3.5 STATE PROTECTIONISM
AS A MODERN ALTERNATIVE TO ECONOMIC LIBERALISM

Nowadays the problem of the heredity of ideas is of great importance. The heredity of ideas can avoid the ignorance of historical experience, in order to optimally share and apply useful thoughts and experiences of the preceding period.

We must not be afraid of the use of previous economic experience and the achievements of economic thought. Efficient application of the early ideas on economics and business will be profitable. Georgia cannot develop unless it follows the way of world civilization.

Not long ago number of economists shared the thesis, the history of philosophy is the repository of wise thoughts, while the history of economic thought is the cemetery of economic ideas. Social changes of the recent decades undermined the second part of the above thesis. The ideas, which were ignored in the past, appeared in a new power in the changed circumstances.

The situation is constantly changing. The economic doctrines, theories and concepts are also changing but the history of economic thought shows that number of economic ideas are never forgotten. Periodically, our life requires applying the early economic ideas in a new way. The goal of the transitional period to seek the ways for achieving the viability of our society is becoming more and more important. Therefore, it is inevitable to apply those economic doctrines, theories and conceptions, which were successfully used in any society in the past.

Along with the above said, it should be noted that the common objectives of economic science at different stages of its development do not imply all the economic doctrines of all the time to be identical. Any economic doctrine or theory is expressed in various form and content in any specific historical conditions. In any historical epoch they acquire some specific features expressed in different form providing different social and economic effect.

Many examples can be cited to illustrate that certain economic ideas appear in a new power and form in different situations. Therefore, in transitional period it is very important to know both old and new economic ideas properly. It allows timely to opt for any model of different possible versions and properly to implement it in contribution to human progress.

In addition, the new doctrines and theories must not be just the repetition of the old. It is necessary to express them in a new way, in modern terms and approaches; it must be an alternative collection of conceptions. It is necessary to identify fundamental aspects in them. Their systemic study and generalization according to modern requirements are necessary.

When the nation forgets its history, then it starts degradation. The history is written by those people who are most of all interested in the present day.

In the transitional period the historical analogies are dangerous, but necessary. Among the ideas expressed earlier there are many acceptable today.


Search for the alternatives in the transitional period

As it is very important for the patient correctly to diagnose the illness, the same way it is very important for crisis-ridden economy correctly to diagnose the problem and to find a
real way out of the situation. This is the only way out for recovering the broken down economy.

The famous Georgian thinker Niko Nikoladze noted that "as there are different remedies for patients, by means of which the illness is progressed or regressed and by means of good care and treatment the patient can recover and live longer, the same way there are found and investigated different means for economics to be used in its bad conditions. There are lots of examples of other nations, who were in the worse difficulties than our society, but managed to escape difficulties quite well gaining remarkable power and wealth afterwards" [238, p. 23-24].

At any stage of economic development, no campaign application of any principle is able to succeed. No model of market system can help our economy if mechanically copied.

Transition of the economy from centralized planning to market system cannot itself solve all economic problems in the country and cannot automatically provide universal well-being. Great deal depends on the type of selected market economy and the model of economic development. "The fundamental principles of market relations are common in a certain way, but the types of market economy functioning in different countries are essentially different" [239, p. 127].

The economic theory knows different models of the market economy. Among them the American, German, Swedish, Japanese, Chinese, Chilean models of economic development as well as the East Asian model of "Tigers" (South Korea, Singapore, Taiwan, Hong Kong) are considered to be standard [240, p. 36].

According to Georgian economist, J. Kakhniashvili, it is necessary to choose an economic model on the ground of theoretically admissible and practically feasible options of economic policy providing the inertia of economic system, on the one hand, and, on the other hand, the existence of real social groups interested in any kind of development [240, p. 40]. Here, the main problem is whether to maintain economic liberalism or protectionism [240, p. 42].

Georgia must take into account the experience of the modern world, but in order to implement the liberal economic policy it is necessary to create certain material and legal basis. Even a cat can defeat a baby lion. The cub needs some time to grow and struggle for existence; otherwise it is fated to die. The same can be said about the current economy of Georgia [240, p. 43].

