TRANSFORMATION OF ECONOMIC POLICY PRIORITIES UNDER COVID-19

Gia Zoidze¹, Shota Veshapidze²

Abstract. The aim of this paper is to analyze the main challenges of the new paradigm of economics in the context of Covid 19, the economic role of the state and the scale of state intervention in the economy. Economics teaches us that there is a time for budget expansion and a time for budget constraints. There are times when the government has to intervene in the value chain and there are times when it has to leave the markets alone. Sometimes the tax has to be high and sometimes low. Trade in some areas should be more independent and regulated elsewhere. Globalization is one of the primary variables impacting the state's economic condition in the modern world. The most important function of the state in the context of globalization is not only to protect the national economy from external influences (so-called "external shocks"), which is virtually impossible today, but also to effectively participate in international economic ties and increase the country's global competitiveness. In this aspect, the contemporary state plays a critical role. In turn, Georgia must construct a "Georgian model" of economy that will serve as the "core" of an economic model that would attract investment (in the real economy), generate employment, expand exports, and deliver true prosperity to all Georgians. Today is the day when, at the state's initiative, the country's economic priorities are defined and the country's distinctive economic potential is fulfilled. The modern economic crisis, which was triggered by the Covid-pandemic, has demonstrated that a route out of the current predicament is conceivable when the anti-crisis strategy is based on increased government participation in the economy. To accomplish so, the government and the public sector must play a larger role in crisis management. Despite these examples, the economic regulation of the state has always had strategic and tactical significance. For any country, there are and will always be state problems that are either not addressed through the supply-demand mechanism or are associated with negative side effects. Based on the existence of such cases, a set of free market economic measures is being developed through state programming of the economy and the use of regulatory tools. In view of the above, it is necessary to reconsider and reform the role and rights of the state in modern economic relations. The need to establish the state as a factor of progressive development in the economy should be emphasized during the reform. In addition, it should include legislative activities such as – compliance with labor safety conditions, regulation of the minimum wage, resolution of social conflicts, etc.

Key words: COVID-pandemic, the state's economic role, governmental interference in the economy, the new paradigm of economics.

JEL Classification: B10, F62, H10, H72

1. Introduction

The pandemic crisis has posed many challenges to countries around the world. Georgia (as well as almost all countries in the world) were painfully affected by these challenges, which faced an economic crisis in 2020–2021. In such conditions, both excessive regulation of the economy and its self-flow will not be effective. In the first case, there is a "slowdown" in the development of the economy and an increase in corruption in the regulatory bodies, and in the second case, we can get a complete disorder and a severe violation of the rights of consumers and investors. The world experience of economic reforms has shown that it is most effective

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Good new theories use only part of the old theories, theories cannot be mere improvements to the old. However, new economic understanding of the new. Modern theories cannot be properly understood if we do not regard them as a legacy of the past. Nevertheless, new economic doctrine dates back to the 16th century and is associated with the formation of the capitalist commodity economy.

Old theories are important for a better understanding of the new. Modern theories cannot be properly understood if we do not regard them as a legacy of the past. However, new economic theories cannot be mere improvements to the old. Good new theories use only part of the old theories, some fragments of which remain temporarily unread.

2. Realistic and useful alternative vectors of economic thought

The universally accepted division of economic thought into ancient Greece, Mercantilists, physiocrats, classical, Marxist, neoclassical, institutional, Keynesian, monetary economic thought, and neoclassical synthesis is conditional on the methodological nature of a number of schools.

There are a number of well-known scientists whose work has a synthesized character and can not be attributed to any of the above scientific directions. Therefore, economists today are trying to achieve in their approach a healthy combination of everything, their synthesis, which has withstood the test of time and is still true and relevant today. It is a combination of modern, neo-Keynesian and neoliberal provisions with their earlier neoclassicists, as well as some postulates of classical political economy (Veshapidze, 2015).

It is on these postulates that the new paradigm of economics and its teachings is based. This is a CORE program whose main advantage of the approach is that the standard orientations of the economy are being replaced by more realistic and useful alternative orientations. Unlike all previous political paradigms – Mercantilist, Classical Liberal, Keynesian, Social Democratic, Ordo-Liberal (West German) or Neoliberal – they are no longer seen as universal programs that can be used anywhere, anytime.

