

Rethinking economic crisis



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Human
Development

a Think Tank

The emotional phase of the economic crisis in Armenia can be considered over. Along this lines, we were able to avoid the panic; the sectors that had suffered the crisis the most never dragged other sectors and the entire economy into a similar pit; the financial sector avoided harsh shocks. This was in fact possible due to the anti-crisis policy of the government and quite logical steps taken towards overcoming the crisis, as well as the reasonable behavior of the people.

No matter how contradictory this may sound, getting over this phase of the crisis actually means the end of the crisis itself. Yet, at the moment any anti-crisis initiative is rather risky. For instance, if in the past the problem lay in numerous ineffective actions implemented 'for the sake of the exploited worker class', nowadays the danger is in redundant actions taken to 'overcome the crisis'. Political manipulations of these actions are particularly perilous: accusing the government of inaction may in reality distract the decision-makers from the danger of wasting public resources.

What does 'overcoming a crisis' imply?

In developed countries where economies are described as 'crisis-free', the end of a crisis means returning to a healthy economy. In case of Armenia the long-lasting double-digit growth of the economy was mostly conditioned with the development of non-competitive and import-based sectors. Armenian economy has turned into a cart harnessed to mining and construction 'horses'.

The global crisis interrupted the progress of the Armenian economy. Logically, in our case overcoming a crisis would simply signify a return to the pre-crisis economy.

Overcoming a crisis in Armenia

The implementation of the anti-crisis policy is in full motion. Unfortunately, an important aspect has slipped away from our attention: we have not defined the expected outcome. What kind of an economy do we anticipate after the crisis? Most of the actions were aimed to restore the previous economy, where construction had a dominant role. However, in contrast to the pre-crisis Armenian economy, at present the assistance to construction is provided through loans. The major supportive argument for such a policy is that it ensures employment. The target is a right one. However, it should be noted that construction will not address issues such as the recovery of the Armenian economy, increase of export and productivity and improvement of competitiveness. This will be only a temporary solution, simply putting off the major blow of the crisis. Armenia will again face a crisis once the resources for loans are used and the assistance is over. This approach is dangerous, as maintaining the pre-crisis proportion of construction in the structure of economy will continually demand state intervention, regardless the existence of a global crisis. Therefore, reduction of the construction sector is not only inevitable, but also desirable. It is necessary to realize that the portion of construction in GDP should reduce. The state aid to this sector should be limited and the aid to non-infrastructure construction should absolutely diminish.

Crisis is an opportunity

Many experts believe that the crisis is also an opportunity to increase the competitiveness of the economy. The crisis enabled the governments to step away from liberalism, interfere with private business, and support local producers, thinking that they will avoid negative attitudes. However, all

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these are merely tools, being used also in Armenia. However, here those tools are being used while a clear target is not defined. “The private sector is declining, let’s support it”. When a chubby kid starts losing weight, the first aid should not be increasing food portions and feeding him more, since overweight does not yet presuppose a sign of health. The opportunity the crisis grants is first in transforming the structure of the economy; it is an opportunity to turn a ‘chubby kiddo’ of the Armenian economy characterized with a double digit growth, which has been feeding on construction, into a ‘healthy kid’.

The crisis as a shock therapy

In the modern world the development dynamics dictates its own rules: sustainable economic development is ensured by an economy, which is able to transform its structure through redistributing the resources to the sectors with higher levels of productivity. The best examples are the developed countries with their knowledge-based and innovative sophisticated economies.

It may sound strange, but in the early 90s Armenia was exporting more sophisticated products than nowadays. Too much water has passed under the bridge and one should confess that our possibilities and capabilities have significantly shrunk. Since the 21st century the Armenian economy has been developing on an uncompetitive track: construction has become a dominant component of the growth. Whereas it is necessary to use the opportunity granted by the current crisis and enable more competitive sectors of economy to develop, by changing the economic structure – a definite shock therapy.

The paper is elaborated based on the opinions passed by the participants of the discussion “European Security and Challenges in the Caucasus”, which took place on August 24, 2008. The roundtable discussion was attended by independent analysts, government officials, and representatives of the international organizations.

The round table was organized with the support of the Friedrich Ebert Foundation.