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The theoretical and methodological fundaments is based on the approaches to the economic policy in line with Walter Eucken's Principles of Economic Policy (1952).

Our analysis of the reasons and consequences of the transformation is based on the study by Simeon Djankov et al. (2003), Rainer Klump (2015) and on the basis of Leszek Balcerowicz's (2004) economic theory of transformation. In order to analyze transformation processes, we will be using the BTI, which assesses the state of democracy in a legal state and socially responsible market economy as well as consequences of political execution of reform ideas; for the purpose of a political and economic analysis, we studied the Democracy, Human Development and Global Competitiveness indexes and their dynamics provided by Freedom House.

Findings: Georgia is the only country in Eurasia to have earned a recent improvement in the electoral process rating. Also, analysis of internationally recognized data show that inefficient state governance, bureaucracy, corruption, weak anti-monopoly regulation and property right protection among other challenges in the transformational policy of Georgia remain invincible problems.

Despite shifting to the market economic system, entities still do not have complete autonomy. It is the state planning work rules, salaries and programmes for public organizations. Reforms are not initiated at low levels of hierarchy when necessary. This kind of approach can also be considered a Soviet holdover while public society is still inadequate and changes are predominantly imposed from above.

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I. Introduction

Between 1989 and 1991, after dramatic collapse of the Soviet Union, the world map changed and new independent states arose, in the majority of which the economic policy is still being transformed. At the time, revitalization of Georgia's sovereignty and admission of its state system necessitated replacement of the old economic system with a new one, in particular, replacement of the imperious and administrative system with a society-oriented market economy. Within the scope of an unprecedented systematic transformation, a completely new era, followed by a number of challenges, started in Georgia as well as in all the rest of the new independent countries. The 70-year-long socialist experiment was replaced by experiments in the period of transition to a market-based economy, which does not yet seem to have an end.

II. Methodology

Our analysis of the reasons and consequences of the transformation is based on the study by Simeon Djankov et al. (2003), which draws a comparison between the socialist and capitalist economic orders. The study discusses two basic threats to any society: Disorder and dictatorship: Disorder includes banditry, murder, crime, fraud, breach of contracts, monopoly prices, etc. As for dictatorship, it is oriented on limiting individual rights to property and power of appointment, expropriation, limiting competition on the market, etc. under the guise of the state. Corruption is a manifestation of both threats. According to the authors, the responsibility of institutions is to control these threats. The study is based on the concept of a difference between expenses and threats – disorder and dictatorship.

Also, on the basis of Leszek Balcerowicz's (2004) economic theory of transformation, we analyzed consequences of the Transformational Economic Policy and used internationally accepted indexes as empirical evidence: In order to analyze transformation processes, we will be using the Bertelsmann Transformation Index which assesses the state of democracy in a legal state and socially responsible market economy as well as consequences of political execution of reform ideas; for the purpose of a political and economic analysis, we also studied the Democracy, Human Development and Global Competitiveness indexes and their dynamics.

Throughout the study we purposely studied communist and post-communist economic science fiction, official documents, reports, statistics and expert

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assessments by state, international[1] and nongovernmental[2] organizations. In terms of theoretical and empirical assessment of framework conditions of the communist experiment of the economic order and Transformational Economic Policy, studies by Georgian fellow economists Rozetta Asatiani (2014), Vladimer Papava (2005), Revaz Gvelesiani and Irina Gogorishvili (2014) among others were particularly helpful. The studies include critical analyses of the process of transition from the soviet economic system to a market-based economy, systemic model of transformation, assessment of the consequences of transformation and scientists' subjective viewpoints about the Transformation Process Policy.

a) Soviet Economy of Georgia: results and transformation

In 1921, Soviet Russia annexed Georgia which was followed by the Social-Democrats' resignation from the government (cessation of social-democratic experiments) and Bolshevism becoming dominant.