According to this program, any question related to this or that economic policy will be answered correctly: "Depending on the circumstances". We need economic facts and analysis to get the details on which the desired result depends. Truly useful keywords in economic science are – not preconceived notions, contextuality, not universality.

Economics teaches us that there is a time for budget expansion and a time for budget constraints. There are times when the government has to intervene in the value chain and there are times when it has to leave the markets alone. Sometimes the tax has to be high and sometimes low. Trade in some areas should be freer and regulated elsewhere. Relationships need to be established between real-world circumstances and the appropriateness of certain types of government intervention (Zoidze & Abuselidze, 2021).

Recently, most economists in the West have been trying to combine the classic Smith and Marshall microeconomics with modern income-level macroeconomics to achieve a "neoclassical synthesis" through effective credit and monetary policies, so that both approaches achieve a healthy fit and is still relevant today.

According to Nobel Laureate in Economics Paul Samuelson, a. Smith's "Wealth of Peoples" is the...
"birthday of political economy", and what was before it is the "prehistory of economics", a memory from time immemorial when borrowing and lending were banned from state policy, with mercantilists advocating protectionist tariffs as "Prince's advisers". For the prosperity of the nations "and when the physiocrats, who believed in the cycle of economic life", hoped for "the reform of the old regime of pre-revolutionary France".

By this author, Adam Smith has been proclaimed a "forerunner of free competition" and a preacher of the "emerging bourgeois class", and his book is an unusually authoritative "masterpiece" that "had a tremendous impact on the next century". Then there are the teachings of T. R. Malthus and the "key figure of this century" D. Ricardo. That is T. Malthus, by proposing the theory of a reduction in workers' wages, also influenced D. Ricardo as the population grew.

One of the directions of neoclassical economics is modern post-Keynesian economics. The latter, in turn, was also based on Karl Marx's "Capital", which came from earlier works. They are duly assessed by the so-called neoclassical revolution, which discovered mathematical means of analyzing demand, utility, and universal economic equilibrium, and made political economy more "scientific".

Important is the circumstance that the Englishman A. Marshall and the American J. B. Clark, who made the greatest contribution to the neoclassical revolution, became more and more concerned with the glory they achieved and the high position they had in society. L. Walras and W. Pareto introduced elements of mathematics into economics and thus developed important methods of economic analysis (Veshapidze, 2015).

As a result of the Keynesian Revolution, in the years following World War II, political economy, on the one hand, went too far in explaining the economic situation and the cycles of business activity. However, the neoclassical economy of the time "failed to develop developed macroeconomic models that would be appropriate for its highly developed microeconomics".

Only the epoch-making J. M. Keynes' General Theory of Employment, Benefit, and Money, published in 1936, did not allow economic science to "remain old-fashioned", and Sey's law belief in a crisis-free society disappeared.

In the period of post-Keynesian political economy, the ideas of the post-Keynesians yielded results, which manifested themselves in the better functioning of a mixed economy. An unprecedented increase in production and living standards in history has been achieved since World War II. However, this still did not solve the problem of finding the only perfect model of economic policy. Society could not be freed from the need to choose between full employment and price stability.

Institutionalists, serious economic currents, and other schools of economics have tried to do this: the Chicago School, proponents of free competition, including M. Friedman, and other truly "market priced" activists. Then, J.K. Galbraith criticized the orthodoxy that prevailed in the economy. This was followed by the establishment of a school such as New Left, a critic of the mainstream direction of economic science. It includes American economists who call themselves "radical economists".

Over the last century, the fight against disasters such as mass unemployment and inflation has been and remains the most pressing problem of socio-economic development of states with market organization and, of course, of economic science. How to achieve stable and full employment and steady growth of real incomes of the population? What are the "secrets" of the crisis-free economic cycle? This led economists to neoclassical synthesis.

According to Paul Samuelson, the "neoclassical synthesis" is a combination of modern, neo-Keynesian and neoliberal propositions and "truths" with their earlier neoclassicists, as well as some postulates of classical political economy, primarily the modern theory of income formation.

