

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

By Lela Rekhviashvili

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Supervisor: Professor Béla Greskovits

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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.

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I think one of the biggest challenges for a PhD student is the feeling of irrelevance. As we spend quite some time working alone, we are supposed to abstract the arguments from the detail we observe, and we are aware of the limits of the impact our work can have for the problems we study, it is easy to find ourselves detached from what we perceive as social 'reality'. It was primarily due to the immense support of my fieldwork informants, my supervisor Béla Greskovits, my girlfriend Maša Drndić, my professors, colleagues, friends and family, that I never really felt abandoned, irrelevant and detached, and this work has evolved in dialogue with so many engaged and committed persons. I thank them for the care that has made these five years beautiful, challenging and exciting. Their trust and confidence allowed me to feel safe about taking time to contemplate, to get lost, forgive myself for inconsistencies and confusions. Their uncompromising, critical engagement has made me constantly question my observations, my arguments, and myself. In other words, my social space has given me the access to and enabled me to enjoy the most precious sides of doing the PhD.

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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,
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Picture by Lela Rekhviashvili

1 INSTITUTIONS AND INFORMAL ECONOMIC PRACTICES: CHALLENGING THE DOMINANT PERSPECTIVE

INTRODUCTION

Since the early 1990s, the concept of institutions has influenced the social sciences, primarily development theory and development policy-making, to an extent that no other concept has. Even when frustrated by cyclical resurfacing of the old debates in development theory, observers maintain that “real progress has been made over the last decade in thinking about institutions, governance and development”(Booth, 2011, p. s6). While research on institutions is diverse, it is the rational-choice based version of new institutionalist research (Kaufmann, Kraay, & Mastruzzi, 2010; North, 1995) that came to dominate both, academic and policy making circles. According to Khan, this strand of the new-institutionalist research assumes “that if states can ensure efficient markets, (in particular by enforcing property rights, a rule of law, reducing corruption and committing not to expropriate) private investors will drive economic development. This approach is one that implicitly stresses the priority of developing market-enhancing governance, and is currently the dominant paradigm supported by international development and financial agencies” (M. H. Khan, 2007, p. 2).¹

Besides cross-national differences in economic development, the new-institutionalist writings offer the explanations regarding the gap between economic performance and social wellbeing. According to this paradigm, conventional market reforms, such as liberalization,

¹ From this point on, I refer to the strand of the new-institutionalist perspective focusing on market-enhancing institutions shortly as new-institutionalism

deregulation, privatization and efforts at maintaining macroeconomic stability fail to alleviate social problems if these reforms are not supported by strong political and economic institutions (Acemoglu & Robinson, 2012; North, 1981, 1995). Inequality, poverty and social marginalization are hence seen as the consequences of compromised safety of property rights, contract enforcement and rule of law; in other words, insufficient institutionalisation of a market economy (Selwyn, 2014, p. 1). This emphasis on exclusion from markets places the question of the informal economy at a central stage for the new-institutionalist thought. The informal economy, broadly defined as all the economic activities that fall out of state regulation, taxation and other forms of state purview (Routh, 2011), represents one of the most obvious and the most widespread forms of exclusion from the benefits of state-supported market-enhancing institutions.² This is why a large and influential body of new-institutionalist literature has focused on the informal economy, arguing that the populations relying on informality remain poor as they face high transaction costs and are deprived from the benefits of a formal/state enforcement system (Chersi, 1997; De Soto, 1989, 2000; North, 1981, 1995).

The new-institutionalist perspective on development in general and its propositions concerning the informal economy in particular, has had a remarkable influence on domestic and transnational policy making worldwide, shaping an augmented, or a Post-Washington Consensus agenda. Not only is a vast share of developmental aid directed at improving institutional performance (decrease of corruption, rule of law, government effectiveness, etc.) of so called developing states (Michael, 2009; Mungiu-Pippidi, 2006), but the aid is also

² Up to 60 percent of all jobs globally are held in the informal economy, and the trend is only accelerating (ILO, 2011; Williams, 2013) Similarly, size of the shadow economy measured as share of official GDP is on the rise globally (Schneider, Buehn, & Montenegro, 2010).

increasingly conditioned upon countries' performance on governance indicators (Hout, 2004; Löwenheim, 2008; Mawdsley, 2007; Roberts, Wright, & O'Neill, 2007). The new-institutionalist remedies to the informal economy have also been widely applied. The recommendations of the famous Peruvian economist De Soto, and his Institute for Liberty and Democracy (ILD) have shaped the projects aiming at formalisation of informally held property and business relations in dozens of countries (Calderón, 2004; Payne, Durand-Lasserve, & Rakodi, 2009). Furthermore, "international organizations like the World Bank and the United Nations (especially through the work of the Commission for the Legal Empowerment of the Poor) have taken on board de Soto's recommendations" (Halder & Stiglitz, 2013, p. 114).

This dissertation serves to critically re-evaluate this highly influential new-institutionalist perspective on the informal economy, primarily in the post-Soviet context, by asking *how establishment and strengthening of market-enhancing institutions influence informal economic practices*. It discusses a case 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, social developmental outcomes of the reforms were hardly impressive relative to the neighbouring countries. Examining the reasons for 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 help of a Polanyian institutionalist perspective.

I propose introduction of a Polanyian institutionalism to the study of the informal economic practices to overcome the limitations of the new-institutionalist perspective, formulating the alternative, Polanyian institutionalist perspective on informality. In terms of *problem analysis* the Polanyian institutionalist perspective denounces perceiving informal economic practices as market-like practices, albeit with higher transaction costs. Instead, it allows for mapping different modes of integration, such as reciprocity, redistribution, and household alongside markets, as organising principles for informal economic practices. Therefore, the *remedies* that stem from the Polanyian institutionalist perspective differ from the new-institutionalist remedies, suggesting that introduction of market-enhancing institutions might be necessary but certainly insufficient to reduce reliance on informal economic practices. Introduction of market-enhancing institutions, or in Polanyian terms, pursuing marketization impose social-economic costs primarily by dismantling other, socially embedded forms of integration that informal practices exhibit. Thus instead of harmonious incorporation of informal economic practices, marketization process can trigger societal conflicts and resistance. Therefore, the Polanyian institutionalist analysis suggests that for reducing reliance on informal economic practices, marketization process needs to be complemented by introduction of the institutions for social protection. Adding to the Polanyian analysis, I suggest that avoidance of institutionalising protective measures can result in informalization of the countermovement against the marketization process.

Analysing the Georgian case according to the Polanyian institutionalist perspective, I demonstrate that instead of benefiting from introduction of market-enhancing institutions, informally operating actors faced immense social costs and fiercely resisted the process. I argue 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 and ensuing informalization of the countermovement. The shortcomings of the 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 findings of this study contribute to a few theoretical debates of relevance for national and transnational development policy-making. First, on a broader level, the dissertation underlines the limitations of the dominant developmental paradigm that envisions solving social problems through providing marginalised individuals with better access to markets. Besides shaping the responses to the informal economy, such thinking shapes a range of policies, starting from the financial inclusion and provision of microcredit to marginalised groups (Demirguc-Kunt, 2013; Demirguc-Kunt, Peria, Soledad, Allen, & Klapper, 2012; Dupas & Robinson, 2013; Pearce, 2011), such as women, Roma, migrants, in global South, ending with intensified financialisation of daily lives in global north (Langley, 2007, 2008; Martin, 2002; Zwan, 2014). In both cases social wellbeing and inclusion is tied to individual's capacity to be a good investor and entrepreneur. Illustrating the shortcomings of such policies, the Georgian case provides modest, but still crucial evidence in favour of finding collective, non-market based solutions to social marginalisation.

Second, and possibly the most important contribution of this dissertation is introduction of a Polanyian institutionalist perspective to the study of informal economic practices. While the primary contribution is to illustrate the relevance of the Polanyian institutionalist perspective to understand informality in the post-soviet region, and to challenge the dominant new-institutionalist perspective, the implications of this theoretical contribution can be much wider. The share of the informal economy is rising in global South and North (Schneider, Buehn, & Montenegro, 2010) , making study of informalisation and its particular forms, such as social dumping (Bernaciak, 2014), highly relevant. As Light suggests, “informalization seems to have gone from marginal activities to a mainstream movement to make large sectors more fluid, network-based, and less regulated—the informalized economy”(Light, 2004, p. 705). Given the recent acknowledgement of the limits of existing theories (Routh, 2011; Williams, 2013), introduction of Polanyian institutionalist perspective opens up new theoretical footings to understand growing informalization of the economies worldwide. I suggest that the particular advantage of the Polanyian perspective is that instead of focusing on (often criticized) formal/informal dualism, it embeds the study of informality into the theory on capitalist and pre-capitalist societies.

Finally, this dissertation also serves to re-evaluate the consequences of institutional transformation in Georgia throughout 2003-2012. Despite some criticism, the reforms pursued by Georgia’s post-revolutionary government under president Saakashvili are largely seen as a success story. Georgia’s anti-corruption reforms have been promoted as a best practice by the World Bank (The World Bank, 2012) and have inspired reforms in other post-soviet countries. The policy transfer is most vivid in Ukraine, where Georgia’s reform strategy is being replicated with the help of numerous former Georgian officials, including

the former president (Sukhov, 2015). Given the policy, as well as theoretical relevance of the case, systemic analysis of the reforms is essential. Besides notable critical studies (Curro, 2015; Dunn, 2012; M. D. Frederiksen, 2013; D. Gugushvili, 2014), this is the first study to systemically discuss the social consequences of Georgia's reforms and to offer a detailed analysis of the mistakes that lead to deepened social vulnerability and reproduction of informality in Georgia.

1.1 THE NEW-INSTITUTIONALIST EXPERIMENT IN THE POST-SOVIET REGION

The post-socialist region has been one of the world regions deeply challenged by prevalence of the informal economy. Initially seen as a transitional phenomenon, prevalence of informal economic practices, informal institutions, corruption and “general informalisation of lifeworld” (Rasanayagam, 2011, p. 681) has proved to be a lasting problem for the region (Morris & Polese, 2014). The problem of informality has been particularly acute for non-Baltic post-Soviet countries. If the share of the shadow economy ranged between 16 to 32 percent in East-Central European as well as Balkan states, this share ranged between 38 to 62 percent in the former Soviet republics by 2007 (Schneider et al., 2010). Both, cross country comparative studies, as well as in-depth ethnographies have put forth the new-institutionalist interpretations to explain the spread and depth of informality in post-Soviet states (Thelen, 2011). Weak institutions, unstable and fuzzy legal systems, prohibitive taxes and overregulation were identified as causing widespread informality and suboptimal aggregate economic performance (Abdih & Medina, 2013; Johnson, Kaufman, & Shleifer, 1997; Johnson, Kaufmann, & Zoido-Lobaton, 1998; Ledeneva, 2009; Nasritdinov, Rayapova, Kholmatova, Damirbek kyzy, & Igoshina, 2010; Roti, 2014).

While the problem of post-soviet informality is most often diagnosed along the new-institutionalist lines, it is not easy to test the validity of the new-institutionalist remedies within the region. Weakness of institutions, primarily the spread of bureaucratic corruption was acknowledged as a core challenge for former Soviet states already by the end of the 1990s. Transnational development agencies pledged generous support directed at institutional and governance reforms and the respective governments committed to anti-corruption reforms and strengthening of the rule of law. However, the results of these efforts have been almost universally disappointing (Mungiu-Pippidi, 2006) with the exception of a South Caucasian republic of Georgia.

Post-revolutionary institutional reforms (2003-2012) in Georgia prove to be an excellent case for testing the new-institutionalist remedies for informal economic practices at least for three reasons. First, prior to the Rose Revolution of 2003, Georgia suffered from excessive prevalence of informality. Throughout the 1990s, the size of the shadow economy as a share of GDP exceeded 65 percent - the highest share among the former soviet republics and one of the highest worldwide (Schneider et al., 2010). Georgia was the most corrupt former Soviet state, almost falling into a 'failed state' category, with a "quasi-feudal form of political economy"(Schueth, 2012, p. 135).

