

# The Basic Problems for the Realization of the Concept of Economic Policy

R. Gvelesiani, I. Gogorishvili

**Abstract**—The concept of economic policy and the practical economic policy diverge from each other at a certain stage of development. This is related to the concept of realization of the underlying problems. It comes with all the problems emerged in the market oriented economic order due to the political processes based on social welfare policy. The realization of the concept of economic policy is impeded by economic and political obstacles. If you want to fill the appeared between the concept and reality, it is necessary to identify and avoid these obstacles. It requires the following: increase of the level of the knowledge of prevention technology in understanding of economic relations, as well as political aspects of the formation of ideas; perfection of economic policy toolkit, and political methods.

It is necessary to realize what is the main precondition of implementation and further development of the concept of economic policy, as well as the formation of opinions about economic and public safety. This is a broad consensus on the basic values of the content and the scale of action, which the general public wants to be realized.

**Keywords**—Economic Policy, Basic Problems, Social Welfare Policy.

## I. INTRODUCTION

THE concept of economic policy can be defined as a general framework conditions of the action of economic policy, its guideline, or fundamentals. When such a concept is based on the principle of rationality, it represents broad and wide-ranging general objectives of well-founded and sustainable system. It also contains order policy principles; compatible with to them and directed toward the objectives with conformal means. From this position, the economy is nothing more, than a composite part of broader public purposefulness. The economic concept facilitates the rational economic policy decision-making. Without this basis, the rational decision-making on the on-going economic policy issues is linked to lots of aspirations and action ability.

It also means a thorough understanding of the fundamental values and common objectives. The concept of economic policy exactly allows of pre-selection of correct action capabilities. It sets the rules for intervention as a criterion of applying the means [1]. The concept of economic policy enables us to reach some economic policy decisions directly, without any inspection of maximum amount of activity. The concept determines their (decisions) compatibility with the larger objectives of society that contributes to the realization

Revaz Gvelesiani and Irina Gogorishvili are with the Department of Economic policy, Faculty of Economics and Business, I. Javakishvili Tbilisi State University, Tbilisi, Georgia (phone: +995-577 939090; e-mail: revaz.gvelesiani@tsu.ge, irina.gogorishvili@tsu.ge).

of the certain objectives of economic policy.

When methodological norm is rationality, then the concept is a result of critical reflection. This fact is the key to that which doesn't include logical contradictions. Although, the concept determines the direction of economic policy action, but that does not mean that it predicts what kind of political changes of economic policy will take place in the future and how the separate processes related to it will develop. For this reason, with the means of aspects of operability, the objectives formulated in the concept are out of doubt. Meantime, the goal of management teaching theory is not quantitatively a precise determination of the regularities of economic policy, although it links to each other certain means and objectives. The economy is not characterized by such regularities. Due to the permanent social changes, their legitimacy is limited in time. As to the concept, it contains a system of long-term relations between objectives and means. Therefore, on one hand, it provides the tenets about the scope of action in which the certain tool might act to reach the formulated objective; on the other hand, it determines its compatibility with the principles of the order policy [2].

The concept of economic policy is linked to the order policy that is indicated by the relations between means and principles permitted by the concept. In such relations, preliminary processes of coordination are also understood. The concept is coherent and rigid, when the tools and other principles given in it, with the mean of specific aspect of the decision, meet coordinated and harmonized conditions of action. So, the market coordination is in compliance with the principles of inviolability of property.

Private actions which are based on the principles of competition are in full compliance with the requirements of economic policy management, carried out through the information policy and data changes. The attempts to replace the coordination of private economic actions with state management in a direct violent manner would be incompatible with the market demands. Therefore, first of all, an important practical result is obtained in the sense of freedom of action. It comes, how properly the conformal system, based on the principle of coordination, is functioning.

## II. METHODOLOGY

Both general and specific research methods, such as analysis, synthesis, induction, deduction, scientific abstraction, comparison, statistical methods (selection, grouping, observation, dynamics, etc.), static methods and expert assessment are used in the research. In order to define the

regularities between analytical and statistical evaluations, reports of the National Statistics Office of Georgia are used.

