in terms of privatization agenda in Georgia despite the relatively small advancements that were made in regards to this matter during the past three administrations.

Simultaneously we should also take a look at the non-reform based changes into the economy.

As this research is dealing with the state power, it would be beneficial to take a look at the central Government's debt to GDP % as it is another important tool when it comes to judging the rise or decrease in the government's power and the economic freedom in general.

Unsurprisingly, "Georgian Dream" Government has also used this tool as a source for gaining more power. According to the data, the current administration has doubled the amount of the total debt to GDP ratio, as it has increased from 30% to 60%. Which, aside from the economics is also a major constitutional issue as the "Economic Liberty Act", that was passed during Saakashvili's presidency, not only limits the Government's ability to raise the taxes without holding referendum, but also sets limitations on Public debt and allows it to be only as high as 60%, which means that any new major debt, without repaying the existing ones or a major devaluation of the currency puts the current government under a major risk of breaking the constitutional law.

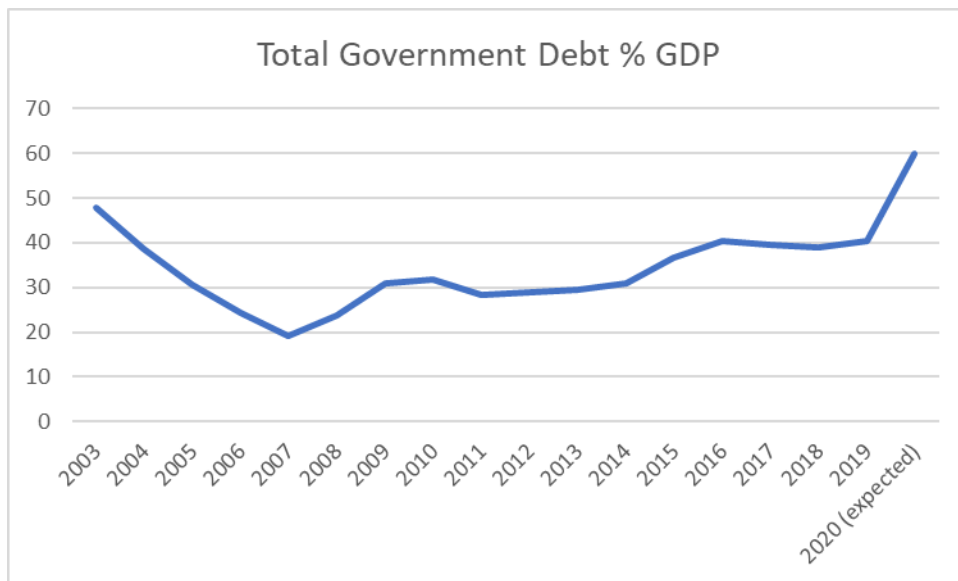


Figure 1 Debt to GDP

(Georgian Ministry of Finance 2020)

To clarify, on one hand, an argument could be made about neglecting changes in this data as most of the growth and shift in the ratio was made during 2020 to combat the spread of Covid-19, although if we take a look at the graph, it becomes apparent, that a about a 10% increase in ration has occurred even far before the pandemic even started, meaning the period from 2013 till 2019 during which there is a definite shift from about 30% to about 40% line (from 29.5% in 2013 to 40.4% in 2019 to be more exact). Which once again proves that there was a definite increase in the state power even before the Covid-19 outbreak.

More significant change was the establishment of the “funded pension system”, because of which they were able to additionally charge the Georgian citizens and the business sector additional 2 percent of revenue each. Which is a not a possible, but already an existing violation of the “economic liberty act” as through this action, the government didn’t only increase the overall amount of taxes, but most importantly created a totally new type of tax. Despite the fact that the “Georgian Dream Government” doesn’t agree to the idea that the “funded pension system” is a new tax as already former finance minister preferred to call it “a step in forward” when asked whether the new pension system was a new tax or not. (Georgia 2018)

Aside from the new tax - “funded pension system” the government has also increased excise on certain products, such as gasoline and tobacco, while simultaneously decreasing excise tax on the communication sector (გადასახადის ზრდის ნამდვილი მიზეზები 2017). Still despite the mixed policy over the excise tax, according to the results, it seems like, that altogether the “Georgian Dream” government still raised the excise tax, which obviously was another step back in the long-term liberalization of the Georgian economy as the excise tax contributed to the increase in the Government’s revenues (National Statistics Office of Georgia n.d.).