Second, radical reforms initiated by the Rose Revolutionaries since 2003 were explicitly inspired by the new-institutionalist perspective on social-economic development in general and on informality in particular. The timing of the revolution coincided with the period of the institutionalist turn in social sciences. Inspired by emerging Post-Washington consensus agenda and the new-institutionalist writers, such as Hernando De Soto (Jones,

2012; Schueth, 2011), the post-revolutionary government addressed two interconnected concerns of the new-institutionalist perspective: it envisioned changes in institutional design, as well as institutional quality.³ Changes in the design of economic institutions involved deregulation (e.g. the number of regulations were reduced from 944 to 150); simplification and reduction of taxes; liberalisation of the labour code, enhanced privatization, and overall liberalization of the economy. Improvements in institutional quality mostly targeted corruption in the public sector, downsizing and modernising public sector institutions and overall, strengthening of the state enforcement capacity.

Third, and the most important reason why the case of post-revolutionary institution building deserves attention is the unprecedented success of the reforms (Engvall, 2012; Kupatadze, 2012). Georgia's so called 'Anti-corruption revolution' (Shelley, Scott, & Latta, 2007) was celebrated by most western observers and particularly developmental organisations: "For three years running, it appeared in the top-10 reformers' list; and was the top reformer in Doing Business 2007" (European Stability Initiative, 2010a, p. 8). By the 2011 Georgia ranked 17th on the World Bank Ease of Doing Business Index (The World Bank & The International Finance Corporation, 2011); also, 29th on the Index of Economic Freedom (Miller & Holmes, 2011). The extent of change is particularly visible compared to the rest of the former Soviet countries. Towards the end of the rule of the post-revolutionary government Georgia scored twice as much as any other (non-Baltic) former Soviet republic

³ Some of the new-institutionalist writers, for example Singh et.Al (Singh, Jain-Chandra, & Mohommad, 2012) , insist that quality of institutions is a primary explanatory variable while taxes and regulations are only of secondary importance. However, a big part of the literature regards the two variables – quality of government institutions and costs of formality – as equally important determinants of the size and character of the informal economy.

(and many other poor developing countries) on the indicators such as ‘corruption control’, ‘rule of law’, ‘regulatory quality’ and ‘government effectiveness, according to World Bank data on the quality of governance.⁴

It needs to be noted that despite widely acclaimed success, even the most supportive observers identified a few remaining challenges, particularly with regard to grand/elite corruption and lack of accountability. Thus, post-revolutionary Georgia might not be the ‘ideal type’, but in the post-Soviet context, it certainly is the most likely case to have met the optimistic expectations of the new-institutionalist theorists. The Georgian case can be seen as a critical case, “defined as having strategic importance in relation to the general problem”(Flyvbjerg, 2006, p. 230) for the post-Soviet context.

1.2 COUNTERINTUITIVE OUTCOMES OF GEORGIA’S INSTITUTIONAL REFORMS

Changes in institutional quality and design, according to the new-institutionalist wisdom, should have reduced the size of the informal economy (Johnson et al., 1998; Loayza, 1999; Piculescu & Hibbs, 2005; Schneider et al., 2010) and improved the economic performance (Kohli, 2004; North, 1990; Robinson & Acemoglu, 2000; Rodrik, 2004; Sokoloff, 2000; Tabellini, 2004). But more importantly, these reforms should have worked to the advantage of impoverished and marginalised segments of society and given them a better access to market-enabling institutions (De Soto 1989, Olaya, Díaz and Caicedo 2007, Becker 2004). Hence, the most important test of the new-institutionalist remedies lies in observing

⁴ Much of the existing literature on institutions and informality uses the same data sources, primarily the World Bank Governance Indicators and Ease of Doing Business index, to establish links between quality and design of institutions and informal economic practices. For example, please see (Singh, Jain-Chandra and Mohommad 2012, Kaufmann, Kraay and Mastruzzi 2010).

whether or not these solutions enabled marginalised, informally operating actors to turn into relatively successful legal entrepreneurs, and whether or not the indicators of social development improved along with the economic recovery.

Even if Georgia was the most likely country within the post-Soviet region to achieve relative alleviation of social problems through opening up the entrepreneurial opportunities for numerous, previously informally operating actors, the evidence on macro, mezzo and micro levels speaks of the opposite. On the macro level the reforms clearly contributed to substantial improvement in economic performance (F. Khan et al., 2013; Livny et al., 2013). Reduction of the size of the shadow economy does not look as impressive as the economic recovery would suggest. Existing accounts indicate slow and marginal, but still a consistent trend in the shrinking size of the informal economy (Elgin & Oztunali, 2012; Schneider et al., 2010; Torosyan & Filer, 2014). On the side of social indicators, the picture gets much gloomier. Since the Rose Revolution the unemployment rates kept rising, reaching 16% by 2010. The inequality levels also deepened, with GINI coefficient nearing 42%, making Georgia the most unequal country of the region, outscoring even larger, oil-rich neighbours. The absolute poverty levels counted at 2\$ a day rate by the World Bank also soared throughout the decade, indicating that over 30% of Georgia's population remained extremely poor, while 25% of the population was undernourished (for the detailed statistics and data sources please see chapter 3). The core challenge here is not that poverty deepened while the economy was growing, but that poverty deepened while the overall quality of institutions improved considerably. All of Georgia's neighbours that score drastically less on different indices measuring institutional quality and corruption control (including the least

well-off countries of similar size, such as Armenia and Moldova) managed to reduce poverty and undernourishment levels throughout 2000s.

These disappointing macro level outcomes become less surprising once the mezzo and micro level dynamics are observed more closely. Enabling citizen's entrepreneurial capacities through decreasing costs of formality and removing burden of bureaucratic rent extortion was seen as a primary mechanism towards solving problems of poverty and marginalisation. However, despite all the appraisals of Georgia's business environment there is no evidence that entrepreneurial opportunities were utilised by economically vulnerable citizens. While larger firms seemed to benefit from the changes, the performance of small and medium size enterprises deteriorated. As Rudaz reported by the end of the rule of the post-revolutionary government, "During the last 12 years the performance of SMEs has dropped, in terms of employment, turnover and share of overall production" (Rudaz, 2012, p. 3). Again, the regional comparisons illustrate the severity of the problem. Comparative studies indicate that firm ownership levels and share of latent entrepreneurs remain lower in Georgia compared to the neighbours, as well as other developing countries. Closer comparison with similarly sized neighbouring Armenia reveals that Georgian enterprises are less innovative and less competitive on international markets (Kuriakose, 2013; OECD, European Union, ETF, & EBRD, 2012). The structure of employment also remained intact, leaving the share of self employed at over 60% of all employed, indicating that self-employed were not necessarily transforming into smaller entrepreneurs or creating additional jobs. Moreover, the average income from self-employment, as well as market based real income for the poor families decreased substantially (D. Gugushvili, 2014). Reliance on informal practices, while dealing with state bureaucracy, decreased as a consequence of the reforms.

However, informal practices and networks persisted as a coping mechanism and a way of sustaining social safety nets (Aliyev, 2014).

The developments on the micro level reinforce and substantiate micro and mezzo level observations. One of the socially vulnerable groups that were meant to benefit from the institutional reforms were small scale market (bazaar) traders and informal vendors. While over 60% of all employed are self-employed, up to 10 percent of self-employed are employed in trade (National Statistics Office of Georgia 2014). By 2007, the number of the marketplace traders (excluding vendors) was estimated to be up to 100,000 persons (International Trade Union Confederation (ITUC), 2008) comprising up to 6% of all employed in the country.⁵ While, at the same time, the urban unemployment reached almost 30%, small trade seemed to be one of the important informal survival mechanisms for a significant share of the population.

Unlike the rural self-employed that pursue subsistence activities, the activities of urban self-employed (in services or in trade) seem more clearly 'entrepreneurial'. Prior to the revolution the traders had been operating informally or illegally and had been regularly subjected to bureaucratic rent-extortion practices. Therefore, if anyone, this group of petty traders should have benefited from improved institutional quality and design and possibly turned into lucrative entrepreneurs. Instead, soon after the reforms took off, the open-marketplaces and surrounding territories turned into a battlefield between the traders and the city government. The traders reported major deterioration of their working conditions as well as turnover, compared to pre-revolutionary period. Throughout 2007-2010 the

⁵ It needs to be noted, that many of the petty traders have dependants.

traders held numerous protests, founded union-like representative institutions to resist privatization of marketplaces as well as restrictions on trading in public spaces (International Trade Union Confederation (ITUC), 2008). As the government largely dismissed traders' demands, in 2010 the mobilisation gave way to disobedience that could be described in Bayat's words as 'the quiet encroachment of the ordinary' (Bayat, 1997). The traders expressed strong preference for continuing trading informally, indicating that legality/formality remained unaffordable for many, but more importantly, legality/formality did not provide promised advantages or better opportunities.

1.3 DID THE NEW-INSTITUTIONALIST SOLUTIONS FAIL THE GEORGIAN REFORMERS?

These diverse layers of mutually reinforcing evidence indicate that the proposed new-institutionalist causal mechanism that links establishment and strengthening of market-enhancing institutions with the decreased reliance on informal economic practices, improved entrepreneurial opportunities and subsequent social inclusion of marginalised groups did not occur in the case of Georgia. While the broader ambition of this dissertation is to better understand *the relationship between market-enhancing institutions and informal economic practices*, the specific research question, stemming from the empirical puzzle is: *why did the establishment and strengthening of market-enhancing institutions fail to benefit marginalised, informally operating actors and to alleviate social problems in Georgia?*

Hypothetically, there can be two types of interpretations to the identified research problem. First, it is possible that despite achieving significant success in designing institutional reforms in line with the new-institutionalist prescriptions, the post-revolutionary institutional reformation was incomplete or inconsistent and did not meet the

core requirements set by the new-institutionalist theory. Hence, the developmental outcomes of the reforms did not match the ambitions of the reform agenda. This hypothesis needs to be considered seriously, given that, as mentioned above, the post-revolutionary government indeed came short of eliminating grand/elite corruption and in the second half of its rule (since 2008) started intervening in social and economic matters through informal extra-legal means (Timm, 2013a). However, the extent of the gap between theoretical predictions and achieved developmental outcomes are too big to easily set aside a second, alternative interpretation: that the new-institutionalist remedies failed to bring about predicted outcomes in the case of Georgia because of the faultiness of its theoretical premises. Georgian case provides at least two good reasons to render questioning of the new-institutionalist theoretical premises necessary. The first reason is that Georgia's developmental outcomes are not simply less impressive than what the new-institutionalist perspective would expect, but these outcomes are significantly worse compared to the majority of other post-Soviet countries. Even if the Georgian government made mistakes on the way to implement the institutional reforms, it still holds true that no other country in the region managed to alter institutional quality and design remotely as successfully as Georgia did. This is why it is surprising that the neighbouring countries succeeded in alleviating social problems throughout the 2000s while the social problems only deepened in the Georgian case. Secondly, even if Georgian institutional reforms were incomplete, it still makes little sense that on micro level, informally operating actors resisted changes actively and persistently. While the post-revolutionary reformers are commonly blamed for the inability to curb grand/elite corruption, petty corruption was virtually eliminated according to all available accounts (Engvall, 2012; Kupatadze, 2012). Small scale, self-employed

traders were the least likely to experience the consequences of grand corruption and the most likely to benefit from incorruptibility of the street-level bureaucrats, tax reduction, and simplified regulatory framework. Consistent dissatisfaction and resistance of the actors on the micro level begs questioning whether the new-institutionalist remedies indeed benefit marginalised, informally operating actors.

This dissertation serves to discuss these two competing interpretations, questioning whether the new-institutionalist remedies are inadequate for easing reliance on informal economic practices, or it is the implementing actors' failure to follow the new-institutionalist suggestions that inflict suboptimal consequences. *In other words, did Georgia's post-revolutionary government betray the new-institutionalist solutions, or did the new-institutionalist solutions fail the Georgian government?* In order to substantiate discussion over these competing interpretations this dissertation utilises a diverse material. On the one hand, it critically discusses the theoretical premises of the new-institutionalist perspective relying on Polanyian institutionalist perspective and the available literature concerning the informal economic practices in the post-Soviet region. On the other hand, it traces the institutional changes and transforming role of informal economic practices in the case of Georgia, looking at micro, mezzo and macro level developments.

1.4 RESEARCH METHODOLOGY

The research method for data collection and analysis used in this study approximates to, what Burawoy names as the 'extended case method' (Burawoy, 1998, 2009). According to Burawoy, the extended case method "applies reflexive science to ethnography in order to extract the general from the unique, to move from the 'micro' to the 'macro,' and to connect

the present to the past in anticipation of the future, all by building on pre-existing theory” (Burawoy, 1998, p. 5). The extended case method (ECM) distinguishes itself from positivist research through emphasizing the reflexivity of this scientific model and acknowledgement of the limits to a researcher’s capacity to separate herself from the world she studies. In contrast to grounded theory, EMC is concerned with expansion of pre-existing theory. Theory is defining for this method in a few respects. First, the theory guides construction and boundaries of the case, usually seeking to identify an anomalous case that asks for elaboration of existing theory to accommodate anomalies (ibid). Secondly, the theory informs a researcher’s choices, while connecting micro with macro processes and accounting for the structuring external forces.