### III. DISCUSSION

The particular impact is reflected on the elements of order policy given in the concept having ultimate goal of society and its interpretation. Economic order which is based on underlying concept is not an end in itself. It is expression of society's basic opinion. That is, we must comprehend figure out two aspects of regulated market, one of which is related to the management of coordinated system, and second, - which establishes the extent of possible effects of economic policy management. There are two alternatives in the form of market economy and, centrally controlled economy. But it is unclear, what position, the type of economic order, holds in this alternative, which is based on the regulated market economy. Decision-making depends on how is defined the economic aspects of individual freedom and justice. When emphasis is placed on the maintenance of acquired social status and subjective understanding of justice, then the market coordination and based on it autonomy of private property requires certain restrictions and adjustments. But if focus is shifted onto the success of an individual's ability – to match with the progress of changes, together with the high level of subjective autonomy, the existence of financial stimulants is also necessary. They have a completely different distribution, but it must lead to tolerable and acceptable results for everyone.

The concept of economic policy cannot be scientifically proven at least, because of its close connection to the realization of the economic interests of individuals and separate groups.

The problem is that the scientific rationale is spreading over objectives and means too. Therefore it applies not only to the evaluative tenets, but also to regulations governing the assessment. Goals are scientifically accessible only through:

- Operationalization,
- connection between their logical and empirical features and
- the goal–mean–relation aspect.

Scientific efforts of Economic policy concept should be directed to the fact that:

- it, goal – mean, to be revealed with the system basics;
- to check it doesn't consist resistance;
- to check if coordination processes are functioning properly and whether they are compatible with the system permitted agents (system conformity). How much the set goals are attainable (goals conformity);
- to assess possibility of their implementation in consideration of forming ideas under the political process.

The result of these efforts should be that the concepts with the management theory aspects are free from any resistance and do not contain false conceptions. Perhaps, the main task of Economic policy, as science must be determination of it, and discovery of ideological elements of the conceptions [3]. But such attempts are different from those efforts, which aim to develop economic order types or models. In the case of these

abstractions the absence of resistance is a basic requirement.

When it comes to the basis of the economic policy action, then the abstractions without resistance shouldn't be taken into consideration. They are deprived of empirical content and during formation of specific economic goals; institutional aspects are not taken into account. This is particularly visible in the types of extreme economic order. For example, the degree of the abstraction of the economic policy recommendation is obviously clear that considers perfect competition, as the system of recommendations. In reality, they don't work together with practical objectives. If we want to see the concept to perform its task and economic policy to become the steady basis of action, it is necessary to ensuring long-term political consensus. It must take into account that the economy is a structural unit of the system, and with this regard its objectives are integral part of broader public objectives. During the implementation of the concept of economic policy, it should be noted that taking practical steps needs:

- some time;
- their results should be assessed by comparative analysis
- along with core, some accompanying long-term and short term impacts must be considered, that can cause conflict of interests.

To solve it:

- changes in the public opinion about basic values must be checked and whether the reached consensus still in effect completely, or partially.

Therefore, it is necessary to keep the concepts of economic policy monitored permanently over time, and to include essential corrections into it. At the same time, under the influence of particular circumstances, and regardless of the efforts of economic policy care takers, it is possible that the concept and the actual policy to be divorced. Although, the concept as the reference point for practical purposes, does not lose its significance.

If we reject it, we would face the following question:

How to replace it, to avoid threat of almost incomprehensible interventions?

There is no lack of such models in the world economic thinking, which are portraying human coexistence in an ideal way. Throughout the centuries, all-embracing societal changes were spurred with such utopias. The creation of the concept of economic policy has the same reason, as generally economic policy problems have. It is difference between the actual condition and the desired economic development.