The government has also highly increased the supply of money into the market as well. As it is visible on the graphs:

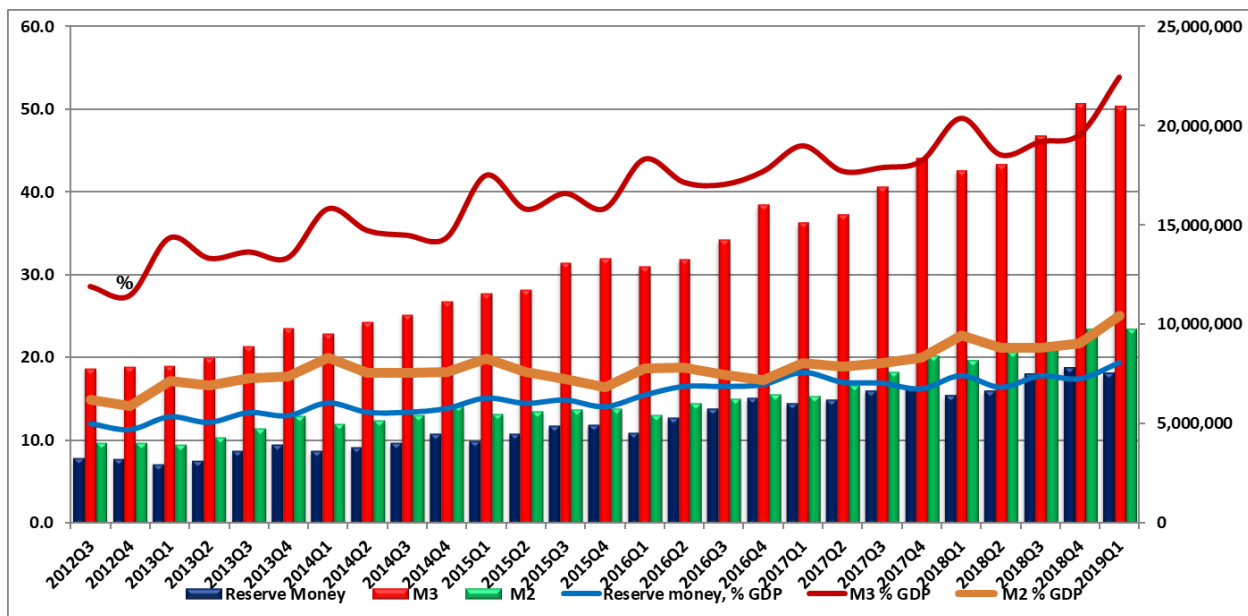


Figure 2 M3 to GDP

(Georgian Ministry of Finance n.d.)

