

## HISTORICAL PARALLELS OF THE NATIONAL ECONOMIC DOCTRINES

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### **Abstract**

*Historical experience shows that problems of economic development in certain countries are linked to the rational use of economic resources. It is not accidental that this issue was of high importance as early as in the 19<sup>th</sup> century in Georgia. An outstanding Georgian writer Ilia Tchavtchavadze (1951-1961) and other researchers (see References) dedicated interesting works to studying this problem. Like German national economic doctrines, Ilia Tchavtchavadze was much concerned with the priorities of national economy. Based on the research results, the present work provides conclusions that Ilia Tchavtchavadze's economic doctrine complies with German as well as classic economic doctrines with the only difference that development of Georgian economy should start with the development of agriculture; complies with free trade policy; gives great importance to building railway network and Batumi-Baku pipeline, development of oil industry, co-existence of private and community ownership and inadmissibility of forceful infringement of such ownership; lays foundation to building of an independent banking system in Georgia.*

**Keywords:** *German school, national economic doctrine, post-Soviet economy*

**JEL Classification:** *B10, B20, B21, B22*

### **I. INTRODUCTION**

Problems with economic development of countries in transition are often linked to the lack of economic resources or inefficient use of existing resources. Attracting foreign investment in such countries is quite crucial but foreign funds are not invested in real sector leaving us with no chance to create new jobs. The same happened in Post-Soviet Georgia. (Basilia, Silagadze, A., Chikvaidze, 2001; Papava, 2013; Silagadze, A., Zubiashvili and Atanelishvili, 2013, 2016; Silagadze, A., Tokmazishvili and Atanelishvili, 2014; Silagadze and Atanelishvili, 2004; Tvalchrelidze, Silagadze, A., Keshelashvili, Gegia, 2011). As it seems, the issue was quite challenging in Georgia in the 19<sup>th</sup> century. (Atanelishvili, 2006; Veshapidze, 1999). A renowned Georgian writer and public figure Ilia Tchavtchavadze studied this problem and like representatives of German national doctrines, he paid great attention to increasing importance of priorities of national economy.

### **II. GIVING PRIORITY TO GENERALIZATION OF NATIONAL ECONOMIC PARTICULARITIES**

German historical school (J. Möser, A. Müller, F. List, W. Roscher, B. Hildebrand, K. Knies, G. Schmoler) (Silagadze, 2010-1996; Kharitonashvili, 1997; Силагадзе, 1991, 2011; Силагадзе и Атанелишвили, 2007, 2010) considered it of greatest significance to study national particularities of certain countries and also, to take into account external economic factors. According to F. List, abolishment of domestic customs and introduction of a common customs system would encourage the creation of a unified German state. Being involved in promoting of the railway construction, he was a supporter of the idea of the West-East Railway (from the Rhine to the Dunai and to the Black Sea) and safety customs system for encouraging national production in certain period of time. According to B. Hildebrand, the challenge of economic science is to study all stages of economic development of certain nations and the entire mankind, and to understand the basics of modern economic culture and the challenges that are solved by labour of modern generation. Thus, he believes that economists should study the national economic history. According to K. Knies, the subject of research of political economy appertains to the sphere of historical events, and laws of political economy should be presented in a historical aspect where each of the stages implies understanding of generalization of development to certain point.

In general, the requirement of early representatives of the historical school to analyze economic events in a historical light failed to be accomplished in the time of their authors. Neither of its followers could create an economic theory using the method developed by them. Their economic achievements moved across the paths of classicists. It is not accidental that generation following the historical school criticized not only classicists but methods of previous-generation historical school. G. Schmoler demanded active involvement of state in the economy to encourage the national economy and to soften class contradictions. Their ideas developed in different forms later.

### III. PRIORITY DEVELOPMENT OF AGRICULTURE

In several Post-Soviet countries, the economic development depends on exporting of raw materials mainly, while in other countries (including Georgia) little attention is paid to the utilization of local resources and greater emphasis is placed on import (Silagadze and Zubiashvili, 2015; Silagadze, Tvalchrelidze, Zubiashvili and Atanelishvili, 2016; Nedelea Alexandru, Comănescu Laura and Ielenicz Mihai, 2009). In the 1990s, potential agricultural resources of Georgia were left unused (notwithstanding the land privatization) and the country became dependant on import. In 2004-2012, the situation in this sector worsened again. Currently, the share of agriculture in NDP does not exceed 10 % whereas according to the official statistics, number of people employed in this sector is more than half of the total number of the employed people in Georgia (Silagadze, 2010 - 2014; Silagadze and Atanelishvili, 2011, 2014).