3. A new paradigm in the teaching of economics and in economics itself

Given the recent developments, it can be said with certainty that something new has emerged in the world of economic policy.

President of the United States of America, Joe Biden, has called for a massive increase in government spending on social programs, infrastructure, and the transition to a green economy. He intends to use public procurement to re-establish domestic production chains and bring back manufacturing employment to the US. Janet Yellen, the country's minister of finance, is asking for a global coordinated hike in corporation taxation. Jerome Powell, chairman of the Federal Reserve, who has traditionally been the government's main "hawkish" on price stability, is trying to allay inflation fears and has voiced support for expanding budget expansion (Rodrik, 2021).

All these political changes represent a sharp breach of the view previously held in Washington. Does all this mean the emergence of a new paradigm of economic policy?

Economic policy in the United States and the West in general has long needed change. The ideas that have dominated since the 1980s (otherwise known as the Washington Consensus, Market Fundamentalism, Neoliberalism) initially became popular because Keynesianism was perceived as both erroneous and
excessive state regulation. However, these ideas took their own lives and gave rise to a highly financialized, unequal and unstable economy that is poorly prepared to meet the most important challenges of our time: climate change, social inclusion, revolutionary new technologies (Rodrik, 2021).

It would be helpful to start the necessary paradigm shift depending on how we teach economics. Economists value market power for overall economic growth. Adam Smith's "invisible hand" (the idea that selfish people who seek nothing but personal wealth can create collective prosperity rather than social chaos) is one of the crown jewels of economists. However, at the same time, it remains deeply illogical, and perhaps that is why economists spend so much time preaching about the magical power of markets.

However, the economy is not a praiseworthy song of free markets. Moreover, most economic education focuses (concentrates) on how markets can lead to excessive inequality and their inability to allocate resources effectively.

Ideal competitive markets that harmoniously create a stable equilibrium are just one of many different opportunities. Smith's model is not the only one. Nevertheless, many economists have an article-posing reflex: they always see well-functioning, competitive markets as the main focus when considering any proposal for a possible rejection of Laissez-faire policies (non-interference in the state economy).

The new paradigm in the teaching of economics and in economics itself contributes to a better understanding of its social consequences. However, we should be aware that this does not create a new paradigm of economic policy. And so it should be.

All of our past political paradigms – Mercantilist, Classical Liberal, Keynesian, Social Democratic, Ordo-Liberal (West German), or Neoliberal – had major flaws since they were viewed as universal plans that could be implemented everywhere, at any time. However, the flaws in each of these paradigms have ultimately eclipsed their groundbreaking contributions to our knowledge of economic governance. As a result, there were erratic swings between extreme optimism and pessimism regarding the government's role in the economy (Rodrik, 2021).

Making connections between real-world circumstances and the appropriateness of a certain type of government intervention – this is why the economy is really good.

Existential concerns confront our civilizations, necessitating new economic approaches and major political innovation. The Biden administration launched a massive, long-overdue economic change. Those looking for a new economic paradigm, on the other hand, should be cautious about their desires. Our goal should not be to create a new petrified orthodoxy, we should learn to adapt our policies and institutions to changing needs.

4. Impact of COVID-19 on Georgia's economic orientations

It is true that the role of the market in the development of civilization is universally recognized, but it is not an omnipotent phenomenon and an effective mechanism for solving all problems. In real life, there are often situations when the market makes certain mistakes. Zones of such market failure often include areas important for the sustainable and stable development of society: science, education, culture, social security (Figure 1).

In the post-industrial period, the economic role of the state is realized in the following functions:

- Regulation of natural monopoly conditions (production and distribution of electricity, telecommunications, transport, communications, water supply, etc.);
- Correcting unfavorable social consequences in the state, which should reduce social inequality, unemployment and poverty;
- Sustainable development of the economy using macroeconomic policy instruments, which should be focused on protecting the economy from the crisis and rising prices.