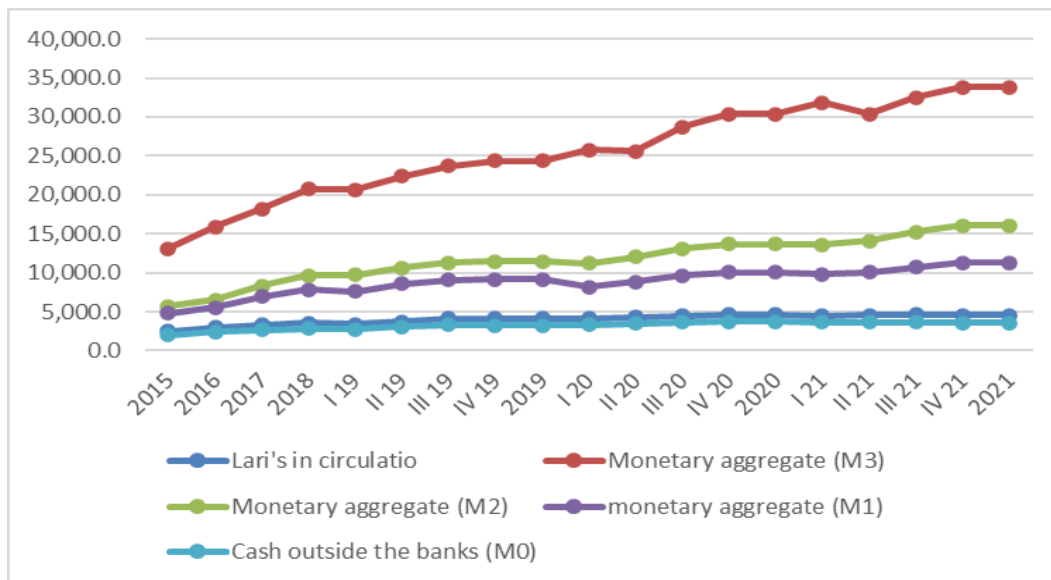


Figure 3 Money supply

Since 2012 the supply of money has increased dramatically. If we are going to take a look at the M3 aggregate¹ as a % of GDP, we will see an important increase from 30% to more than 50%. This means that the government chose an expansionist monetary policy, which has enabled them to supply more money to the market. Which is worrying for three reasons. First and foremost, our research is concerned with market freedom, therefore a drastic increase in the money supply should be worrying us as that indicates more involvement of the government in economic matters. Secondly increased money supply is also contributing to the growth of the state power as higher money supply guarantees a higher sum of Government-owned money (without adjusting for inflation).

Last but not least, an increase in money supply could also indicate an increase in the sum of Government or the ruling party money, although in this case possibly even in quite illegal ways. Even though this will be explained and proved in more detail below. An increase in Government revenue can easily result in an increase in corruption, as well as the Government can use the additional money for new programs or Government tenders, through which the Government will give money to the closely aligned companies, who will later on transfer the Government's money to the ruling party's accounts as a sort of "voluntary donations to the party", which on its own is concerning for two reasons, as on one hand it is a case of use of administrative resources and secondly using administrative resources in a way to empower the ruling party and enable them to win the elections in an unfair manner, through actions, that go against the core democratic principles, such as bribery, vote buying, falsification of results and so on. (IDFI 2020)

¹ M3 Aggregate is a measure of money supply, that includes M2 aggregate, plus institutional money market funds, short-term repurchase agreements, large liquid assets and long-term deposits.

Research done by local organization IDFI (Institute for Development of Freedom of Information) sheds light to such schemes (IDFI 2020). Based on the information provided in their paper we see, that organizations, that are receiving large privileges, are far more prone to donating the maximum and in general large amounts of money to the ruling party before the election period either altogether or by the hands of major employees. For example, turns out, that RMG gold, a company, to whom the government allowed to explode an object/area with major historical-cultural significance for the country (McPhee 2015) (Demytrie 2014)(through unlawful changes in the status of the object/area a day prior to explosion) has consistently donated large sums of money to the government by the hands of the major and relatively minor individuals in the organization. Similarly, the “Georgian Dream Party” has also enjoyed important contributions by another organization - LLC Naturals, whose owners, Kuchukashvili’s also own other major companies in the country, who in total have gotten more than 1.5 million Lari’s worth of funding by the government, while in return for this, Kuchukashvili’s have contributed close to 200 thousand Lari’s to the ruling parties prior to the election periods.

An updated version of the constitution dealt a lot of harm to human rights as well and especially to the rights of the LGBTQ+ community, as the “Georgian Dream” government decided to define marriage in the constitution as a union only between a man and a woman. This was especially surprising as prior to this in 2014 (Legislative Herald of Georgia 2014) the country adopted an anti-discriminatory law, that restricted any sort of discrimination. also obviously including the LGBT+ community. Although the fact that, the Georgian government only recognizes the rights of the community on the paper and not, in reality, was once again proven in 2021 5th of July. (Jalagania 2016) When the country experienced a full-scale collapse of the state institutions as the far-right groups beat more than 50 journalists, (Reporters Without

Borders 2021) (that were planning to film the pride rally) members of civil society and destroyed the offices of multiple organizations all of this at the presence of the police, which was mostly inactive, allowing such groups to unleash a mass attack on everything and everyone who by any degree represented the values, that went against their beliefs. These events, unfortunately, resulted in the death of a journalist and the wounding of more than 50 journalists and members of civil society. Which once again proved, that the "Georgian Dream" party had zero interest in protecting the rights of such groups, to a degree, that it allowed the center of a city to turn into a witch hunt by the far-right groups for anyone standing in support of such values.

While continuing the discussion about the constitutional changes, it needs to be said, that simultaneously new version of the constitution also significantly changed the way in which the president will be elected. (Zurabishvili 2017) Instead of the direct democratic elections, in this case, the President is now going to be elected by the members of the parliament and the representatives of the regional governments. Even though the President's role doesn't grant the person holding it as much power as it did during the previous administrations, this change still goes against the most basic principle of democracy, which obviously is a right to elect your own government. This is especially worrying as observing the general tendency of democratic backsliding in the country through most of the period under the "Georgian Dream" it is becoming painfully apparent, that this is not a transition towards a concept of small Government. As in general the through the years the support of the ruling party is decreasing, such changes only indicate, that the goal of this kind of decision is to ensure further consolidation of the power into the hands of a single party, which will ultimately result in a complete abolishment of the checks and balance system, which wasn't working properly up to this point in the history of the independent Post-Soviet Georgia either (Parliament of the Republic of Georgia 2020).