According to the "New Economic Policy" introduced by Lenin in 1921, a mixed economy emerged in the Soviet Union, within the framework of which agriculture and small-scale production remained included in private property. However, after 1929 the Soviet Union enforced collectivization of the agricultural sector and at the cost of many human lives, soviet peasantry became members of the collective. Within the framework of the communist experiment, collective property became dominant; the coordination mechanism implied social division of labor which was advisable not economically but rather politically.

Thus, state socialism became dominant while the capitalist market was completely replaced by the central planning system.

Socialism, being built based only on enthusiasm, voluntary methods and ignorant attitude to the socio-economic conditions of the country, faced invincible obstacles. Total nationalization that followed sovietization had a negative impact on the entire process of social progress.

A commanding-administrative system based on means of production in public property was formed in Soviet Georgia as well. A state-monopolistic social system characterized by centrally planned economy dominated by public property was formed. It was characterized with coordination of individual plans by the State Planning Committee (Gosplan) which was responsible for development and control over execution of production and investment plans. Certainly, this system did not consider customers' individual plans. Industrial and manufacturing factors were priced in accordance with the central planning system; accordingly, prices and money had almost no function. There was a tendency of certain enterprises deliberately aspiring to the execution of the plan.

The socialist economic system was inflexible. It was incapable of quick reactions to changes and information which led to a supply deficit and faulty production process; enterprises were not motivated to get profit or aspire to implementing innovations. Problems were intensified due to bureaucratic management as the economic system was integrated with the political one, which was based on the autocratic governance of only one party. All goods and services were produced not based on supply and demand but rather based on political pricing. Officials of the communist government lobbied to allocate budget for particular fields and enterprises which added to encouraging corruption. The nonexistence of competition contributed to the process of economic stagnation.

The socialist economic order did not provide framework conditions for creating an optimal industrial structure of an economy. An alienated attitude towards individual needs eventually resulted in the abatement of economic interests, indifferent attitude towards labor, decreased stimulus to development and implementation of innovations, lack of eagerness to deepen knowledge (which can be explained by the nonexistence of full employment and competition in the labor market), and lower quality of goods and services among others. The isolated socialist system could not cope with challenges of globalization, while capitalist countries were able to form a mixed economic system based on property pluralism. The disintegration process in the soviet system which started in the 1980s went out of control and the system collapsed spontaneously.

Thus, as a result of the communist experiment, "such civilized forms of social development as competition, mechanism of labor motivation, frugality, responsibility, free-thinking and market coordination" among others were denied (Asatiani 2014; p. 24). "Logically, an isolated deficient economy and basically extensive resource-demanding production characterized by slow economic growth were formed". (Asatiani 2014; p. 25).

Given the spreading communist power of Soviet Russia, integration processes developed in new ways. Integration processes served as means to carry out the socialist ideology in the soviet era. Production cooperation was the basis of trading goods between

[1] Klaus Schwab, World Economic Forum, The Global Competitiveness Report, 2013-2014, p. 193; Execution of the European Neighbourhood Policy Action Plan in Georgia in 2011, assessments by representatives of civic society, the report is prepared within the framework of the European Integration Programme of Eurasia Partnership Foundation, Eurasia Partnership Foundation, 2012.

[2] Economic Tranformation of Georgia: 20 Years of Independence. (2012). Interim report, Liberal Academy Tbilisi foundation. Georgian;