The current reality around the EU confirms that some functions of the nation-state are being transferred to this largest regional organization (for example,

<table>
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<th>Positive side</th>
<th>Negative side</th>
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<tr>
<td>- Supply public commodities (such as law and order) that are not available on the open market</td>
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<td>- Supply essential items (education, health) that are underserved in the free market</td>
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<td>- Using the tax and welfare system, minimize inequity and poverty.</td>
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<td>- Regulations by the government can protect the environment, employees, and consumers.</td>
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<td>- Maintain the environment’s long-term interests</td>
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<td>- Monopolistic power should be limited</td>
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<td>- Insufficient information and timing gaps are examples of government failure.</td>
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<td>- In the public sector, there are little incentives to be efficient.</td>
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<td>- Government affected by powerful lobbying groups</td>
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<td>- Higher taxes have a disincentive effect.</td>
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<td>- Welfare programs have disincentive consequences.</td>
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<td>- There may be fewer options if the government owns the company.</td>
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Figure 1. Intervention by Government

Source: T. Pettinger. Pros and cons of government intervention. Economics Help, 2019
the development of a common monetary policy for EU countries is carried out by the European Central Bank). However, it should be noted that globalization itself creates many problems, the solution of which is practically unthinkable without state intervention (for example, regulating migration, combating the spread of drug trafficking and terrorism, controlling transnational corporations, etc.).

At the state level, striving for a high degree of equality in income distribution is very important, as it helps maintain social stability in society, protects it from strong fluctuations and civil strife.

Achieving a certain level of equality in income distribution is considered by many researchers as an increase in access to education by the general population, hence the accumulation of human capital, the development of small business, which, as we have already seen, plays a leading role in modern society.

This issue has other no less important aspects. In particular: Expenditures on education and health care are important not only in terms of the development of the individual as an independent value and the most important productive factor. Emission also means that it contributes to equalizing the individual incomes of the population.

Today, the government of any country can not independently develop and implement economic policies without regard to the norms of conduct of other states and, especially, international organizations.

In the modern world, one of the major factors influencing the economic role of the state is globalization. In the context of globalization, the most important function of the state is not only to protect the national economy from external influences (so-called "external shocks"), which is virtually impossible today, but also its effective involvement in international economic ties and increasing the country's competitiveness globally. In this regard, the role of the modern state is very important.

It is noteworthy that the world economic science has not yet created a model of budget system acceptable to all countries and functioning with equal efficiency, so it is not surprising that the budget system of Georgia, at the present stage, requires significant improvement and transformation. In the process of finding a way out of the current situation, the state began to "copy" the "ready-made" economic models of foreign countries, which is another conceptual error.

Georgia needs to create a "Georgian model" of the economy, which will be the "core" of the new economic system, which will attract investment (in the real sector of the economy), create jobs, develop exports and bring real prosperity to all residents of Georgia. Today is exactly the moment when, at the initiative of the state, the priorities of the country's economy are developed and the unique economic potential is realized (Zoidze, 2020).

For example, the President of the EBRD and the Government of Georgia have a common vision on the issue of establishing and presenting Georgia as a regional transport and freight "hub" (due to the unique location of Georgia – in terms of trade and transport routes).

In order for Georgia to make this perspective a reality, it is necessary to create a non-commercial so-called "hub" with the participation of the state – in the form of a commodity exchange, which will promote:
- the process of demonopolization of the economy;
- increase and activation of commodity and foreign exchange flows;
- development of logistics network; Optimal loading of seaports;
- establishing the uniqueness of Georgia's economic model.

In short, the constructive "intervention" of the state in economic processes is necessary, but only on one condition – if this intervention will be effective.

It should be noted that if years ago the role and functions of the state were reduced to its fiscal policy, today this role is mainly considered as one of the technical tools for influencing the economy. However, no government, regardless of its political goals and objectives, can in any way not participate in the functioning of the economy and not be interested in the high efficiency of business in the country. Therefore, the economic function of the state is to promote and protect the normal functioning of the market economy, which it cannot provide without interfering in the economy (Zoidze, 2021).

In the conditions of intensified competition in the modern international markets, the implementation of an effective budgetary policy is gaining great urgency for the development of the country.

Today, the most important priority of the state budget of Georgia is to take care of the population's health and social guarantees. Of course, it is necessary to improve the state policy in this direction, but it is also necessary to focus on reducing the number of socially vulnerable people, which means reducing poverty. This is one of the components of an effective budget policy.