Restricting the private property rights on lands with agricultural purposes to non-Georgian citizens wasn't the only anti-market change under the "Georgian Dream" government. One of the most significant changes occurred in the field of communications when the new law was adopted, that granted the government a right to install a "temporary manager" in the companies, that were operating in the field, giving the "temporary manager" a right for making major decisions in regard to various tasks. This law was a major change, as it simultaneously infringed both free speech and private property rights. Therefore, though this issue could also fall under the economic discussion, the fact, that the decision was made a little before the election period, indicates the political nature of this issue. (European Commission For Democracy Through Law 2021)

Unfortunately, backsliding in terms of free speech rights does not end with the events of July 5th or the establishment of the so-called "temporary manager practice". Violation of the right to freedom of expression expands to the individual cases of the media organization too. A bright example of which are the events that took place at the "Adjara TV", (Transparency International - Georgia 2020) which is a public television, which means that Government has direct control over it and that it can make crucial changes as a result of one of which a deputy director - Nata Zoidze has resigned, announcing the politically motivated pressure from the new director over changing editorial policies. (Reporters Without Borders 2020) This resulted in massive changes on both fronts as on one hand, the journalists started protesting because of the pressure by the new director, while simultaneously the new head of the organization continued assigning roles and duties to the staff based on irrelevant factors, such as the political stances of the journalists, their social media posts (political ones) and so on. This is an especially dangerous practice, considering that these actions also took place during the pre-election period, indicating

to much larger issues, that as the democratic backsliding of Georgia continues the Government might consistently start using such and possibly even more radical tools to combat the media freedom prior to the upcoming elections.

Another major test that measured the loyalty of the “Georgian Dream” Government to the right of freedom of speech occurred on June 20th, 2019, when the Georgian civil society and the opposition were protesting the presence of prominent Russian politician in the parliament of Georgia, in response to which the Government started firing rubber bullets, altogether events that took place were nearly mirroring the events of November 7th, indicating that despite a number of advancements, still there wasn’t much transformation in terms of respecting the right of the people to peaceful protest. (Social Justice Center 2021) (Human Rights Watch 2018)

Lack of change has been apparent in the conduct of the elections as well, due to the fact, that the 2012 elections marked the first peaceful transfer of Government, it might have been expected that since that all of the elections, that would have been conducted would have been free and fair, which in reality was not the case.

In reality, elections kept being not fully democratic as for example, both 2016 (OSCE 2017) and 2020 (OSCE 2021) reports of the elections done by the OSCE point towards the same issues, such as pressure on the voters, vote-buying, scenes of violence, use of administrative powers, blurring the line between the party and the state and so on. The fact itself, that violence is a consistent part of the elections in Georgia, is simply proof of the fact that Georgia still hasn’t matured democratically even after this much changes in the systems, reforms and policies towards the conduct of the elections. (Georgian Young Lawyers' Association n.d.) (Transparency International - Georgia 2020) More importantly, we also have to consider, that the violence in the context of the elections isn’t only prevalent during the election or pre-election period. As for

example the Government also acted violently towards the opposition and the Georgian civil society, who were protesting yet another precedent of the faulty execution of the elections and major violations of the political rights during the post-election period after the parliamentary elections of 2020. (Civil.ge 2020)

Such cases of undemocratic conduct often create political crisis inside the country, which usually result in an agreement between the ruling party and the opposition about the necessary changes. Such agreement between the “Georgian Dream” party and most of the opposition parties was brokered by the President of the European Council - Charles Michel, which was later on dubbed as “Charles Michel Agreement”, which included a necessity of actions from both sides. More specifically the entrance into the parliament by the signatory opposition parties and the major reforms in terms of the Judiciary appointment and the general election laws. As expected the signatory opposition parties entered the parliament in order to put an end to the months-long political crisis in the country, while on another hand the ”Georgian Dream” only partially fulfilled it’s part of obligations as despite certain changes, such as pardoning the political prisoners, and some noticeable changes in law regarding granting amnesty to the individuals accused in violation of law during the events of June 20th, still the faulty practices in judicial appointments continued without any major reforms. In the end the non-compliance to the “Charles Michel Agreement” finally resulted in the unilateral exit of the ruling party from the agreement, which marked yet another case of major disrespect towards the democratic values and towards the Western Institutions from the ”Georgian Dream” party. (OC Media 2021) (Starr 2021)