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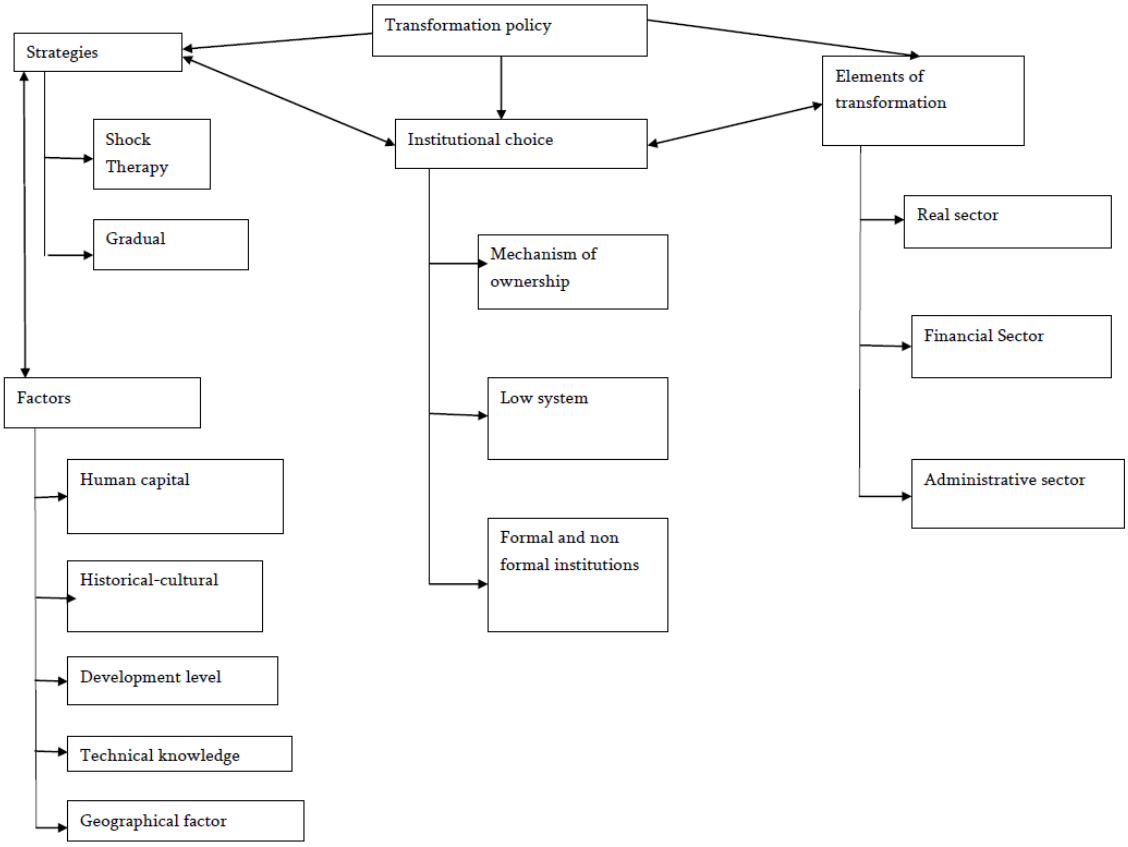
countries. In addition, trade was carried out according to plan. National needs, the country's relative advantages and interests of entrepreneurs were ignored (Lekashvili and Gaprindashvili 2014;p. 16).

The system developed in the Soviet Union retained its principal features until its collapse. Georgia, like other independent countries, denied socialist dogmas and started building a new economic system.

In 1991, after the revitalization of Georgia's sovereignty a new era started in our country. Now the state played a bigger role in providing adequate conditions for shifting smoothly from the commanding-administrative system to the market economy as the state was to act as the organizer and protector of the economic order (see scheme 1).

Scheme 1. Systemic Model of Transformation[3]



Georgia faced two major issues: Creation of state institutions and formation of the market economy. Out of the two options of shifting to the market economy, the Georgian government chose the "Shock Therapy" method due to objective factors: Georgia remained in the Ruble zone. It neither had national currency nor foreign exchange reserves which largely interrupted not only carrying out comprehensive reforms but also functioning of the economic mechanism. Georgia, as a new independent country, lacked proper institutions and experience in state administration.

Georgia has long adhered to nonconformism. With its geographic location, language and culture that differentiate Georgia from its neighbouring countries, Georgia has strong and special traditions that sometimes lead the country to isolation and bold experiments (Waal 2011; p. 5).

First years of formation of the independent economic system based on marketing principles proved to be particularly hard for Georgia – civil strife, military operations in Abkhazia and the former autonomous district of South Ossetia, energy and transport blockade, extremely tense criminogenic environment, frozen economic relations, loss of old traditional markets with no new markets and suppliers as an alternative are a short list of the negative factors that resulted in an unprecedented economic collapse, hyperinflation and a dramatic increase in unemployment in the first years of independence (Government of Georgia 2013,p. 1). Due to the lack of experience in state administration and a series of other factors (geographical, historical, financial, religious, cultural, etc.) the country was falling under the influence of Russian aggression that aimed to unite the former fraternal republics into a new union (the Commonwealth of Independent States).