The research methodology of this study is informed by and structured around the four dimensions, or ‘extensions’ that define the extended case method: “[1] the extension of observer into the lives of participants under study, [2] the extension of observations over time and space; [3] the extension from micro processes to macroforces; and, [4] finally and most important, the extension of theory. Each extension involves a dialogue: between participant and observer, between successive events in the field, between micro and macro, and between successive reconstructions of theory” (Burawoy, 2009, p. xv). The following sections discuss these four dimensions of the research methodology. Tracing macro, mezzo and macro levels processes allows for observing whether these processes resonate with and resemble each other. In other words, it allows for verifying the validity of the findings and observations.

1.4.1 Revising the theoretical premises

As described in previous sections, I set the case study boundaries based on theoretical considerations. Facing the limits of the new-institutionalist perspective while interpreting the selected case study, in the theoretical chapter (Chapter 2) I critically re-evaluate the theoretical premises of the new institutionalist perspective relying on a Polanyian institutionalist perspective and existing in-depth studies of informal economic practices in post-Soviet region. The Selection of a Polanyian institutionalist perspective as a contender to the new-institutionalist perspective on informality is not a random choice. For one, Polanyian institutionalism is one of the most significant strands of the broadly conceived institutionalist research, informing range of influential studies on modern capitalism in field of political economy (Machado, 2011; Streeck, 2009, 2011a), economic anthropology (Burawoy, 1999; Hann & Hart, 2009) and studies on capitalist diversity on European periphery (Bohle & Greskovits, 2012). Therefore, a Polanyian perspective can be fruitfully deployed for opening up a critical dialogue within the institutionalist research. Moreover, the decision to introduce a Polanyian theoretical perspectives stems from considering the trends in existing research on informal economic practices in the Post-Soviet region. One of the most important, and somewhat unifying characteristics of this literature has been its increasing focus on the embedded character of informal economic practices in the region (Morris, 2011; Morris & Polese, 2014; Stenning, Smith, Rochovská, & Świątek, 2010; Williams, 2005). Given that Polanyi offers one of the most comprehensive theorisations of the embeddedness concept, bringing in Polanyian perspective is important for elaborating the concept for the research on informal economic practices in general, and institutionalist research on the informal economy in particular. Finally, the selection of Polanyian

institutionalism as a theoretical base establishes the theoretical and methodological consistency of the study. Polanyi's consideration of historical and anthropological evidence to inform his theory on pre-capitalist and capitalist modes of integration is well suited for guiding the ethnographic inquiry undertaken in the scope of this dissertation. In summary, the first dimension of this research focuses on elaboration of critical dialogue within institutionalist research, and attempts to put the institutionalist research on informality on a new theoretical footing by: [1] theoretically informed analyses of the existing research on informal practices in post-soviet region [2] elaboration of an alternative, Polanyinan institutionalist perspective on informal economic practices.

1.4.2 Macro processes: institutional transformation

Second part of this research is tracing the institutional transformation in post-revolutionary Georgia (2003-2012) in detail (see Chapter 3). This part of the research, like other parts, makes use of diverse data sources to trace institutional transformation and the macro-level developmental outcomes on the one hand, but also to follow the reasoning of the post-revolutionary government while proposing and implementing institutional changes. First, it makes use of the statistical data and indices produced by the Georgian statistics office as well as transnational agencies and organisations, such as the World Bank, Transparency International, International Monetary Fund, different UN agencies, etc. Some of the important quantitative data is taken from the doctoral dissertation by Dimitri Gugushvili entitled, *Do the Benefits of Growth Trickle-down to Georgia's Poor? A Case for a Strong Welfare System* (D. Gugushvili, 2014). This unique study provides invaluable data concerning the overtime deepening of poverty, as well as changes in income sources of different social groups in Georgia.

Second, the analysis of the macro level processes relies on secondary literature, reports, and articles by local media sources, as well as transnational organisations. Finally yet importantly, this section of the research is informed by the narrative analysis of the governmental rhetoric on developmental goals and policies. This part of my research is not exposed to a full extent in the dissertation. Instead, shortened parts of it are used in different chapters, while the complete description of the research is available as a separate research paper, published by Caucasus Social Sciences review (Rekhviashvili, 2013). This bit of research, analysing over 50 presidential speeches throughout⁶ 2005-2012 with help of political narrative analysis (Fischer, 2003) allows to: [1] reconstruct the visions of the Georgian government on social development; [2] trace the overtime changes in the governmental discourse revealing the government's awareness of increasing social dissatisfaction since 2008; and [3] contrast the governmental rhetoric on development with the undertaken reforms.

1.4.3 Mezzo processes: informal economic practices in historical context

The third layer of this study traces the role and importance of informal economic practices overtime (Chapter 4). This exercise is, perhaps not precisely, but somewhat approximating to what Burawoy describes as “the extension of observations over time and space” (Burawoy, 2009, p. xv). One of the specificities of the informal economic practices, ignored by the new-institutionalist research, but acknowledged in the Polanyian perspective as well as by some of the critical literature on post-socialist informality is that informal

⁶ The official transcripts and English translation of the speeches were taken from the presidential website: The Administration of The President of Georgia, Press Office, available at: <http://president.gov.ge/en/>. The data was last accessed 16 September 16, 2012. Since the presidential elections of 2013, the presidential speeches by former president Saakashvili were removed from the website's archives, and the speeches by the president Margvelashvili are being uploaded.

economic practices are socially and culturally embedded phenomena (Smith & Stenning, 2006). While the embeddedness of informal practices was observable throughout the fieldwork, I also mobilised and analysed available secondary literature to describe the role of informal practices for Georgian culture and society in pre-Soviet, Soviet and Post-Soviet times. In contrast to the new-institutionalist assumption that informal practices are instrumental to enabling economic exchange, the examination of the informal economic practices in the Georgian case reveals the complex meaning and functions that informal practices would carry. In line with Polanyian perspective, informal practices rather tended to organise the society along the lines of reciprocity and redistribution in Georgia. This part of the research ends with a discussion of the role of informal practices since the Rose Revolution not just for the traders, but on a broader, societal level. Recent literature as well as my own analysis of available survey data illustrate that informal practices and networks have retained the role of social safety nets not only for the marginalised but also for relatively well-off parts of Georgian society.

1.4.4 Micro processes: participant observation

The last dimension of the research explores the micro level processes relying on ethnographic method of participant observation (Chapter 5 and 6). The material gathered through participant observation is the cornerstone of this research and explores how the establishment and strengthening of market-enabling institutions were experienced in the daily lives of (one of) the supposed targets of the institutional reforms, namely petty traders of the largest urban settlement and the capital of Georgia, Tbilisi. Alongside the persons informally employed in service provision, informally self-employed traders were one of the primary groups that could have benefitted from the reforms and expanded their

entrepreneurial activities. Direct engagement with traders' reasoning and personal or collective justifications for their resistance and disobedience is one of the crucial ways to understand the consequences of institutional reforms. The fieldwork focusing on petty trader's daily experiences lasted up to 8 months and comprised repeated research visits in May- July 2012, June-September 2013, and May 2014. While the direct observation is constrained to the fieldwork years (2012-2014), through the ethnographic interviews, off the site semi-structured qualitative interviews and with the help of limited available literature on transformation of small trade, I try to reconstruct the struggles of the petty traders since the Rose revolution of 2003.

Residing in one of Tbilisi's inner districts, I visited my main observation site, the central grocery marketplace – Desertirebis Bazari (Deserters' Bazaar) – and its surrounding territory on a daily basis, interacting with my key informants throughout their lengthy working day. My informants were both legally operating traders working inside private marketplaces and illegally operating traders, or street vendors. Traders commonly form groups of five to ten persons, and my ethnographic interviews were embedded in the discussions that took place among the groups of traders on a daily basis. Some of the key groups I regularly interacted with were: a group of elderly ladies selling agricultural products near the Deserters' Bazaar; a group of middle aged women trading garments in the square alongside a small shopping mall; and a group of Georgian Roma who also sell garments alongside the Borjomi farmers' bazaar. While the mentioned groups largely operated illegally in public spaces, the rest of my informants were traders operating legally inside the bazaars and also at a privately organised marketplace of second hand clothes in a public pedestrian underpass. Besides the main observation site, I regularly visited other

vending and small trade sites in Tbilisi. Some of these were the central avenues of the city, previously heavily used for outdoor trade, but most strictly controlled since the revolution (Rustaveli Avenue, Melikishvili Avenue). Others were semi-peripheral areas, often centred around metro stations (Delisi and Didube station). Lastly, I also visited city peripheries, most often Akhmeteli metro station, which is the centre of trade activities for the largest soviet mass housing estates (micro-rion), named Gldani. On the same sites I had the opportunity to conduct ethnographic interviews with the private owners and managers of the marketplaces and state agents – policemen and members of the special unit of supervisors from Tbilisi City Hall, as well as witnessing the interaction between these actors. In addition, I conducted semi-structured interviews outside the main observation sites with higher ranking representatives of the city government and representatives of an opposition party that supported the street vendors' collective mobilisation efforts throughout 2008–2010.

I saw the participant observation as an opportunity for “an engaged learning, an opening up to the rationales and moral perspectives of others”(Rasanayagam, 2011, p. 683). I entered the fieldwork keeping some of the basic concepts in mind, such as distinction between formal and informal practices, and in line with Polanyian inquiry, movement towards marketization and resistance towards marketization. However, instead of elaborating set of questions for interviews or elaborating informal discussions around the theoretical concepts, I tried to build the initial discussions with the informants based on small talks on trader's daily concerns. The process of learning what the trader's daily concerns are, as well as establishment of trust took some time. However, shortly I was able to initiate discussions with most of the legally and illegally operating traders, besides my stable informants, precisely because I gained understanding of daily (even hourly) dynamics

of the life in and around trading sites. One of the trickiest tasks was to position myself versus the main cleavages defining the political life and vending site dynamics at the point of my fieldwork. I was often asked whose side I am taking in reference to [1] my preference for the United National Movement (UNM) government or opposition coalition Georgian Dream and [2] my support for the city hall supervisors versus the illegal street vendors' position. ⁷ In addition, I was often asked if my research could somehow benefit petty traders and was often perceived as a journalist that can easily voice traders' concerns. In such cases I took time to explain that my research did not relate to interests of any of the political powers and also, that my research would not be of direct (if any) help to the traders.

Distancing myself from taking positions around prevailing cleavages did not mean that I kept an illusion that my presence did not alter and shape my observation sites or my informants' behaviour. In line with Burawoy's description of the advantages of reflexive science, I saw the interventions created by my presence not just as an unavoidable part of the research process, but also an opportunity: "It is by mutual reaction that we discover the properties of the social order. Interventions create perturbations that are not noise to be expurgated but music to be appreciated, transmitting the hidden secrets of the participant's world" (Burawoy, 1998, p. 14). Last and perhaps the most important challenge was to move beyond my own presumptions and sympathies, which shaped or constrained my understanding of processes in the field, even if I avoided sharing them publicly. Initially starting to evaluate the context from the perspective of the petty traders, my most important presumptions related to my critical judgement of the city hall supervisors. Overtime

⁷ Since 2013, the positions of the two political parties/coalitions reversed. Georgian Dream Coalition came to power while United National Movement stayed as the largest opposition party.

observation of and interactions with the initial ‘villains’ of my fieldwork, fortunately allowed me to move beyond initial judgements and appreciate the complexity of the street-level bureaucrats’ tasks. Somewhat ironically, observing and listening to the city hall supervisors and police officers’ narratives turned out to be critical to my understanding of the entire research problem (for an extensive discussion on the ethnographic fieldwork please see Appendix 1).