Through this section of the paper, we have discussed the reasons, contributing to the decline of democracy in Georgia, but yet we haven’t discussed the most pressing issue, which is

informal rulership. As it is alleged - Bidzina Ivanishvili, an oligarch who led the opposition in the 2012 victory in parliamentary elections and served for a short term as a first prime minister after the change in Government has been ruling the country informally through maintaining control over the Governing party – “Georgian Dream”. One of the most important proofs of such phenomenon is the existence of elite-level corruption and the presence of a clan in the court system. As the local organizations, have been indicating there is a very definitive proof of bias in the court when the issue at hand crosses the path with the interest of Ivanishvili or anyone related to him, such as party members, people associated with the party, his relatives, and so on. It is therefore important to put an emphasis on this issue as while we are discussing the legalized ways in which the Government is consolidating its powers, simultaneously there is also an existing practice of consolidation of the power of an individual who has been ruling the country informally, which is one of the primary reasons of the institutional breakdown and the significant democratic backsliding, which we have made apparent throughout this case study. (Aprasidze 2014) (Netgazeti.ge 2020)

CHAPTER 7

CONCLUSION

In conclusion, it needs to be said, that the discussion of Georgia's case has proven the merits of the theory, that the economic system and democratization are directly related. As we have seen in the first half of the 1990s the first two administrations, were simply neglecting the importance of reforming the economy, which has resulted in low levels of democracy and to certain degrees a decline as well, due to the reasons regarding the existence of the political prisoners, violent treatment of the protesters, state-level segregation of Georgian's and non-Georgians. Consolidation of power into the hands of the informal military groups, a coup, and so on.

After that, we moved on to the discussion of the period, that lasted through another half of the 1990's through 2003. Which was characterized with very mild changes in economic system, which was caused by the execution of the "Washington's consensus", which has also increased the level of democracy in the country to some degree as well as the constitution, that recognized the basic human rights was adopted. While in reality the consolidation of power still continued through faulty privatization efforts and sharing power with the informal militant groups continued in the country.

Although the 2003 revolution has put an end to such undemocratic practices. As the major economic reforms in the field of taxation and regulation have taken away significant amount of power from the government, which has contributed to a major reduction of corruption and overall fast democratization.

After the mixed results of the Post-Rose revolution reforms. The new Government has started a new period in the political life of Georgia. After the first initial pro-market and pro-

democracy reforms. Eventually the "Georgian Dream Government" started to highly get involved into economic matters, couple examples of which are limitations on the property rights for non-Georgians, nearly ending the privatization efforts, as the current percentage of the agricultural land ownership by the Government is nearly identical to the rate in 2012, (meaning that there hasn't been much if any advancements in terms of privatizing the resources) raising the taxes, amount of debt, engaging more actively in monetary politics, using new systems for corruption and so on. While simultaneously such negative developments have been noticed on the democratic front as well, with the examples of limitations on freedom of speech, limitations on the ability to protest, crumbling of the institutions, establishment of the clan in the court and so on.

The entire 30-year-old period of pro and anti market reforms have been in correlation with the democratic state of the country. As both have being increasing and decreasing at the same time, without any noticable period of different developments. Which once again proves, that Pro-market reforms, that aim to decrease the amount of state power are crucial for successfull democratization in this country and even possibly in the entire Post-Soviet space.

CHAPTER 8

STUDY LIMITATIONS AND RECOMMENDATIONS

Even though the Georgian case study follows the logic of the theory that is being developed about the connection between the economic system and the democratization, yet fully applying the findings of this paper on other republics, without conducting similar analysis on other post-Soviet states is impossible. The reason behind this is a significant variance in multiple key variables. First and foremost, those countries differ on democracy and market freedom levels as 15 republics nearly cover all possible types and levels of democracy and market freedoms. Simultaneously they also vary on other factors, that weren't fully discussed in this single case study research, such as religion, geography, involvement of international organizations in their inner political matters, national security, and so on.

Therefore, based on the number of the cases and the variables, which there is a need to account for. The need for quantitative analysis naturally rises. Although such research will also require advancement of the existing indexes, that measure the independent and dependent variables – Economic freedom and democracy. As it has become apparent during this analysis, factors that help us analyze market systems or democracy level often overlap. An obvious example of which is, corruption and the independence of the courts, hence prior to conducting such quantitative study, there would be a need for coming up with the kinds of indexes that would measure democracy and market freedom levels without overlapping variables and data.

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