

**COUNTERBALANCING MARKETIZATION INFORMALLY:
INSTITUTIONAL REFORMS AND INFORMAL ECONOMIC PRACTICES
IN GEORGIA (2003-2012)**

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Abstract

This dissertation explores the relationship between market-enhancing institutions and informal economic practices. It critically engages with the dominant perspective on informal economic practices (new institutionalism), and elaborates an alternative, Polanyian institutionalist perspective. Relying on the Polanyian framework, I argue that social inclusion and wellbeing of marginalised, informally operating persons and groups cannot be achieved through the establishment of market-enhancing institutions (as suggested by the new-institutionalist literature), unless institutions for social protection are also established. The prevalence of informality in an aspiring capitalist society is as much related to the lack of institutionalisation of protective measures as it is related to the lack of market supporting institutions. In a context in which the institutionalisation of market economy proceeds without institutionalisation of protective measures, societal resistance and defence against marketization - commodification of land labour and money - can shift to the informal realm. In other words, it can trigger the *informalization of the countermovement*. While a countermovement against marketization can endanger the capitalist economy even when it proceeds within formal/legal boundaries, informally pursued countermovement runs higher risks of subverting marketization efforts and failing to ease the social consequences of marketization.

In supporting these claims, the dissertation presents a case study of institutional transformation in Georgia as a most likely case to have met the new-institutionalist theoretical expectations concerning market-enhancing institutions and their impact on informal economic practices within the post-Soviet region. While Georgia was the only country that successfully adopted the new-institutionalist remedies, the reforms' social developmental outcomes were hardly impressive in comparison with neighbouring countries. Examining the reasons for the puzzling sub-optimal outcomes of Georgia's reforms, I identify the limits of the new-institutionalist *problem analysis* and *remedies* to the informal economy based on [1] analysis of micro, mezzo and macro level outcomes of institutional transformation in Georgia; [2] critical review of existing literature on post-soviet informality and [3] examination of the new-institutionalist theoretical premises with the help of the Polanyian institutionalist perspective.

The dissertation demonstrates that Georgian reforms failed to benefit small and medium size businesses and informally self-employed traders. It also largely failed to ease the social and economic vulnerability of poor and marginalized groups. Relying on the Polanyian institutionalist perspective on informality, I suggest that the suboptimal outcomes of the post-revolutionary reforms can be ascribed to the government's refusal to institutionalise market-constraining regulations, and protective measures, to

facilitate adjustment to marketization and ease its social costs. Subsequent informalization of the resistance, or countermovement against marketization proved insufficient to ease social conflicts. The limits of informalized countermovement [1] reproduced reliance on informal economic practices, [2] undermined the capacity of the protective measures to ease social costs of marketization, and finally, [3] subverted market-enhancing reforms.

The argument and the findings of this dissertation challenge not only the new-institutionalist perspective on informal economy, but also dominant development theories and policies. They challenge the pervasive academic and policy focus on quality institutions (e.g. good governance, transparency, rule of law, corruption control, security of private property) by illustrating that the primary focus on market-enhancing institutions at the expense of dismissing the role of market-constraining and social regulation is not only insufficient but also counterproductive. In this light, the transnational development actors' failure to support the governments in improving institutional quality, despite their immense financial and human investments in anti-corruption and good governance promoting projects, can be understood as the result of dismissing the social costs of marketization.

Declaration

I hereby declare that no parts of this thesis have been accepted for any other degrees in any other institutions. This thesis contains no materials previously written and/or published by another person, except where appropriate acknowledgment is made in the form of bibliographical reference.

Lela Rekhviashvili
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*A Street Vending Site,
Tbilisi, Georgia, 2013*



Picture by Lela Rekhviashvil