[3] The model is created by author

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Thus, in the 1990s, a sudden economic shock, which was indicated by economic liberalization and price increases, added to the socio-economic and political crisis which affected the complicated process of privatization. All the three privatization methods were used in Georgia: direct sale of assets, formation of joint-stock companies and voucherization.

The accumulated experience in carrying out rapid economic reforms confirm worsened living conditions of the majority of the population which is due to falling production, soaring prices and decreasing real income (Assatiani 2014; p. 93).

After regaining its independence, economic-geographical picture of Georgia and especially its transit function was considerably vitalized. Practical realization of Transportation corridor connecting Eurasia is associated with Georgia.

In the beginning of nineties, ongoing crisis had serious impact on economy of Georgia. Inflation rate was increasing with incredible pace. Abkhazia and Samachablo wars, political destabilization had negative influence on the country's economy. Criminals obtained property in this period, registration norms were destroyed and so on. As a result, in 1993 compared with previous year, the volume of investments decreased 100 times, and production of industrial articles reduced twice.

Despite serious challenges, some signs of stabilization were noticed in the middle of nineties. These were decrease of inflation rate, stability of GEL exchange rate, transformation of state property and origination of the class of proprietors, privatization of agricultural lands and liberalization of bread prices and liberalization of foreign trade.

In the middle of year 1994, government of Georgia carried out stabilization program, aim of which was cession of hyperinflation in order to solve the problem of disbalance in the country foreign and domestic economy. Its basis was institutional and structural reforms of financial, trade and monetary systems. International Monetary Fund, World Bank, European Union and other donors and creditors played important role in the accomplishment of the program.

In 1990-1996 years, sharp slump in the production of agricultural and industrial products and in the volume of investments in noticed in Georgia. Property transformation process, as irreplaceable element of period of transition to market economy, was brought foreground as the first-priority issue among economic reforms. However, privatization process was accompanied by big infractions.

Considerable movements in the process of macroeconomic stabilization in Georgia were started in 1996. Share of industrial products in GDP was decreased in this period, but at the same time, the share of agricultural products was increased. Structure of production had undergone serious changes.

After passing the first phase of adapting to new economic conditions, enterprises went on second stage of economic transformation. In the structural policy of the country's economic development accent was made on such sectors of industry as heating and energy, light industry, timber processing, construction, chemical industry and machine building.

In the context of transformation, various strategies for Georgia's development were being discussed. The first one was based on the traditional value system however it does not meet contemporary pace of political and economic development; there is another model according to which Georgia can be seen as a Singapore open to world investments with minimal economic regulations.

The European Union is the third means for Georgia's economic development. Georgia aspires to build their state based on European values and to integrate into Europe both politically and economically (ENP Action Plan 2011; p. 88). Consecutive and effective execution of measures included in the EU-Georgia Association Agreement and the EU-Georgia deep and comprehensive Free Trade Agreement serve as a basis for further development of the European integration process.

The Georgian government aims to execute an economic policy that can ensure the country's stable development. The economic policy must be based on unequivocal respect for and protection of economic liberty and property rights. The state will simultaneously undertake the role of a guarantor of justice in economic processes (Georgia's social-sconomic development strategy 2020; p. 2).

b) International Assessments of Systemic Transformation of Georgia

The transformational economic policy and initiated reforms, the purposes of which were economic liberalization, institutional changes and macroeconomic stability, at some point produced a stable result , though members of the society benefited from the reform unequally. Foreign investments were allocated for such sectors of the economy as banks and real estate business. This produced only a few jobs. Pensions and social welfare subsidies remained low (Gvelesiani and Gogogrishvili 2012; p. 6).