It is impossible to build and implement a national model of economic development unless a protectionist policy is pursued, which implies to increase tariffs on the import and to provide state subsidies for domestic production in order to protect it. This is the only policy by means of which it is possible to maintain national way of life and to provide reasonable modernization of economy with account of the world practice [240, p. 45].

It can be concluded that economic liberalism, free entrepreneurship and free trade, is good for the developed economy. For strengthening of weak economy the protectionist policy was always used. It was during the initial accumulation of capital when the mercantilist practice was introduced; the same situation was in Germany in the 19\textsuperscript{th} century, where Friedrich List and the representatives of the historical school tried to develop economy by means of protectionist methods. In the 30s of the 20\textsuperscript{th} century the same method was used by Keynesian economists to overcome the Great Depression.

However, it should be noted that neither the use of the old methods alone can provide a good result. In the present circumstances it would be better to use neoclassical synthesis to improve the weak economy [241, pp. 113-114].

We cannot agree with the obsessive statement of some modern politicians and economists about "Pure capitalism" and believe that no transitional period can avoid the multisystem, the mixed economy. To strengthen our position, we recall the words of the famous American economists, P. Samuelson and W. Nordhaus, that even the USA, the win hailed modern economic, is developing through mixed economics. It is "mixed economics", where private and public institutions carry out economic control: the private system by means
of the invisible hand of the market mechanism, and the public institutions by means of administrative regulations and tax incentives [242, p. 19].

W. Leontiev considered it wrong to implement the free capitalist economy of American type on the territory of the Commonwealth of the Independent States (CIS). According to him, any attempt of that, undoubtedly, would be in vein. In case of successful transformation (the ideal result in a long run), the mixed economy of European type might become acceptable, where the market mechanism, is based on the competition, but at the same time, it implies a strict control from any system of public and social services, on which a considerable part of the entire national income is spent [243, p. 41].

Referring the example of Japanese positive experience W. Leontiev noted that instead of strict centralized planning we can rely on indicative, orientating industrial planning. The latter can ensure the trouble-free course of the state vessel in the planned route so that personal interests of individuals can perform just the role of the wind [243, p. 41].

The attempt of application of the classical model of capitalism should be considered as archaism. In the present situation the progress can be achieved only by means of the synthesis and development of all the former and current economic relations.

At present, priority should be given to application of the protectionist principle ("nurturing protectionism"), and afterwards, as soon as it is possible, the free entrepreneurship and free trade should be prioritized paving the way for them.

We must develop our economy in a mixed, pluralistic way. We recommend a three-sector model of mixed economy implying the coexistence of the public, private and corporate entrepreneurship [244, pp. 33-34].

**Coordination of a part and a whole as the symbiosis of the of protectionism and economic liberalism**

Our economy is in crisis, so it is urgent to find the ways of overcoming it. In such a process, the question of coordination of a part and a whole is highly important. The question is: Is everything acceptable to one group of people also acceptable to the whole society?

Modern American economists Paul Samuelson and William Nordhaus noted that in order to see the critical moments better some football fans try to stand up. But if everyone stands up, then it will not be well visible for anyone [242, p. 13].

If all the farmers work hard and the nature also favour the good harvest, then the farmers' gross income may decrease and perhaps it will.

One person seeking a job can solve that problem. If it is difficult for him to get a job, then he must agree on less salary. However, all the job-seekers cannot solve the problem in a similar way.

The raising prices on the products in one sector might yield a profit for those who are engaged in that sector. But if the prices rise equally in every sector, then it will be difficult to yield any profit of it. Some businesses, which cannot even cover its expenses on the whole, might turn out profitable for a company in another way. The objects cannot be considered to be such as they may seem.

In time of the Communist regime the private initiatives were neglected in our country, while they are encouraged today. Unfortunately, it has gained such a scope that is about to overwhelm the whole country. Therefore, today we consider such a model of mixed economy to be the way out, which implies coordination of the private and public, conformation of competition and regulation, symbiosis of protectionism and economic liberalism.

Mechanical application of any model of Economic development is not a way out. Our economy needs meaningful action to recover. The campaign of discussions on the market economy cannot provide the economic climate.