A BRIEF GUIDE TO CHAPTERS

The chapters of the dissertation closely follow the described methodological layers. The second chapter offers a critical examination of the new-institutionalist theoretical premises, and elaborates an alternative, Polanyian institutionalist perspective on informality. The third chapter traces Georgia’s institutional reforms and their developmental outcomes in detail. The fourth chapter analyses what embeddedness of informal economic practices means in the Georgian context in an overtime perspective. The fifth and sixth chapters discuss a micro-case focused on the petty trading sites in Tbilisi. Chapter five looks at the social costs of marketization for the petty traders and explains the reasons behind trader’s dissatisfaction with the reforms. The sixth chapter traces the unsuccessful attempts of traders’ collective mobilisation and argues that the repressed mobilisation triggered informalization of the resistance against, or countermovement to the marketization process. The concluding chapter summarises the contributions of the dissertation and discusses wider implications of the findings.

2 ELABORATING A POLANYIAN PERSPECTIVE ON INFORMAL ECONOMIC PRACTICES

INTRODUCTION

In the introductory chapter I have argued that there can be two interpretations to the question of why the establishment and strengthening of market-enhancing institutions failed to benefit marginalised, informally operating actors and to alleviate social problems in Georgia. According to the first interpretation, the reforms came short of the expectations because the Georgian government might not have been persistent in applying the new-institutionalist remedies. I have explained however, that even if this was the case, the gap between the new-institutionalist predictions and the developmental outcomes are too big to dismiss the second proposition, that the new-institutionalist remedies are based on faulty theoretical premises, and it is the inherent limitations of the new-institutionalist remedies that led to sub-optimal developmental outcomes. The coming four empirical chapters will be devoted to discussing the relevance of these competing interpretations about Georgia's reforms. The current chapter scrutinises the theoretical premises of the new-institutionalist perspective, and facing its limitations an altered institutionalist perspective relying on the Polanyian theoretical propositions.

The chapter is divided in three sections. In the first section I detail the contributions of the new-institutionalist writings to the literature on informality and then move on to evaluating the relevance of this perspective in the post-socialist context. Contrasting the new-institutionalist assumptions with the empirical observations of the sociological and ethnographic studies on post-socialist informality, I identify the limitations of the new-

institutionalist *problem analysis* and the *remedies* they suggest for reducing reliance on informal economic practices.

In the search for overcoming the identified limitations, the second section discusses other major schools of thought on informal economy, namely the dualist, structuralist, and post-structuralist perspectives. I suggest that existing literature on informality offers, at least, three crucial insights. First, recent writings demonstrate the usefulness of the concept of embeddedness for the study of informality. Second, this research has demonstrated that informal economic practices are not retreating in the face of deepening marketization worldwide. Finally, in contrast to the new-institutionalist assertions, recent studies show that the size of the informal economy is smaller in more regulated economies, with larger welfare states. Despite these and other accomplishments of the current literature, I suggest that each school of thought taken separately faces two challenges. First, some of the existing perspectives (e.g. new-institutionalist and structuralist perspectives) fail to account for social and cultural embeddedness of informal economic practices. Second, none of the existing perspectives theorise the tension between market-enhancement and embedded informal practices.

It is precisely in response to these recent achievements and the limitations of the literature on informality that in the third section of the chapter I introduce a Polanyian institutionalist perspective on informality. Firstly, the Polanyian perspective is the best equipped to theorise the role of embeddedness for understanding informal economic practices. Secondly, by introducing the theory on capitalist and pre-capitalist societies this perspective is capable of investigating the tension between marketization and embedded informal practices. Finally, the perspective combines some of the strengths that existing

perspectives exhibit, as this perspective [1] articulates the leverage of the new-institutionalist perspective in exploring the forces behind a transition to a market economy; [2] theoretically elaborates existing structuralist propositions concerning the importance of state regulation and social protection; and [3] incorporates the post-structuralist concern with social and cultural determinants and (sometimes) the non-capitalist character of informal economic practices.

In a nutshell, the contribution of the Polanyian institutionalist perspective to the study of informality can be summarised as follows. The perspective articulates the tension between marketization and informal economic practices thus offering new way of the *problem analysis* and *remedies* to the informal economy. In terms of *problem analysis*, the perspective articulates the role of reciprocity, redistribution and household economy for structuring informal economic relations. The existence and reproduction of informal relations is shaped by their embedded nature; their dependence on non-commodified resources and social networks. If so, then instead of enabling entrepreneurial opportunities, the introduction of market-enhancing institutions (marketization) threatens informal economic practices and triggers resistance. It exposes the actors to market related risks and competition (economic costs) and, also reduces the importance of social and cultural institutions (social costs). In turn, then the *remedies* to the informal economy cannot rely only on market-enhancing institutions but have to include institutions for social protection. From this perspective, 'formality' – formal institutional structure - in a capitalist economy is comprised of market-enhancing, as well as market-constraining regulations. Disproportional reliance on market-enhancing ones, hence, is insufficient for reducing reliance on informality.

Extending the Polanyian argument, I suggest that if the institutional reformation fails to address the resistance against marketization and to introduce protective measures, then the resistance and the protective measures can emerge in, or slide to the informal realm. Thus, a failed countermovement against marketization can informalize. On the one hand, informalization of the countermovement can reproduce the reliance on informal practices. On the other hand, informalization of the countermovement can endanger market efficiency by subverting institutional reforms. If so, then the reproduction of informality and social vulnerability is not only a function of weak market-enhancing institutions, but also the state's failure to establish market-constraining regulations, balance social and economic costs of marketization and ensure social protection. Before going deeper in the theoretical debates, the focus of the current investigation and definition of few concepts needs to be offered.

CONCEPTUAL SCOPE AND DEFINITIONS

The research on the informal economy counts only several decades. The birth of the concept is connected with the research of Keith Hart, an economic anthropologist whose study in Kenya underlined the importance of the informal sector for the survival of the poor. The emergence of the informal sector was seen as a result of lack of access to and availability of formal jobs. The term 'informal sector' was later replaced by 'informal economy' as the researchers realized that informal activities were not confined to any single sector but were interconnected with formal economy. The informal economy has been depicted in numerous ways: as a shadow economy (Schneider et al., 2010); as an unofficial economy (Johnson et al., 1998; Piculescu & Hibbs, 2005); or as a hidden economy (Frey & Weck-Hanneman, 1984).

All of these terms depict the economic activity that takes place outside of state regulation. One of the broadest, and widely used definition of the informal economy states that informal/shadow economy comprises: “those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation”(Schneider et al., 2010, p. 5).

When talking of informality in post-socialist states, besides the informal economy, we need to consider definitions of different forms of informality, such as practices, institutions and networks. Informal institutions are defined as “socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels” (Helmke & Levitsky, 2004, p. 727). Informal practices are seen as instances when informal norms are enforced; they are “peoples regular strategies to manipulate or exploit formal rules by enforcing informal norms and personal obligations in formal contexts” (Ledeneva, 2009, p. 118). Another widely used term is informal networks that denote circle of people, socially involved with each other (Granovetter, 1973, 1983). Recalling diverse ‘faces’ of informality is important to underline that even if informal economy is outside state/formal regulation, it is not necessarily unregulated, or dominated by market institution.

This research sets two types of limits on its theoretical scope. The broad definitions of the informal economy include a range of activities often diametrically different from one other. They can refer to the corporate strategies of downsizing, outsourcing and subcontracting (Slavnic, 2010) as well as subsistence activities of the marginalized groups. This research constrains itself to observing the small-scale economic practices of informally

self-employed persons and households, acknowledging them as ‘complex cultural and socio-economic phenomena’(Smith & Stenning, 2006)⁸.

The second limitation in the scope of the study is that suggested explanations and remedies to informality are only relevant in cases when the political entities are already market economies or intend to turn into market economies. Saying this, I intend to underline that this research does not view either capitalism or the solutions to informality in capitalist states as timeless and universal recipes. Instead, agreeing with Streeck’s elaboration of the Polanyian arguments, I see capitalism “as a set of interrelated social institutions, and as a historically specific system of structured as well as structuring social interaction within and in relation to an institutionalized social order” (Streeck, 2011b, p. 137). I suggest that the theoretical discussion is particularly relevant for the transitional states, which have dismantled the non-capitalist forms of production (e.g. socialist institutions), introduced some of the key market reforms (e.g. large and small scale privatization, price liberalisation, trade and capital account liberalisation etc.), but continue to struggle with institutionalising market-supporting institutions.

⁸ The reason for this focus on small-scale informal economic practices stems from the scope of the research question. The goal of the dissertation is to understand why the new-institutionalist remedies failed to alleviate social vulnerability and dependence on informal economic practices. Therefore, the thesis primarily looks at the type of informal phenomenon discussed in the new-institutionalist literature. The core target group of this literature is indeed small-scale informal entrepreneurs, or informally operating agents that can potentially turn into lucrative entrepreneurs (Becker, 2004; Chersi, 1997; De Soto, 1989, 2000). Two aspects of this conceptual focus need to be further specified. On the one hand, this focus does not imply that the corporate strategies of downsizing and subcontracting is irrelevant for small scale informality (or for this research). These strategies are shown to be responsible for the lack of stable and secure employment opportunities, which in turn, forces numerous individuals and households to rely on informal economic practices for income generating activities. However, these strategies are not central and/or defining for this research. Instead, the research primarily focuses on how the small-scale economic practices interact with market-enhancing institutions. On the other hand, even if this dissertation adopts the new-institutionalist scope of the relevant practices, it does not adopt the new-institutionalist definition of the phenomena as small-scale entrepreneurship, but emphasizes the embeddedness of informal economic practices.

2.1 NEW-INSTITUTIONALIST PERSPECTIVE ON INFORMALITY

The new-institutionalist perspective is the starting point of this dissertation. I have shown in the introduction that this perspective has largely dominated transnational developmental agenda and shaped the perspective on how to curb informality worldwide. Moreover, prevalence of the informal economy in Post-Soviet space has been most often explained relying on the new-institutionalist arguments. However, once adopted by Georgia, one of the post-Soviet states, the new-institutionalist remedies did not yield expected outcomes. This section of the theoretical chapter discusses the new-institutionalist analysis in detail and contrasts it with sociological and ethnographic research on informal economic practices in the region, revealing some of the conceptual shortcomings of the perspective.

2.1.1 Contributions of the new-institutionalist analysis

The new-institutionalist perspective on informality was first elaborated by the late 1980s/early 1990s. The perspective challenged a popular image of informally operating agents from irresponsible, dishonest citizens towards the hardworking poor, exploited by rent-seeking bureaucrats. It successfully undermined the stigma associated with an individual informal entrepreneur, placing the blame on deficient state institutions in forcing the citizens to exit formal economy and construct an alternative, informal economic realm. It also challenged the image of the informal economy as a backward, unproductive segment of the economy, insisting that informal entrepreneurs in developing world already possess skills and resources that can be transformed into highly profitable assets in case formal institutional quality and design is improved.

The new-institutionalists see the prevalence of the informal economy as a result of the voluntary exit of economic agents from formal economy in response to high costs of

formality and weak state institutions.⁹ This position starts up with an assumption that every individual is a good entrepreneur; so the states should give them access to competitive markets and support them thrive. It is two interconnected sets of variables, the institutional design, and the institutional quality, that affect the informal economy. A preferable institutional design lowers the costs of entry and costs of remaining in formal economy, primarily affordable taxes, simple and straightforward regulations (Becker, 2004; Johnson et al., 1998; Loayza, 1999; Piculescu & Hibbs, 2005; Schneider, 2006; Schneider et al., 2010). The institutional design will only matter if the state is capable of enforcement; if the state bureaucracy is impartial and does not impose unofficial rents on the entrepreneurs. Hence, the second important variable is the quality of state institutions, or state enforcement capacity to guarantee security of private property and serve as a legitimate third party in contract enforcement (Loayza, 1999; Singh, Jain-Chandra, & Mohommad, 2012). The causal chain starts with the institutional structure, goes down to an individual actor's behaviour and ends with the macro level outcomes. First, in case taxes and regulations are burdensome and state institutions are weak and predatory, large amount of economic agents decides to operate informally. Second, informal entrepreneurship is associated with high transaction costs and insecurities, starting from the bribes that informal entrepreneurs have to give to state agents to avoid penalties ending with the costs of informal enforcement of property rights and contracts (De Soto, 1989; North, 1995). High transaction costs limit the liquidity of informally held assets; reduce profitability of the enterprise as well as the opportunities

⁹ The new-institutionalist writings encompass vast, complex and diverse body of literature. The uniting feature of the new-institutionalist perspective on informality with the rest of the literature is its concern with the costs of transaction, security of private property, and modified assumptions on the rationality of economic actors.

to invest in innovation. Third, large size of the informal economy adversely affects the state level economic performance.