In order to identify factors hindering the effectiveness of the Transformational Policy, we analyzed some internationally accepted indexes: The Bertelsmann Transformation Index, the Democracy, Human Development and Global Competitiveness Indexes and their dynamics.

The Bertelsmann Transformation Index (BTI 2014) (11) analyzes and assesses how developing and transition countries manage changes in terms of

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democracy and market economy. The Bertelsmann Transformation Index unites transformation processes and the comprehensive study of political management into two indexes: Status/Position Index and Management Index. The first index is used to assess a country's political transformation and the latter is used to assess a country's economic transformation. 129 countries are involved in the study. The study focuses on the principles of efficiency of justice and market economy in terms of reflecting them on the quality of state administration, decision making and political and democratic processes. The index includes 17 criteria grouped in three main subindexes: political transformation, economic transformation and transformation management. For a more reliable and deeper analysis, these 17 criteria are broken down into 52 indicators the range of which varies from 1 (being minimal) to 10 (max). In 2014, Georgia's BTI status index was 6.16 (ranking 48th), political transformation – 6.50 (ranking 52nd), economic transformation 5.82 (ranking 57th) and management index – 5.78 (ranking 41st). It is noteworthy that there are no major changes in the dynamics of the index. Georgia's status index is within the framework of limited transformation and is characterized by low-quality democracy; functional flaws can be observed in the market economy; the management index has a good evaluation; issue of statehood is within reasonable limits. Neo-liberal economic reforms are still in operation and the social policy is better presented in the new budget. There is an ongoing steady tendency of shifting to democracy and market economy in the country. From 2006 through 2016, the status index increased only by 0.58 points, management index increased by 0.18 and market economy index increased by 0.57 points which shows that at this point transformation is being operated slowly by the means of a gradual strategy. It is noteworthy that the analysis of these criteria emphasized problems related to prioritization of social capital, parties and social groups. This kind of slow progress in transformation is probably caused by undetermined goals. In addition, a high level of corruption in Georgia, weak antimonopoly regulations and lack of respect for property rights also affect citizens' economic welfare.

The Democracy Index by the Economist Intelligence Unit is based on five criteria: election process and pluralism, civil rights, operation of the government, political activity and political culture. Countries are grouped according to the types of democracy: Complete democracy, incomplete democracy, hybrid, i.e. transitional regime and authoritarian regime. According to the Democratization Index, in 2015 Georgia ranked 82th out of 167 units (countries, territories). It is included in the group of countries with hybrid regimes (in the 4-6-point range). Its total score amounts to 5.88 (10 being the highest and 0 being the lowest). According to the indexes, the assessments are as follows: election process and pluralism- 8.25; operation of the government – 4.29; civil rights – 5.88; political activity – 5.56; political culture – 5.00. Dynamics of the Democracy Index show that the highest point was achieved in 2015, and the lowest was observed in 2010 (12;. p. 13). The indexes show that the operation of the government is a problematic area. This, on the other hand, indicates the government's inefficient management of operative and strategic challenges under the given condition of transformation.

The Index of Economic Freedom *which plays a big role in attracting potential investments* is developed by a leading research institution of US politics "The Heritage Foundation" and "The Wall Street Journal" (Heritage 2016; p. 4). *The Index of Economic Freedom is based on 10 criteria: Business freedom, trade freedom, fiscal freedom, governmental costs, financial freedom, investment freedom, property rights, freedom from corruption and labor freedom. Georgia falls in the "Basically Free Countries" category of the Economic Freedom Rating. It ranks 23d with 72.6 points out of 186 economies. According to the criteria, property rights - the fundamental criterion for the economic order – are not well protected, and corruption remains the most problematic area in terms of the Order of Transformation in Georgia. These two indicators show that in the context of the Transformational Economic Policy, solving the problems related to corruption and property rights are still being considered in the form of fallout of the communist experiment.*

The competitive regulatory framework is conducive to entrepreneurial activity. It takes only two procedures to launch a business, and no minimum capital is required. The non-salary cost of hiring a worker is moderate, and regulations on work hours are flexible.