Based on the experience of the world, we find it possible to prevent the chaos and anarchy that might be caused by pursuing the policy of protection of domestic industry and trade. It is the government to take the responsibility for protection. Out of the numerous

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models of market economy, application of the model of social market economy would be fine for us. At the current stage predominantly the state should take the burden of the social security.

It does not matter what colour the cat is as long as it catches mice, said the Chinese Deng Xiaoping, who encouraged the society against the ideological dogmas. Another Chinese Chen Yun is the author of the other metaphor: "Let the bird fly, but in the cage". The bird is the economy, in this case, and the cage the state control. There is not a big difference between these two views of these two Chinese public figures. Chen Yun hinted just to the great cage, while Deng Xiaoping was not against releasing the bird from the cage either.

Government care for low-income groups of the population is not only the humane act; rather it is necessary for reproduction of the labor force. To ignore this fact will lead to new problems in the future. After all, this will lead to the curtailment of the consumer market, which, in its turn, will become an obstruction to the development of economy.

It is necessary of overcome the vicious circle. It is necessary to form a domestic market in order to develop industry. And in order to develop a domestic market jobs should be created and, accordingly, the incomes provided. At the current stage it is the government to make the breakthrough in the circle.

The future development of the mixed economy will necessarily put on the agenda the question of coordination of private and corporate ownership. Gradually the individual property and generalization of individual private interests will become the objective necessity. The famous American economist Thorstein Veblen considered the origin of the absent property to be the fundamental novelty in social development. He considered it to be the corporative stock ownership, which would reform the capitalist society. It was, in his opinion, the final verdict for this society. Such property should become the most important capitalist institution, which allows a businessman to use the facilities of the others on the basis of his own small capital and the working classes will get accustomed with their conditions, since it will be quite better. In this context, the question of the micro- and macro-economy will become topical in a new force. In this respect, significant progress is achieved in many countries in the world. Especially interesting are the achievements of the Japanese corporate capitalism and Sweden corporate "socialism".

In modern highly developed economy, corporations have become the main form of capitalist enterprises. Corporations occupy key positions in all the fields of the US economy with 98% of the revenue of the whole processing industry in the US industry, 93% of the revenue of transport and communications and 70% of the revenue of internal trade.

The necessity of state protectionism: The result of the market imperfection and the policy of "Visible Hand"

The famous British politician Winston Churchill noted that free economy is a bad imperfect economy, but the other systems are worse.

Over the period between the Great Depression of 1929-1933 and the 1960s the world's politicians and economists realized that in many cases the free market economy, the world's richest economy, might be unable to satisfy some of the major social needs.

In the past, the periodic chronic unemployment also caused suffer against the economics, sometimes it caused serious suffer. During the Great Depression the unemployment rate reached 25%. The US national production dropped by 30% compared to the peak of 1929 [245, p. 12]. Great Depression highlighted the previous problems existing for a long time in a less acute form.

Over the last 60 years the economic role of the state has significantly increased. In modern time, some economists consider the problem of the public sector to be the most important topic of the economic theory. Health care, defence, education, social security, well-being, tax reform; all of these deserve permanent attention, said Professor J. Stiglitz, Princeton University, the USA [245, pp. 6-7]. According to him, our life, from birth to death,
is subjected to multiple effects of state activity. In a mixed economy a part of economic activities is carried out by private firms, while the other part by the state. Besides, the state changes the orientation of behavior by means of different regulations, taxes and subsidies. The government regulation of the economy causes significant consequences in production, employment, labor productivity, price levels and allotment of resources [246, p. 254].

The market economy is incomplete in the transformation period. It is far from the attributed harmony and ability of regulating everything.

Market system has many shortcomings, which were severely and negatively revealed in economy both qualitatively and quantitatively. The characteristic feature of market system is saturation and it is strictly oriented to satisfaction of the demands of a certain group of buyers.

It is characterized by flexible and adaptive production, which is capable to respond to the most difficult demands of consumers, on the one hand, and, on the other hand, it cannot cope with the vital problems arising in the society.