The ultimate dependent variable - economic development - is seen to be conditioned on the predictability of rules and state's capacity to secure private property. Prevalence of informality, corruption, and weakness of the state enforcement capacity are associated with underdevelopment, while "quality institutions" or "good quality of governance", bring about growth and wellbeing. Hence, informality is associated with "bad" institutions while the strength of formal/state institutions is seen as a guarantee for successful modernization. One of the most vivid exemplifications of the argument is offered by Johnson, Kaufman and Shleifer discussing two ideal type equilibrium of economies: "In the first, tax distortions and regulations are low, government revenues are high, provision of public goods in the official sector is sufficient, and therefore the unofficial sector is small. In the second equilibrium, in the official sector taxes and regulations are prohibitive, public finances are precarious, public goods provision is inadequate and as a consequence, much of economic activity is concentrated in the unofficial sector" (Johnson et al., 1997, p. 161).

In the vast literature on institutions and informality the writings of Peruvian economist, Hernando De Soto needs special mentioning as one of the first and the most widely acclaimed texts in the new-institutionalist tradition.¹⁰ De Soto's widely cited book *The Other Path, the Invisible Revolution in the Third World* gives an in depth description of how the poor of the developing world organize outside of the formal economy, create a parallel

¹⁰ Sometimes De Soto's arguments are labeled as legalist perspective or legalist-institutionalist perspective on informality. I treat De Soto's text as the most representative text of the new-institutionalist tradition on informality because [1] De Soto's argument are clearly based on the new-institutionalist assumptions [2] the author openly refers to the works of North and Weingast in his seminal book *The Other Path, the Invisible Revolution in the Third World*.

informal world and manage their settlements as well as economic life, trade, markets and infrastructure (De Soto, 1989). Even if informality serves well for the survival purposes, this same informality is the main reason why the poor remain poor. His theory on the mystery of capital hypothesises that a large portion of resources held by informals cannot be used productively because of missing information and insecurity of formal property system, which results in inability of capital accumulation in the developing world (De Soto, 2000). As the main obstacle for the informal entrepreneurs is seen in deficient institutions, the logical solution is “to change our legal institutions in order to lower the cost of producing and obtaining wealth and to give people access to the system so they can join in economic and social activity and compete on an equal footing” (De Soto 1989, 244). To give the informals opportunity of using their skills and assets for productive means, De Soto offers: simplification – reducing bureaucracy and eliminating costly legal institutions; decentralization – transferring responsibilities to local governments; deregulation – transferring some of state responsibilities to private bodies.

While De Soto offers one of the first and complex articulations of the new-institutionalist argument, he also makes a unique suggestion, which did not find the resonance in the rest of the new-institutionalist literature. He argues that when designing new ‘good’ institutions, the policy makers should take into account existing informal practices that are developed and respected by informals: “we should draw on what actually works. More specifically, we must draw on the extralegal system which, as we have seen, most of the population accepts” (De Soto 1989, 245).

However, this latter argument, as well as De Soto’s empathetic portrayal of informal entrepreneurs became quite appreciated by the ethnographers of post-Socialist informality.

Citing his works, some of the most critical sociologists and ethnographers, like Ledeneva or Polese, have underlined the need to attend existing extra-legal norms while designing state institutions, and the costliness of informal solutions in the long run (Ledeneva, 2009; Polese, 2014). With or without direct reference to the new-institutionalist literature, different commentators explained post-socialist informality through new-institutionalist arguments (Thelen, 2011), pointing out overburdened and overlapping regulations, unstable and fuzzy legal systems, flaws in state enforcement capacity and overall weakness of state institutions (Abdih & Medina, 2013; Nasritdinov, 2012; Paldam & Svendsen, 2002; Rose, 1998). In case it is assumed that informally operating agents are already entrepreneurs, nothing seems more logical than to support them through lowering taxes and simplifying regulations, enforcing property rights and giving them access to competitive markets. The question is, what kind of entrepreneurs are informal entrepreneurs? Can we assume that the motivation of all persons relying on the informal economic practices resemble the motivations of a profit seeking entrepreneurs operating in a capitalist economy? How does the new-institutionalist perspective incorporate mutuality, cooperation, and reciprocal relations that serve as bases of informal economic practices inside the explanatory framework?

2.1.2 Questioning the new-institutionalist assumptions

As I have shown, some of the new-institutionalists concerns are widely shared in the literature on informality worldwide, as well as in the literature on informality in post-soviet region. I also suggested that the literature on post-socialist informality either remains sympathetic to the new-institutionalist arguments, or does not engage critically with the perspective in a direct or consistent manner. Despite, in this section I illustrate that, the same literature on post-soviet informality provides the evidence undermining the new-

institutionalist problem analysis as well as remedies. It is true that the vast majority of writings on post-soviet transformation share the new-institutionalist concern with instability/weakness of state institutions and inconsistency of regulatory frameworks. This evidence is often used to justify introduction of market-enhancing institutions and deregulation as remedies to post-socialist informality. However, for this remedy to work, another set of crucial theoretical assumptions of the new institutionalist perspective should also be empirically verified. Namely, [1] the primacy of economic reasoning of the actors and [2] the primacy of economic function of informal institutions should be established. If the persons relying on informal economic practices are to respond to the decrease of transaction costs, we need to verify that their cost-benefit analysis is primarily concerned with calculating economic gains and losses. In a similar vein, we need to empirically establish that the informal institutions that shape informal economic practices are indeed designed for economic purposes, to substitute imperfect enforcement of property rights and contracts. In other words, if the new-institutionalists are right, the informal economy should resemble a capitalist system, as we know it, albeit inhibiting higher transaction costs. However, as I illustrate in the remainder of this section, none of these assumptions can be empirically verified in the post-socialist context.

Diverse academic literature that examines the role of informality in the daily lives of the citizens of post-socialist states and the reasons for relying on informality, consistently underlines that the motivation of the groups of individuals practicing informality cannot be reduced to economic reasoning, neither to survival purposes. The editors of latest volume on 'The Informal Post-Socialist Economy', Morris and Polese, insist that the evidence from various case studies, ranging from Slovakia to Azerbaijan, suggests: "Even for the most

marginal citizens studied in this volume... informality is tactical, in the Certeau-esque sense – embedded in social life rather than part of a rationalist economic reasoning; informality is often about ‘poaching’ opportunities and utilizing the rules, and the gaps therein, of the formal” (Morris & Polese, 2014, p. 8). While in some cases informal economic practices are clearly organized alongside the kinship and ethnic lines (Karjanen, 2014), the reciprocal relations and favours also extend to less stable and definite communities and identities. One of the most prominent researchers of socialist and post-socialist informality, Alena Ledeneva identifies different regimes in which *blat* – “exchange characterized by a reciprocal dependence, which engenders regard for and trust in the other over the long term” – can operate (Ledeneva, 1998, p. 141). Three regimes of reciprocity, the regime of equivalence, affection, and status, operate in diverse contexts, ranging from close friendship and kinship circles to asymmetrical, patron-client type relations. These exchanges form an ‘economy of favours’, in which “a set of normative obligations to provide assistance to others so that they can carry out their projects is considered positive” (Ledeneva, 1998, p.147), where relationships are the main assets gained through mutual help, and the possible utility of these relationships are not quantified.

Can those informal economic practices that are motivated by reciprocity and embedded in social organization of respective societies be perceived as comprising ‘informal capitalism’? When describing the diversity of capitalisms on Europe’s periphery, Bohle and Greskovits, are one of the rare authors explicitly asserting that some of the post-communist states cannot be mapped out into types of capitalisms, but are seen rather as non-regimes (Bohle & Greskovits, 2012). From a different theoretical starting point, the human geographers, working in the paradigm of ‘diverse economies’ see big part of informal

practices as non-capitalist (Gibson-Graham, 2006; Stenning et al., 2010). Relying on a Polanyan classification of integrative transactional modes, some scholars suggest that in many post-communist societies reciprocity and redistribution still coexist together with market pattern: “The free market exchange was officially institutionalized as the economic integration pattern, whereas basic informal institutions like *vruzki*¹¹ assert reciprocity and hidden redistribution as integrative modes” (Pasyukova, 2013, p. 193).

These assertions do not mean that the process of marketization is not taking place in post-Soviet states, but that “non-capitalist economic relations are constitutive of the extension of the market in a reciprocal set of relationships involving the construction of value, action and a diverse range of economic practices” (Smith & Rochovská, 2007, p. 1168). Neither can we say that all informal practices or the entire informal economy is ‘non-capitalistic’ or dominated by not-for profit motives. Rather, the peculiar, but significant segment of post-communist societies relies on the practices that contradict the logic of self-regulating and formalized market economy to make their livelihood and to sustain a “wider community life” (Smith & Rochovská, 2007, p. 1173).

To be precise and fair in relation to the new-institutionalist stance, it needs to be underlined that the new-institutionalist writings acknowledge the importance of culture and persistence or ‘stickiness’ of informal norms and institutions. However, this literature insists that in case the states are able to enforce more economically efficient institutions, decreasing transaction costs, informal institutions will, even if perhaps slowly, adjust to new

¹¹ Similar to ‘Blat’ in Russian society, or ‘Stela’ in Bosnia- Herzegovina, *Vruzki* is a name for locally specific institutional settings, employing social networks and reciprocal ties for accessing and exchanging services and/or good in Bulgaria.

institutional settings. Hence, less efficient institutions will die out or lose relevance over time. This very argument is rooted in the belief that informal institutions and economic practices are designed to enable the economic exchange; in the absence of a third party (state) enforcement, these institutions ensure that the economic interests of individuals are realized. In doing so, the literature assigns narrow instrumental meaning to informal practices and institutions, and dismisses the possibility that reproduction of these practices is important for non-economic reasons, primarily for providing continuity for culturally specific ways of social integration, for asserting pre-existing (versus instrumental) social bonds and mutuality. To illustrate this point, let me recall Gudeman's discussion concerning the new-institutionalist conceptualisation of norms and institutions:

New institutionalists try to show how social relationships, norms, and their changes can be modelled as outcomes of calculative reason. Social bonds, on this view, are not always frictions or inefficiencies to be eliminated in modernization, because these ties can be efficient in an historical context. Instead of calling social bonds *altruism*, and inscribing them as one among other preferences in the self-interested actor as does Becker, new institutionalists argue that social relationships are conscious or unconscious calculations in the drive to be efficient. Institutions can stabilize markets (sometimes as oligopolies), reduce risks, lower transaction costs, and make markets more efficient in an historical context. But there is an elision in their model, for new institutionalists are explaining only the uses, predications, or spillovers of existent mutuality. By presuming that individuals are self-interested, which leads to contextually efficient institutions, new institutionalists fail to account for the prior, necessary presence of relationships that constitutes these "persons-in-community (Gudeman, 2009, p. 18).

Informal norms, institutions and practices persist not only because the institutions are path dependent hard to change per se, but because they have broader meaning and value other than that of economic efficiency. Reproduction of these norms and practices is valuable independent from, and despite of their economic functionality, hence, these norms cannot

be expected to change as a consequence of changing narrowly defined economic incentives, costs and benefits for respective actors.

A cultural and social relevance of informal institutions is revealed by numerous accounts on informality in the region. One of the interesting examples of the institutions that continuously reproduce themselves despite their economic (un)viability is provided by the studies on Bazaars. It is argued that bazaars survive despite harsh competition from cheaper and more comfortable alternatives because of “their capacity to provide different demand-driven goods and to respond to cultural and spiritual needs (by giving a sense of continuity to tradition and culture) as well as offering socialisation and networking opportunities” (Polese & Prigarin, 2013, p. 110). In a similar vein, Nasritdinov contends that post-Soviet bazaars should be seen “as much more than just economic space, but as the key informal social and cultural institution, which still connects ethnically diverse population of the former Soviet Union into one community of traders and consumers and continuously generates new tales and discourses” (Nasritdinov, 2012, p. 1). While the essential function of bazaars seems to be economic exchange, often the non-economic value of bazaars enables their survival.