Foreign and domestic investors are treated equally under the law, and there is little screening of foreign investment. Most state-owned enterprises have been privatized. The growing banking sector offers improved access to financing, but the stock exchange remains small and underdeveloped.

Despite global and regional challenges, Georgia's economy has demonstrated considerable resilience. Efforts to eliminate corruption and restore fiscal soundness by revitalizing the commitment to limited government have borne fruit. Two years of fiscal consolidation has kept government spending under control and ensured macroeconomic stability. Georgia's pursuit of greater economic freedom, reinforced by relative political stability, has made its entrepreneurial environment one of the best in the region. Large-scale privatization has advanced, and anti-corruption efforts have yielded tangible results. Deeper institutional reforms to enhance judicial independence and effectiveness remain critical.

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The following similar index calculated annually by Freedom House in reference to 29 transition countries (FH 2016) is the National Democracy Index. This index is calculated based on the average point of the following: election process, civil society, freedom of the press, national democratic governance, local democratic governance, legal framework, independence and corruption. In terms of democracy (7-point grading scale where 1 is the highest point to assess democratic progress and 7 being the lowest) Georgia ranks 12th with 4.64 points. According to this index, Georgia falls in the "Hybrid Regimes" category. It is the only transition country that has shown an improved Elections Performance Index since the elections in 2012. Compared to 2014 none of the points improved in 2015 except for that of local democratic governance; however, the situation has slightly improved in every aspect compared to 2006. Problems of corruption are still pressing in Georgia due to the non-transparent process of government appointments and salary and bonus payments (15; p. 247).

The country's economic development is evaluated according to the Human Development Index (HDI 2015, p.6) which serves as an indicator of development for any country worldwide and includes development indicators such as: the average life expectancy; level of education and Gross National Income per capita (19; p.6). The Human Development Index is considered to be an indicator of human development (the index ranges between 0 and 1). The main purpose of the Human Development Index is to assess the level of a country's human development which on the other identifies the group of (developed, developing and underdeveloped) countries that this particular country belongs to. According to data from 2014, Georgia ranks 76th among the territories recognized by 188 countries and the UN. The index amounted to 0.754 which is 12.2 % higher than the index in 2000. Thus, Georgia qualified for the High Human Development group. It is noteworthy that the first two indicators have improved in Georgia's case compared to 1980, but GNI per capita has worsened by 2.5 % compared to 1990. Importantly, an unequal extension of the Human Development Index throughout the country still remains. 2.2 % of the Georgian population live in absolute poverty, 4.1 are at the edge of poverty and incomes of 14.1 % are lower than the minimum wage.

Hence, social and economic problems remain to be the greatest challenges the country is facing and has been unable to circumvent through the Transformational Policy.

At present we are provided with credible information about Georgia's economic development by the Global Competitiveness Report 2014-2015 within the framework of the World Economic Forum (WEF 2015). According to the Global Competitiveness Index (140 economies) which evaluates a country's business climate and entrepreneurship in terms of competitiveness, the situation in Georgia has improved by two orders of magnitude in the last two years now ranking 66th with 4.2 points (7 points being the maximum) (23; p 193). Between 1995 and 2015, a rising trend was observed in the dynamics of the index. Positions have improved in the sub index of basic factor-driven requirements which includes institutions, infrastructure, macroeconomic stability, health care and primary education. However, the situation has worsened in terms of the Innovations and Development Sub index which includes business development and innovation (20;p. 124).

Between 2014-2015 Georgia had a comparative advantage in 30 out of 114 components. The top-rated components include health care (between 5.45 and 7 points) and primary education (5.8 points) (GCI statement in 2016-2017 see in the box.2.1. Country/Economy profiles – Georgia).

Sorting the indicated problems makes it clear that the development of competitive businesses and enterprises is mainly interrupted by inefficient state governance, low levels of entrepreneurship education and entrepreneurial thinking and innovative studies (20; p. 124).