The mentioned problem objectively conditions the particular importance of the state interference in the market system, which might be of as follows:

Since the international economic relations are increasing there might be necessary such a great capital investment that is not available even in the largest manufactories. Besides, there are some businesses that cannot be entrusted to private companies. Therefore, it is upon the state to interfere.

In order to eliminate monopolisation the state must adopt an antitrust legislation and carry out antimonopoly regulation.

Cyclical development of market economy may cause social and economic tensions. It is upon the government to stabilize the situation.

The state must be able to pursue economical domestic and foreign policy so that not to be dependent on the other strong economies. It should have its own production. In this way the state will become the subject of the economy.

The population growth and urbanization seriously aggravates the environmental problems. Along with the production and consumption of a large amount of wealth pollution of air, water and soil is also increasing. In order to avoid ecological disaster, the state should be on the watch of the ecology of the country and avoid environment pollution. Nowadays, the government and its bodies in the civilized countries play an active part in economic regulation of exploitation of the nature [247, p. 500]. Active policy of environmental protection is also carried out in the developing countries throughout the world [247, p. 502].

The state should be concerning about the problems of egalitarianism. In the mid-60s of the 20th century the programs for reduction of poverty and income inequality were widely spread in developed countries, primarily in the United States. In particular, they include the development of the state programs for social insurance, unemployment allowances, social security, free medical services, food coupons, public housing. At the beginning of the 90s the United States spent 12% of the national production on such programs [245, p. 260].

The government should adopt a flexible customs policy. It is necessary to introduce low duties on the export of the finished products. Meanwhile, high tariffs and quotas should be imposed on such a kind of imported goods, which have the alternatives in the country. Instead, the duties on the import of raw materials should be low. This will stimulate domestic production.

In transitional economy, the state role must be greater, as the market mechanism is not yet fully formed and developed. The market is an insensitive, indifferent mechanism; it has no conscience at all and does not recognize the moral norms causing the income inequality [248, p. 279]. Since the free market is just a theoretical construction, in conditions of ideal market the market equality is such an ideal situation the state regulation should be aspiring to [249, p. 8]. The economic policy selected and implemented by the "visible hand" of the state is very important for achieving the market equality [249, p. 20].
According to the great majority of economists, we are in transitional conditions moving from centralized economy to market economy. We have a long way to go ahead to the developed market economy or civilized market.

We are beginning to go from the totalitarian to the market economy and then to the mixed economy. Transient to the market economy cannot be the final stage because the market is a form, the system of economy rather than the economic system [250, p. 314]. "Market economy", says a Georgian economist A. Kuratashvili "is not the name of a social order. However, in this case, the transition to the market economy implies transition to the capitalism, which is "coloured" with the words: market economy and democracy [251, p. 38]. In order to really move to the market economy, it is necessary, above all, to develop a balanced economy, because the market is always certain equilibrium, the system of public relations. However, this is just the beginning. Modern market is not beginning there, where the balance exists, but where the market drives economy, where the market mechanism makes the economy to develop. It requires increasing efficiency, reducing costs, reproduce, and achieve technological progress.

The market mechanism by its peculiar incentives is just a certain engine, a driving force in economic progress. The most difficult task in transition to the market it is the transformation of the market mechanism into a driving force for economic progress. The modern developed countries have a mixed economy, moreover, a multisystem transitional economy transformable into a market model. Along the emerging market forms the state sector should have an important place in its structure.

When the market mechanism is not effective the state interference is necessary. The state should always create the overall climate to function the economy; it determines the "rules of the game" for economic agents in any system of economy.

Participation of the state in economic life is conditioned by market volatility. It comes from the market imperfection, from its inability to successfully cope with all the problems of socio-economic development.

In transitional economy the state should be on a higher level, as the market mechanism has not completely formed and developed yet [252].

The State sets the rules of action. It is responsible for efficiency, justice and stability. The efficiency of the state activity implies to "improve" the market mistakes, such as, for instance, the monopoly. With regard to justice, the national programs provide distribution of income in favour of the poor and the poorest. According to American economists A. Samuelson and T. Nordhaus, the stabilizing policy implies to regulate the business cycle, to prevent unemployment and inflation, to support economic growth [242, p. 22].