Bazaars, reciprocal networks like ‘blat’ or ‘vruzki’, informal practices like ‘dacha economy’¹² and others certainly transform and adjust over time. They have been used for survival purposes, but they lean back on the practices that were present under socialist and sometimes pre-socialist periods and their meanings cannot be reduced to solely economic survival purposes. Moreover, while from the new-institutionalist perspective reliance on

¹² Dacha is a Russian term for seasonal second homes. Using dachas urban population has been relying on substance agriculture to supplement for low incomes at their workplaces, especially throughout 1990s.

these institutions and practices could be seen as utilizing pre-existing trust to enable market exchange while the state was unable to enforce market-enabling institutions, the same practices were also utilised for providing social security in times of state withdrawal from welfare provisioning. Recently, scholars of post-soviet informality have been exploring the role of informal practices for welfare provisioning, arguing that “a bottom-up process of welfare provision and financing replaces formal welfare provision, citizens ‘creating’ an informal system of welfare that is independent from the state, but which fulfils the functions that the state should perform” (Polese, Morris, Kovács, & Harboe, 2014, p. 186). On other occasions, existing literature traces redistributive character of informal payments. According to Morris and Polese, while defining the amount of required informal payment for the services, bureaucrats (in this case teachers and doctors) in Russia and Ukraine take into the consideration perceived neediness of the client as well as their capacity to pay. “Informal payments in state sectors that at first glance appear to be self-regulating access to resources based on quasi-market principles actually show that interactions between state and citizen are often negotiated through a socially-affective other-regarding frame ”(Morris & Polese, 2014, p. 6).

In summary, once evaluated versus the extensive sociological and ethnographic evidence, it becomes clear that underlying assumptions of the new-institutionalist perspective cannot be empirically verified. The function of informal economic practices and institutions is not reducible to facilitation of economic exchange and satisfaction of individual profit-maximizing interests. These observations cast a shadow over the validity of the new-institutionalist remedies. If the informal economic practices are not a form of inferior capitalism, they cannot be easily transformed into lucrative entrepreneurial

practices even if market-enhancing institutions are successfully established. Moreover, a well-documented role of informality for social protection and redistribution can hardly be replaced by introduction of institutionalised markets.

2.2 OTHER DOMINANT PERSPECTIVES ON THE INFORMAL ECONOMY

Facing the limits of the new-institutionalist perspective, in this section I discuss what are the other dominant theories explaining prevalence of informal economy and conceptualising formal/informal divide. More importantly, I intend to explore if existing theories enable to overcome the flaws of the new-institutionalist literature and give convincing explanation concerning the interrelation between institutions and informal economic practices. In doing so, I also compare the rest of dominant approaches to the new-institutionalist approach, laying out differences and similarities between the perspectives and commenting on their relative strengths and shortcomings.

2.2.1 Dualist/modernisation perspective

The dualist (modernisation) perspective takes root even before the term ‘informal sector’ was coined by Keit Hart. The beginnings of this perspective are traced back to the arguments of a Dutch anthropologist Boeke (1940s) dividing the economy of developing countries into two sides, one part comprised of the market economy and the rest, that lay outside (Guha-Khasnabis, Kanbur, & Ostrom, 2006). About a decade later Lewis advanced two-sector vision of the developing economy, with one sector being populated by modern profit-seeking capitalist firms and the other sector, largely basing on household subsistence economy, petty trade, domestic work, being disconnected from the formal sector (Lewis, 1954). This second sector, later named as the informal sector was seen as a self-sufficient

economy that was operating independently from the formal capitalist sector. Hart's influential paper on the informal sector in Ghana reasserted the dualist view, (Hart, 1973) and marked intensified interest of the researchers as well as development practitioners towards the non-observed, informal side of the economy. By the time the informal economy did not necessarily have negative connotations (Routh, 2011). It was, nevertheless seen as a marginal part of the economy, the one that would disappear together with modernisation and marketization of the respective economies.

Even though the concepts initially introduced in 1970s – formal versus informal economy – retained its importance to a degree, the theoretical assumptions of the dualist view, primarily the assertion that the two sides or 'sectors' of the economy are not connected but operate in parallel, came under increased scrutiny during the following decades. Scholars suggested the necessity to move beyond the dichotomous vision of formal and informal economies and consider that in practice there is rather a continuum between the two (Guha-Khasnobis et al., 2006). The dualist approach was harshly criticised from the world-system theoretical perspective by Wallerstein, arguing that separateness of an entire sector is a falsity inside a capitalist world system. However, he acknowledged that 'mini-systems' of non-capitalist production might prevail in spatially and temporarily limited cases (Wallerstein, 1974). The perspective was also attacked by the structuralists, who see a rise in informality as a result of a changed capitalist accumulation mode, thus directly linking the informal economy to the formal capitalist economy (Castells & Portes, 1989). In post-Soviet context, the approach was denounced for its inability to comprehend the continued importance of informality in the region (Morris & Polese, 2014). To summarise, the dualist perspective has been challenged theoretically and empirically for inability to theorize

interconnectedness and interdependence of formal and informal economy, and incapacity to explain persistence and increase in informal employment worldwide (Dibben & Williams, 2012; Jütting & de Laiglesia, 2009).

Despite all the attacks on the dualist perspective, recently Colin Williams has put forth a statistical evidence which partially supports dualist thesis, showing that higher GDP per capita and good quality of state bureaucracy are associated with smaller size of the informal economy (Williams, 2013). However, this statistical association between country's per capita GDP and the size of the informal economy firstly, only partially explains the size of the informal economy (with other variables also playing a role). Secondly and more importantly, it does not verify the core thesis of the perspective – that the informal economy is functioning in parallel to and independent from the formal-capitalist economy.

The new-institutionalist perspective usually is portrayed in opposition to the dualist assumptions, as the new-institutionalists, similar to the structuralists, see the informal economy as connected with the formal economy. However, the difference might not be too big, as both perspectives assert that the modernisation of state institutions and expansion of competitive markets will subsume the informal economy into the formal economy. The difference is that the dualists saw modernisation and marketization as an inevitable process, while the new-institutionalists understood that 'bad quality institutions' can prevail, excluding a large segment of the population from the access to the property rights and competitive markets. Thus, instead of believing in inevitable succession of markets, the new-institutionalists suggested that the state institutions should consciously be strengthened and redesigned to include informal entrepreneurs. The other difference between the two perspectives is related to the perceived character of informal economic practices. The

dualists emphasized prevalence of pre-capitalist mode of production inside the informal economy while the new-institutionalists saw informal practices as 'market-like' practices that needed a state/institutional support to flourish. However, neither of the two perspectives problematized incorporation of informal economic practices into the formal capitalist economy. Thus, despite retaining a degree of explanatory power, none of the two perspectives can explain informalization of the economy even in advanced capitalist states, or why do informal practices prevail despite, or in response to the deepening marketization process (Dibben & Williams, 2012).

2.2.2 Structuralist perspective

In contrast to the dualist/modernisation perspective, the structuralists emphasize interconnectedness of formal and informal economies; and in contrast with the new-institutionalist perspective, they see the growing importance of informality as a result of post-Fordist or neo-liberal mode of capitalist accumulation. The structuralists trace the transformation of the capitalist mode of production, pointing at the neo-liberal policies focused on privatisation, liberalisation of trade and capital accounts on a global scale, and state withdrawal as a market regulating agent (Harvey, 2005). According to the structuralist accounts, the neo-liberal policies enhanced market competition globally and pressured the capitalists to seek for cheaper labour power. Searching to downsize production costs the industries started escaping from the labour regulations favouring temporary and contractual workers (Portes, Castells, & Benton, 1989). This perspective, initially put forth by Castells and Portes towards the end of 1980s, finds resonance in recent accounts on the informal economy. In the spirit of the structuralist arguments Slavnic explains the trend of informalization in advanced economies, arguing that: "process of economic informalisation

is a general result of structural conflict between old (welfare) modes of regulation and new (neoliberal) regimes of accumulation. Essentially, the old regulatory frameworks have become too restrictive for new forms of capital accumulation to be able to expand without disruption”(Slavnic, 2010, p. 8). To cope with this structural conflict between restrictive regulatory frameworks and new modes of accumulation, new corporate strategies of downsizing, outsourcing, and subcontracting are employed, resulting in growth of informal relations (ibid).

The structuralist arguments are primarily appreciated for establishing a direct link between formal capitalist economy and growth of informal practices; for illustrating how informality is introduced in an industrial production process. However, the structuralists are criticized for inability to account for subsistence and self-employment activities. As Routh contends: “any study of ‘informality’ has to account both for subsistence activities unconnected to the formal economy, as well as subcontracted entrepreneurs linked to the formal economy” (Routh, 2011, p. 216). In defence of the structuralist position, it needs to be noted, that recently the scholars of this tradition have also moved to explore coping strategies of the marginalised actors. Coping strategies of low-income earners, migrants, vulnerable entrepreneurs, are seen as informalization from below. These actors share: “a common condition manifested in the lack of legal status and protection, extreme vulnerability, and a dependence on informal engagements that generate their own idiosyncratic ‘political economy””(Slavnic, 2010, p. 4).

The structuralist perspective is supportive of extending social support to marginalised groups. Landing support to the structuralist arguments, Collin Williams has offered empirical evidence from EU member states demonstrating that welfare provisioning

and state intervention in labour markets are strongly correlated with lower size of the informal economy. Moreover, in this case scenario, actors tend to employ informal practices out of choice rather than due to the exclusion, or limited choices (Williams, 2013).

By articulating the need of extending welfare provisioning, the structuralist position diverges from the new-institutionalist perspective. Sometimes the new-institutionalist perspective is seen as one of the versions of the structuralist readings of informality, mostly because both perspectives assert interconnectedness of formal and informal economies and the importance of the state institutions (Routh, 2011). I suggest that the problem analysis and the remedies offered by the two perspectives for supporting informally self-employed persons are not compatible, but rather conflicting. For structuralists, specific forms of market expansion is responsible for informalization, while new-institutionalists see the lack of market expansion as a problem. What indeed unites the two perspectives is that both ascribe a narrow, economistic and instrumental role to informal economic practices. While the structuralist position has its own advantages, it remains entirely disinterested in peculiarities of informal economic practices; it does not bother to classify these practices alongside different modes of integration, or attend the diverse motivations of the actors. The purpose of informal economic practices is thus reduced to survival, dismissing social and cultural embeddedness of informal economic practices, and dismissing spatial and temporal differences in the ways these practices are deployed in different regions and societies. Therefore, part of the critical evaluation of the new-institutionalist perspective developed in previous sections relying on empirical evidence that points out social embeddedness of informal economic practices, also applies to the structuralist perspective.

2.2.3 Post-structuralist writings

Post-structuralists writings do not offer any single parsimonious causal theory, but they are united in their attempts to deconstruct existing dualist and structural explanations in favour of critical, interpretative readings of diverse informal economic practices. In doing so, this literature transcends existing grand theories and offers thick-descriptions of the informal economic practices, forming 'diverse economies' school of thought (Cameron & Gibson, 2005; Gibson-Graham, 2008; Gibson, Cahill, & McKay, 2010). In contrast to the rest of the perspectives (dualist, new-institutionalist and structuralist) this literature, on the one hand, apprehends and underlines non-capitalist character of informal economic practices (Gibson-Graham, 2006; Stenning et al., 2010). On the other hand, instead of seeing them as separate marginal practices, it places these practices inside the formal capitalist economy. Moreover, this literature strives to deconstruct negative prejudices associated with the informal economy, criticising hierarchical binary portrayal of formal versus informal. It contests envisioning marketization and formalization as totalizing trajectories of economic development (Williams & Onoschenko, 2014) and proposes that the diversity of economic practices can inform our thinking of the alternative ways of production to capitalism. Exploring how non-capitalist informal economic practices constitute daily lives of numerous persons across the globe, this literature contests an ultimate supremacy of the capitalist economy.

Relative to all three dominant perspectives on the informal economy the post-structuralist writings are endowed with important advantages. The academic literature produced under this tradition has offered some of the most sensitive, empirically rich accounts of informal economic practices. Primarily in the context of post-socialism, the

authors like Smith and Stenning, Williams, Morris and Polese have enriched academic knowledge of informal economic practices employing qualitative and quantitative methods, covering different economies including east Europe and Russia, as well as South Caucasus and Central Asia (Davies & Polese, 2015; Morris, 2011; Morris & Polese, 2014, 2015; Polese et al., 2014; Smith & Rochovská, 2007). Based on these writings, it is possible to criticize narrow instrumental understanding of informal economic practices; to account for their social and cultural embeddedness and diverse motives of the actors engaged in the informal economic practices. However, the same literature faces a number of limitations.