It is necessary to gain support of majority in representative democracies, in order concepts to be realized. It depends both on how attractively they established the goals as well as means of achieving them. It must be shown throughout the analysis of the discussion on technology issues. Otherwise, since it concerns individual assessment of goals and means, it is impossible to avoid conflict of interests. To win the support of majority, it is imperative that they (the goals and the means of achievement) would offer sufficient compromises and compensations. It is not excludable, that supporters of the concept in their analytical discussions and imaginations about

management are guiding with their own combination of publicly established goal, order policy principles and target oriented conformal means. It pretty much looks like a model of ideal concept. To evaluate means and goals according to such a model, it might become clear during the scientific inquiry, that the concept with ability to gain majority support, suggests minor compromise. Economic policy is committed to eliminate specific deficiencies on the basis of logical and coherent diagnosis and on this basis to take into account the effects of the result. It must be shown how to implement coherent reforms based on social technology. If existing problems in the sphere of economic policy are comprehended rationally, on the one hand, each phase for - overcoming them should be in accordance with each other, and on the other hand, it should fit with global assessments on public conditions and development. The concept of economic policy, as a framework program, serves just this goal. Its revision should be made periodically according to the changes occurred in assessments and knowledge of technology. Through the historical aspect, the concept of the social market economy was formed, as the reaction:

- On the growing and disoriented interventionism conducted by industrial powers in the period between two World Wars;
- On centralized model of the handling of economy in relation to the accumulated experience, which fully confirmed scientifically formulated projections;
- On the strategy, of the early post-World War II period, that tried to eliminate poverty with bureaucratic and economic methods.

With the aspect of policy order, the concept of the social market economy is an attempt for forming exact type of regulated market economy. The goal of the concept is to "bound free market principles with social equality" [4]. It is recognition of the aim of individual freedom and justice. The thoughts and views of the supporters of social market economy are not developed sufficiently, so, the possibility of an erroneous interpretation cannot be excluded. The fact, that economic policy provisions were included into the concept, i.e., became objective of practical policy, is not enough guarantee of their accuracy. The concept has a quite specific nature in order to compare it with reality, and to see the difference between them. It is enough to overview the first two decades of the period, when concept had been becoming the standard of economic policy action, and it will be clear to us, how far it diverged from the reality:

- Timid steps had been taken towards ensuring competition;
- It lasted to 1960, until developed countries introduced a competition protection legislation. In the following years the deficit of the laws was partially eliminated. However, these changes could not improve even further the legal possibilities, which are essential" for achieving the maximum intensity of competition in a line with consumer interests";
- The measures hampering market coordination could not be avoided. On the contrary, exactly with their help in industrial and developing countries, from the market

coordination was excluded such sphere of economy as agriculture. Even after two decades "it became impossible to fully engage some social security oriented sectors into the market economy"[5]. It should be noted that the condition still remains the same;

- As to the "monetary policy", the deterioration of the monetary value for the same two decades suggests that the deviation from the concept has occurred. The reason for this phenomenon was the state policy of price determination in such countries, as Germany. It turned out completely incompatible with the concept. Free floating regime of currency exchange rate excludes possible corrections in it. Therefore, the central bank is powerless to control monetary expansion. At the same time, instead of adjustment of the exchange rate, some less conformal measures toward the system has been made, e.g. foreign capital traffic control, limitation of foreign trade, etc.
- The huge gap between the concept and reality might be result of global control [6]. The social market economy is essentially puts higher demands on policy condition and management teaching (as well as to "possibility of realization"). It was exactly, what initiators wanted. The global control over the order policy is based on a certain understanding. Market coordination in particular, it is defined action, order policy-oriented event. This point of view doesn't suppose policy legitimacy as an obstacle, which does not enable us to use the consistent management plan. Without control, as surprising as it must be, the global control did not bring convincing results [7].
- The initiators of the concept considered that the use of so called dynamic rent represented "inconsistency" of the project, due to its national-social components. Riopke claimed that it was a "huge step toward the welfare state, which consisted threat of nationalization of the person" [8]. But surely, it was an important step toward the realization of the "care of others". This was followed by other steps, but the same time, it caused institutional depletion of the social insurance providers. The social state with its substance contributes to the gradual expulsion of the principle of subsidization, which is result of political competition. The one particular form of democracy leads to the concept prostration and exhaustion. It is referred as a form of the welfare state and democracy, which lays on it (well-being of the majority). This problem causes the coverage of ethical issue. Sometimes it even makes it a taboo. It comes from the disregard of variety of interest groups opportunistic reaction to them. It is amplified by the fact that the interest groups of majority (economic interests of transnational companies) and political actors are connected to each other, both personally and financially [9].

