

## AFTERWORD – FROM PLUTOCRACY TO MERITOCRACY

The idea of this book is not only to tell the true story of an incredible economic transformation and government reforms that took place in Georgia in 2004–2012, but also to provide some analyses of the reasons behind the success stories and failures and to try and systemize the results while reaching as broad an audience as possible. The end result is – based on Georgian example and examples of many countries that have been studied – that none of the existing economic theories are applicable and that a practical approach is needed to every concrete reform in every single country. Copying and pasting does not work – but learning from others’ experience and innovating to adopt to local realities is the formula for success.

Practical Economics was the basis for the Georgian success story – looking at every problem, every reform from many different angles (private sector’s, citizens’, international investors’, budgetary as well as regulatory angles), analyzing it based on international experience and adopting for local realities, thinking outside of box, innovating, and solving each problem in that particular context. These are the main characteristics of Practical Economics. However, this approach (much easier said than implemented) would not have been possible to practice if there had not been “open access” of the government, inclusiveness of the institutions, and a major mindset shift from plutocracy to meritocracy.

In the book *Why Nations Fail*, the authors D. Acemoglu and J. Robinson argue that “countries differ in their economic success because

of their different institutions, the rules influencing how the economy works, and the incentives that motivate people.” They argue that there are inclusive and extractive institutions – the first ones are based on meritocracy, on private property, rule of law, and public services that provide a level playfield for all. The latter is characterized by the opposite features.

When looking back at the 2004–2012 period and assessing the successes and failures of that time, I truly believe that one of the main factors of the incredible turnaround story and one of the main ingredients of the success formula was an incredible shift from plutocracy to meritocracy. Maybe it was not enough to create comprehensive, across-the-border inclusive institutions but some major characteristics were there. Maybe this period was not enough to introduce fully functioning rule of law or private property aspects of the inclusive institutions, but meritocracy and public services were definitely big achievements that laid the groundwork of economic success and mindset shift that have been described in this book.

Communist regime was based on full-blown extractive institutions – where there was no rule of law, no meritocracy, no freedom of people to choose what they wanted to do – where you could not get promoted if you were not a member of Communist Party (the only party that existed in the Soviet Union) and where the elite of the Communist Party were the only source of power; where only the elite of the Communist Party with one phone call could help you become a student of any university or promote you to any position, or even save you from any trouble with the law, or help you in the court room. And if you were not part of this elite circle, it did not matter how hard working, smart, intelligent, or innovative you were, there was not much you could do about your future or about your family.

Unfortunately, when the Soviet Union broke down Georgia continued to live with the same rules. The power of the elite – to take decisions like who gets promoted and who does not, who gets to go to university and who does not, or sometimes even showing kindness and choosing a poor relative from a countryside and helping him/her to go through life – was all too sweet to let go. Bringing Shevardnadze from Moscow and supporting him throughout 1990s and early 2000s was nothing else but the wish of the ex-communist elite to continue with the same lifestyle as during the Soviet Union. The closed system was the main reason for the failed country that Georgia had become in early 2000s and open access was the main characteristic of Georgia’s turn-around during 2004–2012. The most important

messages that were sent to the society after the Rose Revolution were by introducing free and fair university admission exams – where anybody could become a student of any university based only on their skills and knowledge; by accepting at the highest government positions people that were not members of any party; and by promoting public employees based on their achievements rather than on their personal relations with anybody. These messages gave a hope to everyone that anything was possible, gave a hope to everyone to “pursue happiness” and motivated everyone to work, to study to be dedicated, which as a result created the drive, the buzz, the environment that is a formula for success and for growth.

Freedom, open access, and meritocracy were the key characteristics of the transformation that contributed the most to the incredible transformation story of Georgia.

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