The primary limitation of the post-structuralist literature is that it deconstructs existing solutions but does not contemplate of alternative solutions. Moreover, the post-structuralist literature risks underestimating the challenges that are currently associated with practicing non-capitalist economic relations inside the (world) capitalist economy. Some of the post-structuralist observers of informal economic practices in post-socialist states propose that: “informality should be seen contributing to a construction of post-socialism as a variant of our current modernity... this is a version of modernity that the West needs to take note of, as we stand on the cusp of centrifugal economic and social forces at the heart of the formalization project of the EU *acquis*” (Morris & Polese, 2014, p. 7). While it is important to acknowledge embeddedness of informal economic practices and their potential to indicate alternative modes of production, it is also important to acknowledge that placed inside capitalist economies, these practices come under immense pressures and are barely able to ease the socio-economic challenges of the persons and households that rely on them. In today’s world, informal employment is primarily related to social-economic vulnerability and precarious working conditions (Carr & Chen, 2002; Routh, 2011). To say otherwise, we

cannot cherish informal economic practices as an alternative modernity coexisting with a capitalist economy, as the capitalist economy has the power to marginalise and suppress these practices. When talking of embeddedness of informal economic practices it is necessary to primarily contrast it with the disembedding character of market economy and critically approach re-embedding capacity/potential of informal solutions.

2.3 TOWARDS A POLANYIAN THEORETICAL FRAMEWORK

The previous sections have underlined the limitations of existing perspectives on informal economic practices. The shortcoming of the new-institutionalist perspective is that it disregards embeddedness of informal economic practices, and underestimates social costs and risks associated with institutionalisation of markets. The shortcoming of dualist/modernisation perspective is its inability to attend the interconnectedness of formal and informal economies and understand growing 'informalization' inside advanced economies. The structuralist perspective mostly focuses on the corporate strategies of subcontracting and downsizing, and dismisses embeddedness of informal economic practices. The post-structuralist writings offer some of the most grounded, detailed accounts of informal economic practices and emphasize their embedded character. However, these writings do not aim at providing an explanatory framework, sometimes even proposing that informal economic practices should be embraced as they function currently.

In the light of these challenges, scholars of informality have suggested to synthesize these theoretical perspectives or to use them in combination (Routh, 2011; Williams, 2013;

Williams, Nadin, Newton, Rodgers, & Windebank, 2011).¹³ However, bringing these diverse perspectives into a relatively parsimonious theoretical perspective would be a challenging task. Existing dominant perspectives deeply differ in their theoretical starting point, methodological choices, as well as the focus of inquiry. Therefore, instead of patching pieces of these theories together, here I suggest introduction of a Polanyian institutionalist perspective to the study of informal economic practices in order to elaborate on conceptual achievements and overcome the limitations of existing research. Polanyi's writings enable us to synthesize the two tasks that are currently pursued by different strands of literature on the informal economy: to observe embeddedness of informal economic practices and to place them inside an elaborate theory on a capitalist society. Some of the studies have already evoked Polanyian concepts or parts of Polanyian theoretical legacies to the research on informality. However, these attempts have not yet been consolidated into a consistent and systematic elaboration of a Polanyian perspective on informality. The remaining part of this chapter takes upon this task of elaborating the Polanyian institutionalist perspective on informality.

2.3.1 Polanyi in existing literature on informality

Parts of Polanyi's theoretical contribution have already been applied to the study of informal economic practices in post-soviet region and elsewhere. While a share of these studies has been consistent in adapting Polanyi's theory, others have applied Polanyian

¹³Emphasizing inability of leading perspectives to capture complex picture of diverse informal activities, Routh proposes that the concept of 'informal employment' can be analytically useful as it bridges the gap between competing (mainly dualist and structuralist) theories and enables adequate description of the conditions of informal workers. However, this conceptual solution is aligned primarily to the goals of International Labour Organisation and serves ILO's measurement and policymaking purposes. As Routh underlines, "The ILO policy focus is the worker rather than the economy per se" (Routh, 2011, p. 220). While the concept of informal employment might serve the identified purpose of capturing all the informally employed workers, it does not offer any theoretical innovation or resolution to the identified theoretical challenges.

concepts without complex adaptation of his theoretical framework. As Burawoy contends: “Commentators have taken from Polanyi as they would from the shelves of a lavish supermarket, picking out what strikes their fancy while ignoring the whole” (Burawoy, 1999, p. 2). Most often, the scholars have applied the concept of embeddedness to describe informal economic practices (Morris, 2011; Morris & Polese, 2015, 2015; Polese & Rodgers, 2011), often without considering Polanyian definition of the concept. Despite centrality of embeddedness for a large share of the recent (especially post-structuralist) literature on informality, this literature avoids addressing existing theoretical debates around the meaning and use of embeddedness. Bypassing these debates is primarily concerning because the concept has transformed substantially since its initial introduction and there are at least two fundamentally opposing but similarly influential uses of embeddedness prevalent in social sciences.

The concept was initially used by Karl Polanyi, to describe historical uniqueness of an unregulated market economy as the only kind of economy in the history of humankind that allowed for separation of social and economic spheres, and moreover, allowed the economy to subordinate society to its needs: “Instead of economy being embedded in social relations, social relations are embedded in the economic system” (Polanyi 1957 [1944], 57). Polanyi sees the pre-capitalist social-economic systems as embedded, while in contrast, capitalist society experiences two movements toward opposing directions. The movement towards marketization, attempts to free, or disembedd the economy from non-economic institutions and subject it to self-regulating price mechanism. In response, society inevitably resists, protects itself, and attempts to re-embedd the economy. Because the concept is part of a

complex theoretical framework, it is difficult to grasp or use it without considering other concepts and theoretical arguments put forth by Polanyi.

Many influential authors, mostly in the field of political economy and economic anthropology (Bohle & Greskovits, 2009, 2012; Burawoy, 1999; Hann & Hart, 2009; Machado, 2011; Streeck, 2009, 2011a), have used the concept retaining its Polanyian understanding in their writings. In contrast, embeddedness also became a central concept for the new economic sociology, but the understanding of the concept has changed almost entirely. Granovetter and Swedberg linked embeddedness with network theory, arguing that all the economies are embedded in the system of social relations (Granovetter, 1985; Swedberg, 1997, 2008). Thus, if Polanyi distinguished embedded and disembedded condition of the economy in relation to the society, new economic sociologists saw all the economies, including market economy, as embedded (Beckert, 2003, 2007). While economic sociologists have argued that Granovetter made the concept analytically more useful, others criticized 'great transformation of embeddedness' arguing that the concept was stretched so much that it became meaningless (Machado, 2011).

For the authors that try to capture the meaning of the informal practices through concept of embeddedness it is crucial to take a side in this debate. In case, following Granovetter, all economic practices are embedded in the networks of interpersonal relations, than pointing out embeddedness of informal practices seems to be no novelty or a distinguishing character of informal economic practices. Describing informal economic practices as 'embedded' tells very little in case we do not consider the process of disembedding. In the case Polanyian understanding of the concept is retained, embedded

nature of informal practices should be contextualized versus the disembedding character of marketization.

An attempt of a more complex application of Polanyian framework is offered by volume on *Securing Livelihoods, Informal Economy Practices and Institutions* (Hillenkamp, Lapeyre, & Lemaître, 2013a). According to what the editors call a Neo-Polanyian framework, the contributors map out the socio-economic practices of popular economy in Latin American states alongside the Polayian modes of integration: market, reciprocity, redistribution, and household. This complex application of Polanyian theoretical framework is a step forth in the advancing substantive understanding of the economy, however, mapping of practices along different integration modes is not situated in the discussion on capitalist economy or double movement. Surprisingly, the authors distance themselves from Polanyi's assessment on the liberating effect of markets, arguing that: "Polanyi generally ignored the possibility of emancipation through the market, for example, when selling their own products on the markets allows women to escape patriarchal domination or allows members of cooperatives to overcome dependency upon NGOs" (Hillenkamp, Lapeyre, & Lemaître, 2013b, p. 11). This is a doubtful claim, given that Polanyi was very explicit concerning the emancipatory potential of the markets: "The institutional separation of politics and economic, which proved a deadly danger to the substance of society, almost automatically produced freedom... civil liberties, private enterprise and wage-system fused into a pattern of life which favoured moral freedom and independence of mind... We must try to maintain these high values inherited from the market economy that collapsed" (Polanyi, 1957, p. 263). Misunderstanding of and distancing from Polanyi's conceptualization of markets limits the research from synthesizing research on embedded

economic practices and solidarity economy with the dynamic understanding of today's neoliberal capitalism.

In contrast, more consistent interpretations of Polanyian framework in relation to informal economic practices have been offered by Burawoy, one of the most influential ethnographers of post-socialism. Burawoy has applied Polanyian arguments to analyse micro processes, household level survival strategies (Burawoy, Krotov, & Lytkina, 2000), to interpret state level responses to the advancement of markets (Burawoy, 1999), as well as to understand three waves of marketization and countermovement on global level in historical perspective (Burawoy, 2010). In Burawoy's writings embeddedness is not discussed in isolation from the advancement of market economy, instead mobilization of informal networks and tactical reliance on informal economic practices is seen as a response to the insecurity associated with marketization. In line with Burawoy's writings, this research intends to understand informal economic practices from Polanyian institutionalist framework, taking into consideration Polanyi's complex theoretical argument, instead of selectively appropriating its pieces.

2.3.2 Informalization of the countermovement and subverted marketization

In order to elaborate a Polanyian perspective on informality, I suggest that informal economic practices should be understood in relation to two major theoretical contributions by Polanyi: [1] Polanyian distinction between a market economy and other modes of social integration; [2] and, Polanyi's characterization of a capitalist society as a type of social economic order that is constituted by two conflicting movements, a movement towards marketization and a countermovement for social protection. Incorporation of these two

contributions alters existing *problem analysis* and offered *remedies* to reduce reliance on informal economic practices.

Problem analysis

In terms of problem analysis, Polanyian perspective would firmly warn against classifying informal economic practices as market-like practices, thus challenging the new-institutionalist perspective and supporting recent post-structuralist concern with embeddedness of informal economic practices. Polanyi contends, that “in no case can we assume the functioning of market laws unless a self-regulating market is shown to exist”(Polanyi, 1957, p. 44). He insists that economic liberals misread the history, because they assume the existence of economic man and economic society, forgetting that this type of society is a novelty in the history of humankind. Discussing extensive ethnographic evidence he maps out integrative transactional modes substantially different from the market mechanism. Prior to institutionalizing markets, the societies were integrated based on three mechanisms - reciprocity, redistribution and household - that were present (separately or in combination) throughout the pre-capitalist history. While in pre-capitalist societies the economy was subordinated to, and embedded in, social and political organization of the respective societies,¹⁴ market economy is the only institutionalized mechanism, which allows subordination of the society to the needs and logic of economy.

The Polanyian perspective does not necessarily insist that all informal economic practices are socially embedded. Instead, the embeddedness cannot be ruled out and

¹⁴ It needs to be underlined that Polanyi does not perceive pre-capitalist societies as systems that were necessarily more just or provided more freedom. Reciprocity and redistribution are found in tyrannies as well as egalitarian communities.

market-like character of any practice cannot be established without empirical verification. From this perspective, unregulated market economy did not emerge spontaneously, but resulted from conscious state effort and state enforcement of the security of private property. Thus, it is particularly dubious that practices that exist beyond state regulation and supervision can be substantially similar to the ones present under the (institutionally supported) market economy. In other words, the fact that certain practices fall out of state regulations does not by default make these practices part of unregulated markets. Indeed, as shown in the previous sections, a vast amount of empirical research on informality has demonstrated the relevance of Polanyian warnings. According to these studies diversity of informal economic practices are non-capitalist, and socially and culturally embedded in the post-socialist region (Morris & Polese, 2014, 2015; Smith & Stenning, 2006; Williams & Onoschenko, 2014) and elsewhere (Gibson-Graham, 2006, 2008). This is to say that instead of being unregulated, informal economic practices are shaped by informal – social and cultural – institutions (norms, rules, and values).

Besides paying attention to embeddedness, even more important Polanyian contribution to the problem analysis is the articulation of the tension between embedded informal practices and marketization. Existing accounts do illustrate that informal economic practices are often deployed in an attempt of resisting neo-liberal marketization. As Smith and Richovska argue: “All of these attempts to make a livelihood and to supplement incomes, while running counter to the neo-liberal logic requiring formalisation and regularisation of market relations and transparency, actively construct market-based activity in the pursuit of social reproduction” (Smith & Rochovská, 2007, p. 1173). The Polanyian perspective can further deepen and elaborate this proposition by showing why exactly self-regulating

markets and embedded economic practices are not compatible (even if coexisting), but conflicting ways of social-economic integration.