#### IV. CONCLUSION AND RECOMMENDATIONS

*Based on the above Analysis, We Can Make Several Conclusions:*

The discussed examples once again demonstrate that the economic concept and practical economic policy diverge from each other at a certain stage of development. It is related to the realization of the fundamental problems of the concept. The case applies to those problems which emerged in the market economic order due to public welfare oriented political processes. With this regard, we should consider the following argument: "The institutional framework of the social market economy is not sufficiently strong and rigid to survive, or resist, on the one hand, to the lower level politicized tendencies (including interests of the informal sector), on the other hand, to the realization of subsequent opportunistic possibilities (including corrupt deals)" [10].

*Based on the Above Analysis and Conclusions, We Have Developed the Following Recommendations*

In general, the implementation of the concept of economic policy is blocked by economic and political obstacles. If we want to eliminate the gap between concept and reality, it is necessary to identify these obstacles and to avoid them.

To do this, we need:

- Improvement of the knowledge of prevention technology with the political aspect of economic relations, and formation of ideas, as well;
- Improvement of economic policy toolkit, as well as political methods. Especially, it must be checked whether it is possible;
- Improvement of inevitable coordination of the economic policy actions; while there are plenty of economic policy makers;
- To restrict impact of the interest groups on political process of formation the economic policy ideas;
- Improvement of knowledge of the management of decision makers on the basis of controlling the results of economic policy. Whether it eases identification of political responsibility, and possibility of imposing sanctions and penalties on them (if necessary).

Simultaneously, it is necessary to understand the main prerequisite for the realization and further development of the economic policy concept, as well as the formation of opinion on economic and public order. This is a broad consensus on the content those basic values and scale of the action, which public wants to be realized. Their transfer into the sphere of practical action is the main scope of political objectives. It is noteworthy, that either in industrialized, or in developing countries, under pressure of political competition, the issue is limited with vague declarations and symbolic actions.

#### REFERENCES

- [1] E. Tuchtfeldt, „Wirtschaftspolitik, in: Handwoerterbuch der Wirtschaftswissenschaft, Bd. 9, Stuttgart u. a. 1982, p.202
- [2] R. Gvelesiani, I.Gogorishvili, "Economic Policy", book I, Publishing house „Universali". Tbilisi, 2012, p.45. (in Georgian language)
- [3] M. E. Streit, Theorie der Wirtschaftspolitik, 6. Auflage, Stuttgart. 2005, p.296
- [4] R. Gvelesiani, I. Gogorishvili, „Economic Policy", book II, Publishing house „Universali". Tbilisi, 2012, p.214. (in Georgian Language.
- [5] A. Muller-Armack, Soziale Marktwirtschaft, in: Handwoerterbuch der Sozialwissenschaften, Bd. 9, Stuttgart, Tuebingen, Goettingen., 1956, p .390
- [6] E. Tuchtfeldt , Soziale Marktwirtschaft und Globalisierung; in ders. (Hrsg.): Soziale Marktwirtschaft im Wandel, Freiburg, 1973, p.159-188.
- [7] M. E Streit., Demand Management and Catallaxy - Reflections on a Poor Policy Record. Ordo 32. 1981, p. 17-34.
- [8] B. Molitor, Soziale Marktwirtschaft. Hamburger Jahrbuch fuer Wirtschafts- und Gesellschaftspolitik 3. 1958, p.66.
- [9] M. E Streit., Menschliches Wissen – Dimensionen eines komplexen Phaenomens, in: Ordo 54, 2003, p. 113-122.
- [10] N. Kloten Der Staat in der Sozialen Marktwirtschaft (Walter-Eucken-Institut, Vortraege und Aufsaezte 108), Tuebingen. 1986,p 78