American economist Harry Rosen indicates that the US economy, which we believe to be capitalist, more precisely can be described as mixed. This can be explained by the fact that in spite of the personal freedom of choice, there are also many laws and regulations in connection with a business [253, p. 13].

The theory of mixed economy focuses on state protectionism. The role of protectionism was repeatedly outlined in conditions of the global economic downturn starting in 2008. The governments of the leading capitalist states try to help the areas subjected to the crisis. They give them the subsidies. The US government allocated 747 billion US dollars to them. They were forced to apply to less popular protectionism. When they overcome the crisis they will return to liberalism again. The role of the state protectionism has significantly increased in transition to the market economy. It promotes the economic self-security independence of the young sovereign states.

Under the present-day conditions, the cosmopolitan theory based on free trade is increasingly losing its advocates. The principles of self-security and self-satisfaction are in the first place. Moreover, the pace of economic growth is not always caused by the open national economy. Such a pace in most cases does not depend on the exports and national industrial progress. Only some industrial countries can benefit from such relations.
The principle of self-security and self-regulation requires to use own resources to produce those products that we need and that we can produce; consume the product that you produce; take the path to the domestic development leading to national progress according to national culture [254, pp. 29-30].

We can add to the above idea that local procession of the resources and the export of the finished products will be economically profitable. Instead of exporting the timber we can locally produced wood products (parquet flooring, woodworks, etc.). Instead of exporting the scrap metal some products of metallurgy or other metal products can be produced and exported. In this process, one of the positive results will be the increase of employment, which is so painful for our country.

Sustainable economy does not mean for any nation to become insular; rather it means optimally to use comparative advantages on the basis of sustainable economy. Sustainable economy should satisfy the demands of the nation so that not to cause the risk to the existence of future generations by leaving their devastated nature and economic resources. Actually, there is no sustainable model in the world today. The air pollution is not controlled. There is a danger of drastic global pollution of environment [255, pp. 29-30].

The harmonious coordination of the relative advantage principle and the sustainable economic protectionism is possible by application of the state protectionism only. Of course, such protectionism will be mercantilist at the beginning. It is not surprising that the 20th century intellectual giant J.M. Keynes advocated the national policy of the mercantilists, their economic nationalism and the position of the state's active economic role [254, p. 3].

Overcoming the economic backwardness of the developing and transitional countries is closely linked with strengthening the economic role of the state, in particular, with implementation of long-term development program. The limited resources, their productive use, inevitably require the government participation in building of the economy.

In the process of creation of the mixed model of modern market economy the state has become an active subject of economic activity. In addition, it has not lost the status of the political institute with all its attributes. The new status is significantly limited by the market mechanisms of the economic regulation, which does not mean the restriction of the state within the action of the objective economic laws. Its intervention in the economy is possible so that to confirm those laws and responds to them.

On the whole, the object of the state regulation is the national economy. It becomes the factor, which can raise the country's economic potential, the premise of welfare for all the strata of population, on the one hand, and, on the other hand, for strengthening its position in the world economy.

In modern market economy, the problem to be solved by the state is to prevent or, at least, reduce the negative impact of the development and functioning of the market economy. The case concerns the periodical downturn of production, accompanied by the unemployment increase, inflation increase, and aggravation of social conflicts. This situation leads to objective necessity of macroeconomic regulation of economic processes; anti-recessionary regulation of the economy by means of the financial, monetary, customs, investment and other policies for mitigation of the cyclical fluctuations and releasing the production down-turn [256, pp. 137-138].

In modern market economy among the variety of forms of ownership the state property has also a part.

Within the State sector the state is the owner of the means of production performing the functions relevant to the status of the owner: it organizes the process of reproduction, runs it, hires the professional managers, and carries out appropriation of the manufactured product and its use for public interests.

Although the state property privatization has substantially reduced the public sector, it has not been absolutely minimized. The state property is reduced in such areas, where the private sector provides a higher level of efficiency. However, in conditions of creating the
modern model of market economy the state property has the right to exist. The government entrepreneurship represents an objective condition for functioning of a modern market. Today, in Switzerland 35% of ownership falls on the state sector. In China it is more than 40% providing a high level of employment with more than 800 million people employed. In this case, the important role has the cooperative sector.