According to the 2014-2015 report, Georgia is at the efficiency enhancement level. The main problems in terms of doing business in Georgia include non-qualified workforce, access to finances, inadequate infrastructure, political instability, inefficient government bureaucracy, weak work ethic, complexity of tax regulation, instability of nongovernmental management, etc. (WEF 2015-2016; p. 176). It is noteworthy that under conditions of transformation, structural economic changes and coordinated structural changes in labor market are not emphasized. In 2016 Eurasia's competitiveness performance has been stable overall, although most economies in the region face challenges related to the fall in commodity prices, volatile exchange rates, recession in the Russian Federation and Ukraine, and the slowdown of the Chinese economy. These shocks have affected competitiveness in two major ways: all Eurasian economies except Georgia have seen the value of their exports fall, reducing their total market size; and falling tax and royalties revenues have increased government deficits and public debt.

The most improved Eurasian economies are Georgia (up seven places at 59th) and Tajikistan (up five at 77th). In both countries GDP is expected to grow by over 2.5 percent in 2016—below the average for the past decade, but more than other Eurasian countries.

Moreover, a comparative analysis of indexes (BTI, Global Competitiveness Index and Democracy Index) produces a controversial result for Georgia in terms of management evaluation.

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The Transformational Policy implies shifting from a closed economy to an open one. In the transformation process, an open economy served as a new challenge for the new independent countries. Currently, intensive international economic integration makes the state policy more pressing which can be explained by the impacts of globalization on the country's development. A well-formed state policy contributes to achieving internal and external goals. In addition, under conditions of globalization, national interests grow more and more controversial on the one hand, and on the other hand the degree of interdependence among countries increases. It should be noted that the latter bears risks and poses threats especially when an economic crisis occurs. Economic fluctuations affect foreign trade, monetary and social sectors, investments, factors of production, and goods and services market. It is obvious that the country's international economic integration and intensity of globalization should constantly be observed and assessed in order to form the right economic policy framework. On the basis of the analysis it is possible to set achievable and effective national goals (Lekashvili 2011; p. 93).

The KOF Index of Globalization is used to assess the degree of a country's international integration (KOF 2016). It is an aggregated indicator and includes social, economic and political aspects based on which the overall KOF Index of Globalization is calculated. The Economic Index of Globalization makes up 36 % of the KOF Index of Globalization, Social Index of Globalization makes up 37 % and Political Index of Globalization makes up 26 % (25).

According to the KOF Index of Globalization 2015, Georgia ranks 63rd (63.84) among 207 countries; according to the Economic Index of Globalization, it ranks 19th (81.04); according to the Social Index of Globalization – 77th (56.90) and according to the Political Index of Globalization – 142nd (50.15). Analysis of sub-indicators show that the country is becoming more and more integrated into the global economy but is still left behind in terms of political globalization. This indicates that despite the collapse of the isolated political system of the Soviet Union, the country was still unable to carry out an efficient policy and to take advantage of the positive results of globalization, unlike economic and social globalization. Dynamics of the KOF Index of Globalization for Georgia clearly shows the tendency of shifting from a closed economy to an open one. This means that freedom in economic, political and social sectors is yet to be achieved in many aspects. However, a low degree of political freedom implies a low degree of democratization (Lekashvili 2011; p. 93).

III. Findings

Thus, analysis of internationally recognized data show that inefficient state governance, bureaucracy, corruption, weak anti-monopoly regulation and property right protection among other challenges in the transformational policy of Georgia remain invincible problems. A big part of the problems can be seen as a holdover from the communist experiment. Importantly, for the stability of the Order Policy it is essential to form "competent and apolitical state administrative bodies which means that positions in the state administration should be distributed not according to parties but rather according to professions" (LATF 2013; p. 33).

Georgia is the only country in Eurasia to have earned a recent improvement in the electoral process rating. Free and more competitive elections in 2012 and 2013 led to increased pluralism at the national level, and in 2014 Georgian cities held direct mayoral elections for the first time, with five major parties actively campaigning for seats. Still, the ruling Georgian Dream bloc won every directly elected mayoral seat and majority control over every legislature.

