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Editorial Office:

CENTRAL ASIA AND THE CAUCASUS
Hubertusstigen 9. 97455 Luleå
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The Special Feature section in the next issue will discuss:

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- Border Delimitation and Separatism
- What Makes the Parliamentary and Presidential Elections in Central Asia and the Caucasus Specific
- Political and Economic Development Trends

THE ECONOMIC COMPONENTS OF THE FORMATION OF GEORGIAN FEDERALISM

Vladimir GLONTI

*Ph.D. (Physical and Mathematical Sciences),
assistant professor at the Information Technology and
Applied Mathematics Department of Batumi State University
(Batumi, Georgia)*

An analysis of the formation of federative relations in Georgia shows us there is no clear conception of their development prospects. The inconsistency of the transformations in this area is manifested primarily in the ambiguity of property relations, the contradictions in the inter-budgetary sphere, and so on. But these facts are not the cause, rather they are the effect of the overall low level of theoretical development of a corresponding state structure model.

All of these problems have led to a situation where the formation of socioeconomic components is being confused with the regulatory attributes of a federative state. After all, there is a qualitative difference between them, and history shows how underestimating them leads to serious negative consequences. The methodological meaning of these differences is as follows.

A federation arises when this form of state is recognized as beneficial to society, in other words, when it meets society's interests. So a vital prerequisite of the federalization process is achieving a certain qualitative level of social relations throughout the entire system, including in the socioeconomic, ethnopolitical, regulatory, and other spheres. From this it follows that even though the constitution and other legislative acts of a state may declare it a federation for all external intents and purposes, in the historical respect, a different cause-and-effect relation comes into play here. Its gist lies in the fact that, first, socioeconomic, political, and other prerequisites of the formation of such a state come to maturity, then a corresponding interest forms among the population, and only after that does the law register the fact that the fundamental principles of federative relations have been created.

If we uphold the viewpoint that the appearance of a federative state is largely related to the drawing up and constitutional enforcement of regulatory instruments and institutions for regulating federative relations, it is logical to acknowledge that the motive behind choosing this form of statehood is not the interest of society or citizens, but the desire of lawyers to find ways to substantiate the political demands of certain interest groups. This scenario was played out, for example, in the Soviet Union. But the collapse of Soviet, as well as of Yugoslavian and Czechoslovakian, "federalism" showed the flimsiness of the formal federations that arise out of such choices.

If our arguments are accurate, two conclusions can be drawn which do not intrinsically contradict one another. The first is that the sustainability and development of the federative form of state are ensured by organizing the reproduction process in a specific way. The second is that a specific way of organizing the reproduction process in federative states also causes the emergence of a specific power vertical which differs from the corresponding vertical in unitary states.

Unfortunately, our scientists have essentially given no attention to studying the socioeconomic features of the federalization process. Debate largely revolves around the legal aspect of the problem or, at best, around questions relating to the technique for improving inter-budgetary relations, the

distribution of property among the federation and its constituents, and so on. But even though they are important, these questions are only the specific, I repeat, technical sides of federalization. Whereas the individual decisions being adopted here can both help to strengthen the foundations of federative relations in Georgia, as well as raise obstacles to this process.

In this respect, we will take a look at three groups of problems: the economic content of the principles of federalism; the special features of Georgia as a reform object and the applicability (or inapplicability) of the principles of federalism to it; and how expedient and promising it is for our country to move toward federalization of social relations.

The socioeconomic aspect of federative relations, just like the socioeconomic sources of their emergence, has far from undergone complete analysis. An exception is perhaps the studies which look at the problems of budgetary federalism. But we find a methodological vacuum when it comes to such questions as the development of property relations, the economic principles for implementing social programs, and so on, which are characteristic of the federative form of statehood. We believe the reasons for this do not lie in the shortcomings of theory, but in the special features of the historical experience of the emergence of contemporary federations. They arose and became consolidated as a special form of statehood, first, during the development of market relations, and, second, during the formation of national states.

These processes, which began to gain momentum approximately 350 years ago, coincided in both time and space. The market adapted to the form of statehood (unitary or federative), but at the same time this form adapted itself to the market. If we remember that market relations developed spontaneously, we can understand why scientific thought at that time concentrated primarily on evaluating the level of civilian freedoms which the federation could ensure within the framework of the bourgeois system. Nor in subsequent periods did the need arise for these studies. Market and federative relations came about historically, which in turn required that economic science pay attention not to theoretical questions, but to practical problems, that is, to improving the mechanisms (techniques) for regulating these relations.

