

The Imperative of Having Equally “Strong” Institutions

John Maynard Keynes claimed that when in experience straight lines apparently parallel often meet, there is no need to rebuke the lines for not keeping straight. One simply needs to throw over the axiom of parallels and to work out a non-Euclidean geometry.

Side Effects of strengthening the Armenian Dram

Never before did local media abound in so many discussions and analyses on monetary policy, state finances and local currency. In the result, today we can observe a number of positive outcomes: the number of officials who for some unknown reason were publicly boasting with the strengthening of dram, considered the fact a sweet fruit of an economy which is getting more powerful and envisioned positive outcomes for the economy, has decreased. That this is a real threat nowadays is perceived not only by those who were considered “dissidents” only few months ago, but also within the official circles (even if not publicly). One should agree that this is already a considerable progress.

Why does the issue constantly hit the news?

Economy’s institutional structure has an excellent quality of self-regulation. There are never any gaps or vacuums here. When some formal institutions do not exist or do not operate fully, their functions are taken over by other formal or informal institutions. For instance, when for various reasons courts do not carry out their responsibilities, the institute of “revenge/lynching” is developed instead. When the institute of communicating with a state agency is not regulated, the institute of “corruption” is developed instead, etc.

In fact the macroeconomic policy of a country is a complex of effectively correlating two important policies - monetary and fiscal. Consequently, the apex of the given segment of economy’s institutional structure comprises the mechanism of cooperation and mutual control of the two institutions, namely the “central bank” and the “government”. In case of any malfunctions the responsibility for discussions aimed at balancing the policies is transferred to the media and other public institutions, something to which we are a witness at the moment.

Brainstorming

Let’s imagine a court hearing of a case called “macroeconomic policy”, where “inflation” (defense attorney – central bank) and “economic growth” (defense attorney– government) try to get even with one another. What do you think? Will the parties sign an off-the-court agreement and move forward according to the “win-win” principle, when the interests of one party are defended by a well-known and ambitious legal company equipped with state-of-the art technical and human resources, one that stands out with sufficient financial and technical resources to carry out its own investigation, and the interests of the second are represented by a modest public attorney who has so many things to care about.

The well forgotten past

Eleven years ago according to the respective law the RA Central Bank became independent. Such a change was made based on the assumption that the two institutions responsible for the macroeconomic policy, i.e. central bank and government (specifically the agencies responsible for developing and implementing macroeconomic policies at the Ministry of Finances and Economy and the Ministry of Trade and Economic Development) need to have equal opportunities for competition, so that a balanced policy is developed in the result of this competition. It is not a secret that the approaches towards regulation of prices and economic growth can contradict each other on certain dimensions of macroeconomic policy. The rationale behind the change is that the mentioned competition will allow getting an effective balance. This is a model which we have simply borrowed and which has managed to accumulate a rich history proving its efficiency in various countries of the world.

This model, which was envisioned while drafting the first law on granting independence to the Central Bank, assumes that the institutions entering the competition are equal in terms of professional capacities and opportunities (i.e. the respective agencies at the Central Bank and the Government). The level of potential each institution has largely depends on its personnel and institutional capacities. In order for two state institutions to be able to “compete” with their analytical capacities which affect the policy, they should have equal access to the general pool of professionals available in the country. For an equal competition they should be able to implement an equal policy of remuneration, provide with equal work conditions and opportunities, which will greatly contribute to the current policy implementation. We are certain that this will positively affect the currency policy as well, which requires brave and innovative initiatives and projects.

The **conclusion** is one and it is rather unambiguous: we should restore the lost balance in the institutional field of macroeconomic policy. This is the imperative of the process of strengthening the dram as well which is ruining the foundation of the real sector of the economy.

Where to start? For instance, in 2007 while discussing the draft of the state budget, as a revision to the policy, an attempt can be made to develop an equal scale of average remuneration and equal work conditions for the agencies responsible for the development and implementation of monetary policies both at the Central Bank and the Government. It may seem impossible, but in fact, such a remedy which seems so simplistic at a first glance can become an important impetus for the required balance and contribute to overcoming the dangerous reality of emphatic polarity of current macroeconomic policy, even in the conditions of dram strengthening, which already appears devastating.

The paper is elaborated based on the opinions passed by the participants of the discussion on “The institutional prerequisites for the on-going strengthening of Armenian Dram”, which took place on September 23rd, 2006. The roundtable discussion was attended by independent analysts, government officials, and representatives of the international organizations.

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