These were the problems that faced an outstanding writer and public figure Ilia Tchavtchavadze (1834-1907) who played greatest role in the development of certain aspects of the national economic doctrine in Georgia in the last years of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century. His works (“Life and Law”, 1977-81; “The Refugees Case”; two essays 1880, 1886; “Private and Community Landowning”, 1886; “Domestic Reviews”, 1879-85; “Farmers Union of Kakheti“, 1895; “Customs Policy in Europe, Free Trading and Protectionism”, 1887; “Problems of Economic Life of Our Country”, 1893; “Shortcomings of Public Life and Its Economic Reasons”, 1897; several essays on industry, trade, financial and banking issues) (Silagadze, 2010) give an overview of issues of effective use of natural resources of Georgia and provide specific recommendations. To him, national economic interests are of highest priority. He believes that rationally managed agriculture should be the foundation to the prosperity of the country in a certain period of time. He links the prosperity of the Georgian people to the economic development which should start from using existing natural resources.

This recommendation by Ilia Tchavtchavadze was based on the conditions of that time, when small-scale investment in the agriculture of rich potential resources could yield successful results in a short time and stimulate the development of other sectors of economy.

It is not accidental that considerable part of Ilia’s “Essays” address the issues of lithographic stones, manganese in the Tchiatura city, development of oil industry, and building of railway, roads and irrigation system. He considered the German economic progress in the end of the 19<sup>th</sup> century staffed with qualified workers an excellent example of economic development. Nowadays, Baku-Tbilisi pipeline which was forecasted by Ilia and later built is of crucial importance (Silagadze and Atanelishvili, 2010).

Ilia Tchavtchavadze worried about monopolistic-oligopolistic attitude of local large-scale merchants who refrained from investing in the national economy (construction of railway, sugar plant, precious stone processing factories, etc.) that really had great potentials.

To avoid imperfect competition, Ilia suggested creation of a consumers society which would purchase local produce from the peasantry at a moderate price and then sell it. For this purpose, he wrote the first in Georgia charter of Tbilisi Consumers Society (1869). (Silagadze, 2010).

Ilia Tchavtchavadze was quite careful in the development of foreign economic policy of Georgia, although he revealed deep knowledge of free trade and protectionist policy. In general, he supports free trade which means freedom of commerce and independence of economy from the state. In his opinion, the challenge of the protectionist policy is to protect the national economy from foreign competition but he knew very well that such policy would not work in a long-term perspective. Finally, he chose an open, independent market which is in full compliance with the principles of modern market economy. In addition, Ilia’s attitude towards the doctrine of comparative advantage is still challenging in the international trade. According to the doctrine, in different countries one manufacturer (compared to other manufacturers) has a comparative advantage over another in producing a particular good if they can produce that good at a lower cost. According to the example Ilia gave, priority should have been given to importing of bread from Russia and exporting to Russia of those goods that were produced in Georgia under comparative advantage.

Ilia Tchavtchavadze’s cautiousness towards foreign investments were caused by low purchasing capacity of local population. The same happened in Post-Soviet countries where in terms of fast privatization and low purchasing capacity the locals failed to purchase property.

Ilia Tchavtchavadze played vital role in the development of an independent banking system. For 30 years he managed Tbilisi Nobility bank (1875). Building of the independent banking system continued in the Democratic Republic of Georgia (1918-1921) and ended in the middle of the 1990s in Post-Soviet Georgia by creating current system (Atanelishvili, 2006, 2013; Silagadze and Tokmazishvili, 2008; Silagadze, Nodari., 2011; Силагадзе, А., 1991, 2010, 2011; Силагадзе и Атанелишвили, 2010).

#### IV. CONCLUSION

Ilia Tchavtchavadze's national economic doctrine:

- complies with German as well as classic economic doctrines with the only difference that agriculture should have been given the top priority in the development of Georgian economy which would have created firm foundation for the development of industry and trade;
- complies with free trade policy, open economy and concepts of comparative advantage;
- gives great importance to building of a railway network and Batumi-Baku pipeline, development of oil industry, and national investments in the economic renaissance of the country;
- considers it admissible for private and community ownership to co-exist and finds it inadmissible to forcefully infringe such ownership;
- lays foundation to building of an independent banking system in Georgia.

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