The traditional gap between economic theory and the practice of forming federative relations gave our scientists several principal and unprecedented questions to ponder. They were brought up by the fact that at the end of the 20th century, economically developed federations (like unitary states too) moved into a new qualitative state due to social re-orientation of the economy, which led to a shift toward a different quality of growth. And this transition, in turn, promoted an increase in the regulatory role of the state and the removal of spontaneous elements not only from the economy, but also from the practice of state regulation.

As it tries to find its place in the world community and in the international division of labor, Georgia cannot help but take into account the specifics of the current general civilizational shift. In this respect, special attention should be given to creating a theory of state regulation which is in harmony with domestic reality. Such a theoretical construct cannot be limited only to mechanisms for making a transition from the administrative-and-command system of governance to a socially-oriented market economy. This transition must be fundamentally tied to the formation of socioeconomic principles of federative relations.

If our conclusion is justified, it is logical to presume that Georgia cannot follow the path taken by contemporary federations for more than 300 years. The spontaneous formation of market and federation relations will lead to our country disappearing from the economic and political map of the world. Nor does the so-called "technical" approach to regulating the relations under review currently applied in long-term federations suit us. It can only be carried out in an established state and stable society.

In this way, Georgian science and practice is faced with quite a simply formulated, but extremely difficult-to-solve task. Its gist is to create an economic model which will make it possible to "in-

ject” a society with principles of federalism which has, first, never before had any experience with living under conditions of real federative relations, second, is making the transition from the administrative-and-command system of governance to a regulated market, and, third, is carrying out extensive regional decentralization of the system of governance in the socioeconomic and other spheres. These goals cannot be reached without defining the economic meaning of the principles of federalism. The basic principle, as mentioned above, is equality of the rights of the federation and its constituents within their competence. This is the backbone and basic principle, all the rest are subordinate to it and ensue from it. I will name four of the most important.

- First. A federation and the constituents of a federation within the sphere of their competence are recognized as entirely equal entities of federative relations and are equally responsible for the powers with which they are invested. But the powers of each entity extend only to those spheres which the other entity cannot or should not be responsible for. It is particularly important that the entities are not invested with the mentioned powers by means of any form of arbitration, ad hoc, or political decision. The matter concerns their voluntary transfer from the bottom up.
- Second. Federation constituents should be able to realize the principle of economic self-sufficiency. Its meaning ensues from the equal status of the federation constituents, as well as from their recognition of the fact that genuine equality between entities with an economically different status is impossible. In other words, a real federation appears only when economically self-sufficient constituents join together and obtain equal rights. This is what ensures their subsequent equal political and legal status, and not vice versa. As for regions which are incapable of realizing the principle of economic self-sufficiency, they correspondingly cannot be recognized and are not recognized as federative constituents.
- The third principle is related to the constitutionalization in federations (as opposed to unitary states) of two levels of state property. The state property of a federation and the state property of its constituents give rise to the implementation of specific forms of public property which differ from those we encounter in unitary states. The content of these relations does not boil down to a mechanical assignment of property during the formation of federations. Of course, the redistribution of specific property can and should take place. But this is not the main thing. Most important is that in keeping with the competence assigned to the federation and its constituents, the functions of regulating the rights to ownership, disposal, and use are redistributed primarily and most importantly between the Federation and its constituents. In this context, the federation and its constituents do not act as property owners, and certainly not as economic entities. They regulate property relations (in keeping with federalism principles) on equal terms but at different levels of state governance. And if we remember that the nature of property relations largely determines the nature of all social relations in their entirety, it is logical to conclude that the coexistence (within the framework of the institution of public property) of two forms of state property cannot help but give rise to a specific form of the mentioned relations.
- The fourth principle is equality of the federation and its constituents (within the sphere of their competence) based on ensuring correlation of the parties’ revenue powers to their expenditure responsibility. In order to carry out this principle, we must first transfer to a horizontal model of budgetary federalism. Whereby (in contrast to the vertical model of budgetary federalism implemented in unitary states where the regions’ functions are defined “from above”) the taxation base of federation constituents is defined not by the center, but ensues from the competence they reserve for themselves.

We will single out the special features of Georgia's financial and budgetary system generated by its unitary-centralized political system, which are still in place and undergoing progressive evolution.

In a unitary state, overall government costs and revenues are regulated centrally by supreme power. It determines the amount of revenues, on the one hand, and establishes the amount of subsequent expenditures based on the general needs of the state economy, on the other. Regulation is carried out by a system of specialized central organizations on the basis of standardization (quoting, the granting of benefits, and so on) and presumes a regular spending procedure and a mechanism for reviewing administrative complaints, which is necessary for adjusting the magnitudes and directions of material and financial flows.