A large-scale cooperative movement is widespread in Sweden. In Sweden, 50% of the self-employed population is involved in cooperatives. In Israel the agricultural cooperatives play the basic role in agriculture. At the same time, there, the collective communities (kibbutz) do industrial activities serving the tourists.

When the state has nothing to do with the economic subjects and it is the market to solve everything, then it is not liberalism, rather it is a pseudo-liberalism because liberalism implies equality of the economic subjects.

**Georgian thinkers about the state protectionism and economic liberalism**

At the end of the 19th century and at the beginning of the 20th century Georgian thinkers began to discuss the issues of economic protectionism and liberalism.

The advocates of the economic liberalism were the Georgian thinkers: P. Umikashvili, Al. Tsereteli, Yv. Rostomashvili and others.

The advocates of the state protectionism of economy were the publishers of the journal "Droeba-Krebuli": N. Nikoladze, S. Meskhi, G. Tsereteli and others. They considered the government led by intelligent people to have a special role in prevention of the anarchy and monopoly in production. Only the desire and the power are not enough. There are the phenomena the wise people know. The nation must realize these phenomena and use them. If the country is not in the hands of the mentally and morally worthy people, it will fall into great trouble. Such a situation will not occur when the economy is led by the personalities gifted with radical state wisdom [260, p. 213].

It should also be noted that in the second half of the 19th century and at the beginning of the 20th century among the Georgian economic thinkers Ilia Chavchavadze and Niko Nikoladze had a special role.

**Ilia Chavchavadze on the state protectionism and economic liberalism**

Ilia Chavchavadze played the largest role in the spiritual advancement and moral development of the Georgian people. He shared the sorrow and joy of everyday life of his native people. From the second half of the 19th century until the beginning of the 20th century Ilia Chavchavadze was actively involved in solution of any major problems in any area of life of Georgian people, their past, present and future [261, pp. 6-7].

In his article "Customs policy in Europe, and free trade and protectionism" published in 1887 I. Chavchavadze noted that in that period "all the newspapers and journals with no exception wrote about free trade or protectionism, all the publicists with no exception advised this or that system to the Government" [262, p. 317].

In the above-mentioned article I. Chavchavadze expresses sympathy with free trade and notes that this doctrine began in Europe with the effort of the famous English economist Adam Smith. At first, the doctrine troubled the ruling class, who preferred the old trouble to the new joy, but they could not do anything to Adam Smith's theory.

In those days, the whole of Europe welcomed the theory as a victory of liberalism. The advocates of the doctrine appeared not only in England, but in France too. Some well-known or less-known scientists were for the doctrine, for example, Bastia, Chevalier and others. The doctrine became so popular that it was accepted even by the international legislation.

I. Chavchavadze believed that introduction of protectionism in Europe was linked to the Franco-German war of the early 70s of the 19th century. German Chancellor of that day Otto Bismarck, who supported the free trade before, rejected this system to spite France. Bismarck addressed German customs laws to protectionism and by means of duties prevented
circulation of French goods in Germany. According to I. Chavchavadze, thanks to O. Bismarck the Europe forgot the benefit of free trade. Previously rejected system of protectionism emerged again, the system which was gladly overthrown forty years ago.

I cannot agree with I. Chavchavadze with that as if the protectionist policy of O. Bismarck was conditioned only by resistance to France. The protectionist policy of O. Bismarck was based on the statement of Friedrich List and the theorists of historical school about the necessary application of 'nurturing' protectionism for development of capitalism in Germany.

At initial stage of capital accumulation the protectionist policy was used even in England that limited every action of the merchants arrived in the country from the continent. Active protectionist policy was also carried out in France led by the Minister of Finance Colbert in the second half of the 17th century. In both countries, where the protective measures contributed to capitalist manufactures to be set up and developed, they became the production and trade-binding trusses. Logically, it was followed by liberation from those trusses and transition to free competition. I. Chavchavadze's fear that by that time the German protectionism would defeat free trade did not come true in Europe. In the 70-80s of the 19th century a powerful neoclassical school was formed in Europe by C. Menger, L. Walras and A. Marshall, who revived the doctrine of economic liberalism.