The optimistic expectations of the future created by the state can be considered as a stimulus for the reproductive process of the economy. These are the main public goods that play a crucial role for economic growth for developed countries, while for developing countries this is not enough and requires an active state investment policy (e.g., investments in infrastructure, education, etc.) (Veshapidze et al., 2021).

Various studies have shown that the main urgent challenges in Georgia are the reduction of inequality, poverty and unemployment, as well as the creation of new jobs in the private sector, without which social ties and economic development cannot be achieved.
In order to overcome these problems, it is necessary to achieve a high level of productivity. It can be achieved through effective restructuring and the development of strategies focused on the development of human capital through the provision of high employment.

The effectiveness of state intervention in the economy depends significantly on fiscal policy. Prioritization of public finances directly affects the economic growth of developing countries. So for example, if the development of business in the country is hindered by disorganized infrastructure, non-competitive environment, insecurity of private property and so on, the state should apply the appropriate funding in this direction. If the state does not respond adequately to the current challenges, even though it has adequate financial resources, then the budget policy is wrong.

The modern, crisis-induced economic crisis has shown that a way out of the current situation is possible when the anti-crisis plan is based on strengthening state intervention in the economy. To do this, it is necessary to increase the role of government and the public sector in crisis management.

Inside the country, COVID-19, along with many tragedies, has created new data and shown us the need for a development strategy that is reflected in clear priorities. The pandemic has shown us that an economy built on market principles alone cannot meet world-class challenges. The main responsibility for providing health, education and social spheres still rests with the state. And should be indebted even. But it is necessary to find a new balance in which the area of free action of the private sector will not be limited – on the contrary, it will become more protected – and the role of the public sector will remain essential. As we have seen, the plan to make the public sector disappear turned out to be absurd. However, the efficiency, flexibility and accountability inherent in the private sector must be established in this area for every unit of money spent.

Based on the analysis of the macroeconomic indicators given in Table 1 below, it can be said that a significant challenge for the Georgian economy is the low economic growth rates, which are undesirable for the country. GDP growth per capita is still very insignificant in the country. According to preliminary data, the country’s GDP has shrunk by about 7%. Under such conditions, approaches to state intervention in the economy naturally change.

Derived from the analysis of the discussed macroeconomic indicators, we can assume that there is a danger of a deep economic crisis in Georgia. In order to avoid this crisis and to increase economic sovereignty, it is essential to fundamentally review the existing political course of the state and establish a new political platform.

Based on the Georgian economic reality presented above, the following effective steps will be extremely effective for the sustainable and stable economic development of Georgia:

– improving administrative control based on legislative and normative acts. In addition, it is important to fundamentally revise the Labor Code in order to protect the rights of employees as much as possible;

– modernizing the tax system (e.g., introducing a progressive income tax). Progressive income tax operates in quite a few countries around the world and contributes significantly to the equalization of public incomes. In this case, the taxable interest rate may range from 15% to 50%;

– must be defined the specific priority sectors of the economy that will be covered by state property and governance. Active involvement of the state in economic activities will contribute to increasing the economic independence of the country. All this, in turn, will lead to the creation of additional jobs;

– it is important to enact various economic regulators (e.g. subsidies). Targeted direct and indirect export subsidy policies can have a major impact