- Today, methods of centralized cost and revenue regulation prevail in Georgia. First, legislation on most taxes (essentially impost) is regulated by the Center, and not at the regional level. Second, among the ways for distributing tax powers among the levels of the budgetary system, distribution of central taxes (impost) occupies first place, and the separate use of sources plays an extremely insignificant role. Third, vertical financial flows still play a significant part in the tax system: general government taxes (impost) dominate in the budgets of all levels and constitute an average of 70% of the revenue of the consolidated budget.
- The second distinguishing feature of our country's financial system is that supreme power appoints the main agents of the state's financial system. Today, this feature is manifested in the appointment of authorized state banks, as well as in the procedure for appointing the minister of finance. At all times in Georgia, supreme power made all the appointment to key posts, while in West European countries, the parties which won the elections placed their representatives in these posts, including in the position of finance minister.
- The third feature of the organization of Georgia's financial system is the principle of mutual responsibility which ensures that territorial and economic entities carry out the financial obligations they assumed. Whereas in West European countries, responsibility for paying taxes is individual in nature, in Georgia a collective and mutual responsibility to supreme power has always prevailed. For example, at present, collective responsibility is characteristic of the procedure for assigning transfers from the central budget to the regional budgets. Non-fulfillment of these obligations led to the Center withholding the assignment of transfers for social needs, and this had a negative impact on all the region's residents who enjoyed social services.
- The fourth feature of our country's state financial system is the unitary hierarchal budget which constitutes its basis. This budget is an alternative to the budgetary federalism of countries with federative-subsidiary political systems. It is characterized by communality and non-division of part of the funds of the federal and local budgets, while under budgetary federalism, the budgets of territories and the federation are separate and independent. In other words, with a unitary hierarchal budget, the precise distribution of several cost and revenue items among the levels of regional governance is essentially impossible. This is ultimately associated with the fact that the consumers of different levels (federal, regional, municipal, as well as individual citizens) not only maintain a single technically indivisible material and production infrastructure—power engineering, municipal services, railroad transportation, and so on—but also enjoy their services. So separate calculation of costs, which constitutes the basic procedure for forming independent and separate budgets, is technically extremely laborious and cannot be realistically carried out.

At the present stage of market reforms, the matter concerns not so much reform, as modernization of Georgia's financial system, while retaining the traditional features. Present-day modernization includes the following:

- more precise delimitation of the functions of each level of governance and, correspondingly, distribution of part of the funds of the country's unitary hierarchal budget among its constituents;
- legal separation of the central, regional, and municipal levels as independent juridical entities, which makes it possible to largely use the contractual origin when defining intergovernmental (intragovernmental) fiscal relations;
- drawing up renewed social standards and regulations of fiscal capacity which make it possible to keep in mind the different conditions of different territories, on the one hand, and the population's growing social needs, on the other;
- raising the significance of legislative principles in regulating the financial system;
- increasing the role of the population in adopting and executing budgets of all levels (though their representatives in parliament and in local power bodies).

As I have already mentioned, our society does not have any experience in real federalism. So it is impossible to form a democratic federative state within Georgia's borders merely by declaring it such in the Constitution. The economic, social, political, and other spaces must be rearranged correspondingly. To what extent is Georgia willing to undergo this rearrangement?

Its specifics as an object of management are dictated by the need to resolve socioeconomic, ethnopolitical, and regulatory problems at the same time, that is, carry out a set of measures which take into account the economic-geographic, socioeconomic, sociocultural, historical, and other features of the country. But the socioeconomic crisis in which it is mired has caused a break in interregional economic ties. This process (against the background of the state's withdrawal from the sphere of economic regulation) led to the autarky of several regional markets and (as a result) to the actual "drop out" of some regional economic complexes from the country's economic space. And if we take into account that under conditions of the country's increasingly active incorporation into the world division of labor, the named economic complexes are now being actively drawn into the spheres of influence of the world economic centers, the possible fatal consequences of the mentioned processes of autarky become understandable.

Since as soon as the internal national centers of economic influence prove weaker than the external centers, the latter, by increasingly attracting internal Georgian regional economic complexes toward themselves, will objectively (due to the universal laws of development) withdraw them at a certain stage from the country's economic space.

The sociocultural traditions of several ethnic groups living in the border territories are closer to the traditions of the citizens of neighboring states than the traditions of the ethnic groups populating other Georgian regions. When socioeconomic motives for integrating the population's interests are weak and the Center's national policy is contradictory, there is the increased danger of some regions breaking away from the country's political and legal space, as well as their "reorientation" toward ethnocultural poles close in tradition.