Moreover, when in Germany the protectionist measures did the nurturing mission and contributed to the German capitalism to develop, there too it became necessary to change protectionism by liberalism. In the 40s of the 20th century a powerful neoliberal direction was launched, which reached the worldwide scales in the 80s.

In his article I. Chavchavadze focuses on trade restrictions, but also discusses the issue of industrial protectionism. He pointed out that "protectionism comes from the necessity to liberate the domestic product from the competitors in the domestic market and thereby to support the liberated industry to develop in order to add to its nation one more source of earning wealth; protectionism is the advocacy, because it advocates the domestic industry and promotes it existence and strength" [262, p. 320].

Yet, I. Chavchavadze recognized the revival of protectionism in that period and said: "Well, today we see the strong protectionism almost everywhere" [262, p. 323].

I. Chavchavadze's version that the import of foreign goods would reduce the prices in the market was a generous idea, but we should not forget that the industry developing as a result of protectionist policy will create new jobs and reduce unemployment; the workers will have buying power to go to market and thereby the market will expand. In modern conditions the unpaid people cannot even buy cheap goods.

Generally, it should be said that, as Professor G. Todua notes, I. Chavchavadze exaggerated the role of the law of free trade to some extent [261, p. 214].

It should be said that if in the above said article I. Chavchavadze advocates liberalism in discussion about Mr. Meisner's project he supports the protection of domestic production from increasing foreign capital.

German businessman Meisner submitted two projects to the vice-regent of the Caucasus of that time. He wanted to establish two joint-stock companies: the first "Wine-making, wine trade and vodka-distillation in the Caucasus", and the second "Gardening and horticulture". The vicegerent gave those projects to the agricultural community.

For development of those fields Meisner suggested money in the amount of two million and a half. Those letters were discussed at the agricultural community meeting. In December 1882, in his domestic report I. Chavchavad made a long comment about the discussion with the title "Mr. Meisner's project" [263, pp. 195-230].

I. Chavchavadze concluded that: "Money alone does not mean anything when the goods are not reproduced" [263, p. 217].

Against those two million and a half that Meisner promised Ili Chavchavadze recalls the following example: "Prussia took away five billion Reichsmark in pure gold from France,
but such a huge amount of money did not enrich Prussia, on the contrary, it happened so that its residents began immigration from Prussia immediately after that, because the life was exhausted" [263, p. 230]. Iliya Chavchavadze concluded: "Thus, whatever to say about Mr. Meisner's project, whatever promises or perception to discuss, we can see that there is no benefit in it for us rather the harm". The same said the agricultural community of Caucasus and finally rejected the project [263, p. 230].

There is one important point worth paying attention: if in the article "Customs policy in Europe, and free trade and protectionism" Iliya Chavchavadze advocated free trade in general, in the above discussion, on the contrary, he is against free trade and protects domestic production that is nothing more than protectionism.

Niko Nikoladze the flagman of the state protectionism

In the second half of the 19th century and at the beginning of the 20th century among the Georgian public figures Niko Nikoladze had a special place. His work goes beyond the borders of Georgia and Russia. He wrote in English, Russian, French and German languages.

Among Niko Nikoladze's view-points national protectionism has an important place.

First of all, Niko Nikoladze considered the state's role in reorganization of the ownership Institute. He noted that indisputably, it was an issue of national importance to give lands into ownership to them who needs it as their main mean of production and solution of that problem cannot be entrusted to private individuals. It is the state's responsibility and competence. So he called for the transition of land ownership in the hands of the State Farmers, who had the opportunity and the ability to regulate this problem in a satisfactory manner.

In solution of these issues Niko Nikoladze fought against liberalism and showed its wrong sides. For him liberalism meant servility to the existing injustice and tolerance of the abnormality of life. According to Niko Nikoladze, economic liberalism cannot fight for the renewal of life and improvement of the economic, cultural and moral life of people. As he said, liberals' phrases are far from the reasonable action.

Development of industry, factories, organization of mining industry, building of railway, domestic and foreign trade regulation, connection of banks twitch trade and industry, capitalistic development of agricultural life were the key issues that Niko Nikoladze believed to be possible through state interfere in the economy.