### Table 1

**Gross Domestic Product Indicators of Georgia and the Ratio of State Budget Payments to GDP, Annual Data, 2015–2021**

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<tbody>
<tr>
<td>GDP at current prices, billion GEL</td>
<td>33.9</td>
<td>35.8</td>
<td>40.8</td>
<td>44.6</td>
<td>49.3</td>
<td>49.3</td>
<td>11.5</td>
<td>13.5</td>
</tr>
<tr>
<td>GDP at constant 2015 prices, billion GEL</td>
<td>33.9</td>
<td>34.9</td>
<td>36.6</td>
<td>38.4</td>
<td>40.3</td>
<td>37.6</td>
<td>8.8</td>
<td>11.2</td>
</tr>
<tr>
<td>Real GDP growth, %</td>
<td>3.0</td>
<td>2.9</td>
<td>4.8</td>
<td>4.8</td>
<td>5.0</td>
<td>-6.8</td>
<td>-4.1</td>
<td>28.9</td>
</tr>
<tr>
<td>GDP deflator change, %</td>
<td>5.8</td>
<td>2.6</td>
<td>8.5</td>
<td>4.4</td>
<td>5.2</td>
<td>7.3</td>
<td>7.9</td>
<td>11.6</td>
</tr>
<tr>
<td>GDP per capita (at current prices), GEL</td>
<td>9 109.4</td>
<td>9 613.9</td>
<td>10 933.9</td>
<td>11 968.0</td>
<td>13 239.4</td>
<td>13 234.1</td>
<td>3 081.3</td>
<td>4 161.4</td>
</tr>
<tr>
<td>GDP per capita (at current prices), USD</td>
<td>4 012.6</td>
<td>4 062.1</td>
<td>4 358.5</td>
<td>4 722.0</td>
<td>4 696.2</td>
<td>4 255.7</td>
<td>929.7</td>
<td>1 250.7</td>
</tr>
<tr>
<td>GDP at current prices, billion USD</td>
<td>14.9</td>
<td>15.1</td>
<td>16.2</td>
<td>17.6</td>
<td>17.5</td>
<td>15.8</td>
<td>3.5</td>
<td>4.7</td>
</tr>
<tr>
<td>State budget payments, billion GEL</td>
<td>9.70</td>
<td>10.29</td>
<td>11.76</td>
<td>12.59</td>
<td>13.09</td>
<td>14.85</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ratio of state budget payments to GDP, %</td>
<td>28.61</td>
<td>28.74</td>
<td>28.82</td>
<td>28.22</td>
<td>26.55</td>
<td>30.12</td>
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**Source:** Compiled by the authors based on official data from the Ministry of Finance of Georgia and the National Statistics Office of Georgia

**Note:** 2021 data are taken for I and II quarters
on a country's strategic, long-term development. However, the proper development and implementation of subsidy policies can solve the main social problems of the state;

− it is important for the economic development of Georgia to use the tool of offshore zones. As it is known, this mechanism envisages a zero or symbolic tax system, which is one of the main incentives for foreign investors. For this, we must arrange such regions in Georgia as offshore zones, which require multifaceted infrastructural development as much as possible. Successful implementation of this project in these offshore zones will contribute to the improvement of the region's infrastructure, rapid inflow of foreign direct investment in the country and increase the number of jobs.

5. Conclusions
The main goal of state intervention in the economy is to present the best features of the market economy as effectively as possible. However, in addition to successful attempts to intervene in the state economy, there are often examples of tragic mistakes when the market itself could have better addressed the problems that arose.

Despite these examples, the economic regulation of the state has always had strategic and tactical significance. For any country, there are and will always be state problems that are either not addressed through the supply-demand mechanism or are associated with negative side effects. Based on the existence of such cases, a set of free market economic measures is being developed through state programming of the economy and the use of regulatory tools.

Economics is a relatively inaccurate science. Consequently, the reproductive process largely depends on product sales expectations rather than accurate forecasting or accurate information. In practice, this can explain the abundance of crisis periods. That is why the state stimulates economic growth by creating the main public goods (optimistic expectations for the future), which is why the economic capacity of the state can be attributed to the factors of production.

In addition, it is necessary to make the following basic social rights actually available to the population – social protection, employment, housing, health care and education. The exercise of these rights is most often inaccessible to those who need them most.

Employment is an important component of fundamental human rights and involvement in public life. At the same time, access to employment for all and the provision of normal working conditions for the society are the most important factors in the fight against poverty. Therefore, through social protection systems and the deepening of economic relations, each state seeks to help as many people as possible to move from a passive role in the economic process to an active one. This is where the need to invest in the education of every member of society comes into play, as a knowledge-based economy is the most important factor in future economic growth.

In view of the above, it is necessary to reconsider and reform the role and rights of the state in modern economic relations. The need to establish the state as a factor of progressive development in the economy should be emphasized during the reform. In addition, it should include legislative activities such as – compliance with labor safety conditions, regulation of the minimum wage, resolution of social conflicts, etc.

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