To sum up what has been said, I will note the absence of currently sufficient economic and sociocultural fundamental principles for forming a real federation in Georgia due to the indeterminate nature and internal contradictions of its legislation, which are promoting disintegration of the country's single legal space.

Today, there are no good reasons for maintaining that the influence of social and economic mechanisms characteristic of the federative form of statehood is increasing in the Georgian economic

system. Unfortunately, the federalization of social relations is being replaced with implantation in the economy of certain instruments unrelated to each other and frequently mutually exclusive.

As a result, the special features of the reproduction process observed within the Georgian economic space are not working toward real federalization. This is why the regulatory attributes of domestic federalism do not correlate with the economic realities, which is dooming (if this lack of correlation continues) federalization to failure.

We will try to figure out if this “playing” at federalism is a manifestation of the situation well known in world history when, during social reproduction, it was not economic, but political interest that acted as the backbone. In particular, are we not witnessing the practice characteristic of the Soviet period, within the framework of which the political development model strictly defined the structure and direction of economic development.

Thus, the situation in Georgia is characterized by the following special features.

- First. The reproduction process does not include the necessary minimum of socioeconomic institutions and mechanisms for forming the foundations of a real federation.
- Second. Neither the central government, nor the regions have sufficient economic and organizational resources for introducing economic self-sufficiency in the regions, thus ensuring their real economic equal status and, consequently, their equal rights.
- Third. Under the current system of relations between the government leadership and the regions the possibility of developing federative relations is crippled by the population’s growing mistrust in the Center’s ability to guarantee its interests. This is primarily because the population’s (or to be more precise, its economically and politically active part) interest in a particular form of statehood is the basic prerequisite dictating the choice of this form.

So it turns out that federalism in Georgia has no prospects.

If this problem is viewed through the prism of forming a strictly federative state, this conclusion is correct. But if we approach the question from the viewpoint of the price society is willing to pay for choosing a particular form of statehood, this conclusion does not appear as unequivocal.

Our country has the opportunity to choose among social relations characteristic of a federation, a unitary state, or a confederation. We will try to briefly describe the consequences of implementing these three possible scenarios.

As mentioned above, some of the population does not believe the Center is capable of guaranteeing its interests. This can be interpreted as an unequivocal rejection by this group of the federative development model. In this case, an attempt to create a unitary form of state will most likely be viewed as a return to the administrative-and-command system of governance. And since the Center is not capable (in exchange for an extension in its powers) of providing the country’s citizens with significant economic support, there is little chance they will reject independence of the territories, albeit illusory (in exchange for real, but economically unmotivated strengthening of the central bureaucracy). If for no other reason than their logical belief that this bureaucracy, in contrast to regional bureaucracy, cannot be controlled at all.

From this it logically follows that the drift toward a unitary form of statehood will be accompanied by an aggravation and spread of social conflict in society, with possible armed clashes and, as a result, with the possible loss of some of Georgia’s territory.

The consequences of forming a confederation are just as dangerous. During autarky of some regional markets, the struggle between the rich and poor regions, socioeconomic indeterminateness, tension in the system of ethnopolitical relations, and ultimately in a state where administrative-territorial division is based not on the principle of economic expediency, but on the social-regional principle, the transition to a confederation is fraught with a collapse of the economic, political, and legal

space, that is, of the state. But since most citizens and politicians in the regions are in favor of the country's unity, the result is also entirely predictable.

Consequently, the formation in Georgia of a system of federative relations satisfies the principle of economic expediency more than the formation of a unitary state (or transition to a confederation). The preference for this choice lies in the fact that movement in this direction is accompanied by the fewest (compared with the other alternatives) losses, hence under current conditions it is economically more favorable.

But in order for this choice to become a reality, it must be recognized that the foundations of federative relations are only just being formed in the country. Under these conditions (particularly at the initial stage of transition), two trends will oppose each other in society. What is more, their significance will grow as the noted transition period continues and the economic crisis worsens. The Center will try to concentrate as much power as it can in its hands to keep the situation under control, including interfering in regional affairs. In this way, federalization of social relations should take place under conditions unique for world history. We have already revealed the gist of this uniqueness—the absence of sufficient economic prerequisites for forming a real federation, but with the presence of political prerequisites which still make it possible to preserve our country as a single state.

At the current stage in development, an action plan could be drawn up aimed at forming optimal social foundations for the regional vital activity and at defining a region's place in the country's common economic space, but only taking into account the socioeconomic, ethnopolitical, and regulatory foundations of Georgian federalism.