According to Niko Nikoladze, Georgian community and organizations should pay special attention to the development of the national capital in Georgia. In this regard, he considered introduction of the protection system and by means of it to protect young Georgian industry from foreign influence as principal the way [264].

Niko Nikoladze repeatedly warned the public that "free trade" could bring bad results to our country without active involvement of the governing bodies in economic life.

But, according to Niko, only the protection system cannot revive our economy. In his article "The European Life" he draws attention to the view point of one of the French publicists, who noted that since 1848 the French society look like the cowardly frightened crowd, who went to the prison to save their lives and property, but then they emboldened so that decided to revolt against the prison warden threatening him to burn the entire prison unless the prison gate was opened on time [265, p. 284].

Obviously, each one in the crowd gradually came up with the idea: "the warden too often interferes in our affairs and restricts our personal freedom" [265, p. 284]. "Because of such a spirit dominating in the French society, said Niko Nikoladze, France was preoccupied by a theory declaring laissez faire and enormous personal freedom of individual members of the society. Niko Nikoladze considered the famous French economists' Jean-Baptiste Say and Pierre Joseph Prudon to be the founders of that theory [265, p. 285].

As is seen, in one case, Niko Nikoladze supports protectionism, while in the other case economic liberalism. At the same time, he notes that: "There is nothing in the world to be
useful and good in every sense, or totally bad and mal-efficient. It depends on the person and circumstances how the object is used. For example, a knife can be useful in the house but it can also be used for killing a person” [266, p. 25]. In some cases Niko Nikoladze supported economic liberalism, but understood that protectionism was also necessary and indicated that Prince Bismarck was considered to be the genius political figure, who managed to unify German, i.e. he managed to exercise such a combination that was considered to be an impossible romantic fantasy before. Yet this was not a novel in politics.

As is known, after the nurturing protectionism played its role in Germany, German economists and public figures opened the way to economic liberalism.

After World War II a powerful process of development of economic liberalism, which is known under the name of neo-ordoliberalism, began in Germany. As we can see, Ilia Chavchavadze and Niko Nikoladze supported protectionism at first when it was necessary, and just after that they recognized the progressive economic liberalism. This is a logical move, the dialectical negation.

Since our present reality repeats that period, it is necessary to take into account the lessons of development of capitalism in Georgia in the second half of the 19th century and at the beginning of the 20th century. We must borrow the economic ideas from our prominent predecessors to light our way.

Today the economic liberalism and the automatic mechanism of market cannot itself solve our problems. In extreme cases, the market economy cannot recover a proper balance and economic growth. In such a situation the protectionist model of economic regulation should be primarily used. Moreover, there is a great experience of that in the world. Given this experience, we recommend to carry out a mobile economic policy, when it is necessary to use protectionist principle together with the economic liberalism. After that it will be possible to pave the way for free entrepreneurship and free trade.

Today an important part of our society are longing for the economic conditions of life of foreign countries, but everyone should understand that a strong economy can be developed just by hard work and good organization of production. However, it should be noted that creation of proper working conditions and stimulation are also necessary. If appropriate conditions are provided, then it will be possible to share the experience of advanced foreign experience, attract foreign capital, create joint ventures, etc. In order to share foreign experience, it is advisable to invite experienced entrepreneurs and managers providing them with proper conditions of work and stimuli.

Also, the problem of efficient use of the credits borrowed from foreign banks and investors is worth noting. The credits must be mainly used for production development; otherwise it will cause trouble for population. Ultimately, they will carry the burden of the loan repayment and paying the interest.

Conclusion

1. Among the theoretical problems of transitional economy we consider the increase of the economic role of the state to be the priority; we proved that it is necessary to use the state protectionism for solving the problems of the transitional period; we point out, that the state should regulate the distribution of the material wealth, especially its redistribution; it should provide equality of people against law and their economic freedom.

2. We consider formation of the mixed multi-structural economy and its progress to civilized market to be the real way for overcoming the problems in transitional period.

3. The goal of the paper is to prove the alternative possibility of application of the state protectionism together with the economic liberalism in the transitional period and its primate significance in conditions of capital accumulation.

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