Positions in the top management team are usually occupied by former leading members of the communist party whose world outlook and management skills have barely changed and are inflexible. Elite changes have not occurred in Georgia since the collapse of the Soviet Union which results in long-term stagnation in the country.

The non-democratic regime and low level of competition fuel conformist tendencies and contributes to retaining a clan system within ruling circles. The clan system aspires to stagnation while there is an illusion of changes taking place in the country. The clan system is firmly embedded in every organizational entity: parties, teams and interest groups. The strong nature of the clan system in Georgia is influenced by the 70-year-long experiment, isolation of economy and politics. The clan governance in the soviet period is in no way different from today's clan governance. It is the clan system that slows down reforms, interrupts strong political support of transformation as well as causes conflicts of interest, different speed of transformation within different institutions, a low degree of democratization and unfair competition (businesses are often secretly controlled by people involved in politics); for example, leading positions in the educational sphere are usually occupied by same groups of people. They are initiators of education reforms, heads of governmental and simultaneously non-governmental education organizations as well as jury members of the funds and competitions in charge of distribution of finances in the educational sphere. The high level of the clan system ruins any motivation for development and research. Other fields are also run in line with analogous clan

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strategies. In order to overcome this challenge, psychological, social, economic and historic factors of origination of the clan system should be studied in reference to characteristics of Georgia. Only afterwards should we muse upon legislative and other means to overcome the challenge.

One of the big challenges for government of Georgia is to undertake efficient incentive-oriented policy measures to make work in the shadow economy less attractive and work in the official economy more attractive. The average size of the shadow economy in Georgia was 65.8% during the 1999-2007 periods.

Georgia still struggles with the effects of Soviet-era corruption. Reforms largely eliminated petty corruption more than a decade ago, but in late 2014, President of Georgia singled out disrespect for institutions and a lack of institutional governance as enduring problems. Executive and legislative interference in the judiciary is substantial. Protection of property rights has improved.

A tendency to a one-party, authoritarian and populist system similar to that of the communist party was identified in the transformation process. Inefficiency of the opposition is noticeable. There are several but small opposing parties in Georgia; they are isolated from one another, usually ruled by one leader (FH 2015; p 18).

Under present conditions, we are facing the result of the communist experiment - an inability to use the rights set out by the constitution which once again leads us to conformism. Moreover, informal institutions still have a bigger influence than formal ones in social relations.

Despite shifting to the market economic system, entities still do not have complete autonomy. It is the state planning work rules, salaries and programmes for public organizations. Reforms are not initiated at low levels of hierarchy when necessary. This kind of approach can also be considered a Soviet holdover while public society is still inadequate and changes are predominantly imposed from above.

IV. Summary

In addition, the Transformational Economic Policy in Georgia with its advantages and disadvantages need to be reviewed ever after 1991. Economic scientific fiction is dominated by papers authored by those who were actively involved in the activities carried out by the reformative government; thus, it is plausible that tendencies of the Transformation policy in Georgia and study results can be biased. Since flaws in the economic processes interrupted the actual economic progress in the country for decades, results got stretched out; it is necessary to review the goals, instruments, persons and institutions of the Reformative Economic Policy for the sake of an objective and undistorted history. Certainly, there is a reason why there are no critical study works: In the context of the lack of qualified human resources in the market economy, processes were not alternatively analyzed. In addition, educational programmes and research directions specializing in studying the history of the Georgian economy including the transformation period have been discontinued. These processes contributed to the given situation, which means that years later the assessment of the transformational economic policy needs to be revisited, and we believe that studying the transformational economic policy will become an important direction for young research economists at university. Thus, in case of Georgia, lack of highly qualified professionals in charge of putting transformation processes on the right track and assessing flaws in the Transformation Policy to ensure effectiveness should be included among the basic problems considered in the theory of Transformational Economic Order.

Thus, efficiency of the Transformational Economic Order can be increased through the transformation of public society's outlook (Todua 2010; p. 14). This requires establishment of the freedom of culture in society which can be achieved at the expense of intellectual fights.

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