The basic and defining feature of an unregulated market economy is that it is directed according to the demand and supply principle, and more and more spaces/spheres of life (most importantly land, labour, and money) are subjected to this principle, or in other words, are commodified. In contrast, the defining feature of embedded economies is that most of the economic resources, (again, most importantly the fictitious commodities) are accessed through and regulated by social and cultural institutions. Then, the advancement of markets, directly attacks embedded economic practices by disposing productive resources to the demand and supply principle. Besides the economic risks associated to marketization, the process is primarily painful because it makes these social and cultural institutions irrelevant:

The catastrophe of the native community is a direct result of the rapid and violent disruption of the basic institutions of the victim (whether force is used in the process or not does not seem altogether relevant). These institutions are disrupted by the very fact that a market economy is foisted upon an entirely differently organized community; labor and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society (Polanyi, 1957, p. 49).

Even more importantly, this sidelining of social institutions and disposal of land, labour and money on commodity markets, undermines the capacity of those institutions to ensure social protection and safety.

Thus, marketization is threatening for socially and culturally embedded practices as the process destroys “old social tissue” and disrupts “the fabric of society” (Polanyi, 1957, pp. 35–37). This is not only the case for obviously non-capitalist practices, such as subsistence farming, but also for those informal practices that seem more ‘entrepreneurial’, such as small

trade and services. Even when economic actors rely on entrepreneurial strategies,¹⁵ they can remain embedded in their respective safety-nets, lean on communal or kin solidarities. The social networks on the one hand ensure actors' access to non-commodified resources (e.g. labour and money), and are important when unexpected risks (be it economic losses or health related issues) arise. In this sense then, embeddedness enables entrepreneurial tactics because the actors can cope with the market related risk and costs with help of informal reciprocal and redistributive networks. Even if market and non-market modes of integration can coexist, any radical advancement of markets threatens embedded practices. Enabling markets primarily means that fictitious commodities are disembedded from social control and subjected to self-regulating price mechanism, thus endangering embedded economic practices.

Remedies

Articulation of the conflict between embedded practices and disembedding process of marketization challenges the remedies offered by the new-institutionalists, focusing exclusively on establishment of market-enhancing institutions. Polanyi would indeed agree with the new-institutionalists claim that the functioning of a capitalist economy is conditioned on the state's efforts and capacity to introduce the regulations and institutions that allow functioning of the markets. Instead of being a harmonious process, Polanyi contends that marketization imposes social and economic costs (discussed above), creates the need for social protection, and triggers social resistance. This tension between two forces that shape capitalist societies is described by Polanyi as 'double movement': the movement

¹⁵ The distinction between between defensive strategies (e.g., household subsistence farming) and entrepreneurial strategies (e.g., petty trade) is taken from Burawoy et. al, (Burawoy, Krotov, & Lytkina, 2000).

to enable marketization and countermovement aimed at constraining and regulating the marketization process.

Discussing the double movement, Polanyi identifies two core aspects that make up formal institutional settings under the capitalist modernity. On the one hand, establishment of a market economy requires state-level institutionalisation of the market-supporting regulations (e.g. enclosures, establishment of labour markets) (Machado, 2011, p. 123). On the other hand, institutionalisation of markets is accompanied by institutionalisation of the countermovement, emergence of market-constraining regulations and institutions for social protection (broadly conceived welfare system or other de-commodifying measures). When the movement towards marketization gains momentum, it does so by deconstructing existing social regulations. In a broadly informalized settings (characteristic of many post-Soviet states)(Rasanayagam, 2011), where informal embedded practices ensure social safety, and structure social-economic life, marketization undermines these informal norms, institutions and embedded economic practices. In case of more advanced economies, marketization can undermine existing social regulations (introduced, in the first place, to re-embed the economy). Thus, the process of marketization can be seen responsible for emergence of certain types of formal institutions (primarily market-enhancing institutions), meanwhile marginalising and informalizing social regulations.

Unconstrained marketization, however, is destructive socially and economically. Besides imposition of the social costs (discussed above), the process is unsustainable in the long run even economically. Relying on Polanyi and writings in Polanyian tradition (e.g. Bohle and Grekovits, Streeck), Magda Bernaciak has recently summarised the economic threats stemming from unconstrained expansion of markets:

Social controls and bridles are indispensable for ensuring the undisturbed operation of capitalist markets. This is because, as argued during our earlier discussion of Frank's (2011) volume, competition often tends to channel actors' behaviour into inefficient or wasteful activities. From this perspective, welfare policies cushioning the effects of market forces, as well as regulations preventing or discouraging actors from undertaking socially harmful activities, can be viewed as market-sustaining devices (Bernaciak, 2014, p. 8).

Hence, to avoid excessive social and economic costs Polanyi suggests [1] careful consideration of the pace of change: "The time-rate of change compared with the time-rate of adjustment will decide what is to be regarded as the net effect of the change" (Polanyi, 1957, p. 40). Also, [2] he insists on the need to establish institutions for social protection and workers representation structures.

Polanyian interpretation of a capitalist social-economic order then uncovers complex and complicated relationship between the two cornerstones of formal institutional settings: market-enhancing and market-constraining regulations. On the one hand, the two types of regulations are conflicting. Market-enhancing regulations threaten and marginalise market-constraining regulations, be those formal or informal. Also, excessive pursuit of market-constraining regulations can undermine market efficiency. On the other hand, this perspective illustrates mutual dependency between these two types of regulations and stresses unsustainability of market-enhancement in absence of constraining measures and social regulations. Then, the stability of a capitalist system depends on a capacity of the political forces to delicately balance between market efficiency and protection of the society. As Bohle and Greskovits remind, "It is, then, ultimately in the capacities of the political sphere that the secret of capitalist success lies" (Bohle & Greskovits, 2012, p. 16).

This discussion then has crucial implications for identifying the *remedies* against reliance on informal economic practices. If, so called, ‘formality’ under capitalism is shaped by the two sets of regulations, it seems inconceivable to reduce informality by introduction of only one type of (market-enhancing) regulations. This is especially true when talking of embedded informal economic practices. Groups and individuals relying on small-scale, embedded informal economic practices clearly fall in the countermovement camp of the double movement. Being threatened by the disembedding character of marketization, these forces resist rather than embrace the change. To enable functioning of markets, the power of informal networks and informal regulation of productive resources need to be broken. But, to avoid the costs this process entails for the involved groups and individuals, new forms of social protection need to be put in place. Polanyian analysis would then support the structuralist remedies offered to informality, suggesting the need for more labour market regulations and welfare measures. However, it is also a broader call, directed at political forces, for making efforts to address discontent against marketization and finding ways to ease the costs stemming either from commodification of land, labour, money, or other resources and spheres of life. This is to say that, while emergence of labour unions and welfare state is important for Polanyian analysis primarily in the context where commodification of labour is a challenge, the perspective is open to creative and diverse forms of re-embedding economy. The main takeaway is, that the expansion of markets need to be balanced by introduction of the “institutions governed by non-market logic” (Bernaciak, 2014, p. 8).

The next logical question is, what happens if states or other political entities are unwilling or incapable of responding to the social discontent against marketization? What

happens when the countermovement is ignored or suppressed or otherwise prevented from achieving state level institutionalisation of protective measures?

Informalization of the countermovement

Polanyi insists that marketization will inevitably trigger resistance. But, he has also shown that the countermovement or the political responses to social discontent is not necessarily similar across different cases¹⁶. It is also possible that the political powers, at least temporarily, try to ignore or suppress the countermovement or be incapable of institutionalising protective measures. In such cases, or prior to political institutionalisation, “the defence against the commodification of land, labour and money is a more spontaneous, hidden, molecular process” (Burawoy, 1999, p. 4). Relying on these insights I suggest that ignored or suppressed countermovement can informalize and the measures aiming at compensating for the costs of marketization can emerge in informal realm.

The relevance of this new concept of informal countermovement can be supported by existing analysis and empirical evidence on informality in post-socialist states. Some of the prominent authors have explicitly articulated that informal practices are mobilised directly against the neoliberal modernization processes (Smith & Rochovská, 2007), opposing commodification of land, labour, and money. Directly relying on Polanyian framework Burawoy depicted mobilisation of network society in Russia as a defence against commodification (Burawoy, 1999). These authors illustrate that the informal economic practices can be seen as tactics of self-protection against the process of commodification of

¹⁶ If some political responses (e.g. American New Deal or European welfare states) were capable of addressing the challenges of marketization without compromising citizen’s civic and political liberties, some other responses, such as Nazism and Soviet Bolshevism, were based on brutal suppression of such freedoms.

productive resources, rather than merely a supplement for the state's inability to provide market-supporting institutions.

While the concept of informal countermovement can be analytically helpful, it should not be confused with considering all informal institutions or informal economic practices as part of countermovement. Only those informal measures that emerge, or those informal networks and institutions that are reshaped and mobilised in response to marketization and ensure protection from the social costs of marketization, can be seen as part of countermovement. Then, reproduction of informal economic practices is not countermovement in itself, but can result from informalization of the countermovement.

Yet another question is, if informalization of the countermovement can be similarly helpful in easing social discontent and social costs of marketization as state level institutionalisation of the countermovement. Elaborating Polanyian and new-institutionalist arguments, here I argue that informalization of the countermovement can be more challenging compared to institutionalisation of protective measures and regulation of the pace of change.

Challenges of informal(ized) countermovement

Informalization of the countermovement can endanger a society in two ways. First, it can underperform the task of the countermovement: fail to ease social costs of marketization and fail to constrain self-destructive propensity of unregulated markets. Second, it can intervene in the workings of the economy and compromise efficiency of markets. For the most part, Polanyi sees countermovement as a force that ensures social safety and stability of the capitalist system. However, he also shows that in some cases, even institutionalised

countermovement can [1] disrupt efficiency of markets, and [2] lead to a political stalemate, thus imposing yet another type of costs over the society. Balancing between the two tasks - ensuring market efficiency and social protection - is extremely difficult even for the capable governments that have aimed at accomplishing both of these tasks (Bohle & Greskovits, 2012). I suggest that informalization only complicates this task.

Because of a potentially disruptive power of the countermovement, formalised/institutionalised protective measures should be preferable as in this case it is possible to make costs of protection calculable. In contrast, an informalized countermovement can also stand in the way of market efficiency. By reinforcing the importance of informal social-cultural institutions, the informalized countermovement can directly stand in the way of commodifying productive resources and can subvert the self-regulating demand and supply mechanism. The informal character of such practices and institutions will make it harder for the political powers to calculate, balance, or circumvent such dangers. This would especially be true in cases when the state enforcement capacity is weak and the state institutions are malleable to informal pressures.

Even bigger challenge is that informalization of the countermovement can undermine the countermovement's capacity to ease social costs and to balance out "capitalisms propensity to weaken its own social and political foundations" (Bohle & Greskovits, 2012, p. 269). This would especially be concerning in cases when a capable government pursues the marketization, neglecting the need to ease its social consequences. When marketization benefits from the state enforcement capacity, informal ways of counterbalancing the marketization without such support can become increasingly unsustainable. First, as explained above, marketization directly undermines other forms of social-economic

integration by subjecting productive resources to a market principle and limiting the relevance of informal institutions to those resources. While in absence of any alternatives, societies might continue relying on the old, embedded informal institutions and practices, those will inevitably be weak and hardly capable of protecting against social and economic vulnerability.

Second, informalization of the countermovement also implies that collective, representative institutions are weakened, suppressed or neglected, and formal political participation channels are hardly available for the resisting groups. Indeed, besides unionism, there are numerous powerful ways that social groups can mobilise, influence policymaking, have transformative as well as disruptive power (Agarwala, 2008; Bayat, 1997; Chatterjee, 2004; Scott, 2012). Despite, informalization excludes the actors from accessing democratic institutions and limits their mobilisation repertoires. In turn then, if the political power holders are to mediate between the interests of the movement and the countermovement, the latter might stand weaker grounds.

Finally, when the measures, interventions, practices, and institutions designed to ease the social costs of marketization informalize, the classical new institutionalist concern with enforcement comes at force. We know that some of the informal norms and institutions are characterised by high and consistent levels of compliance. Despite, because marketization is a process rather than a one-off event, the informalized countermovement cannot merely rely on long-standing culturally embedded institutions and practices, but will need to creatively redesign old and elaborate new practices. The measures and institutions - be those pursued by political agents or civil society actors - that are not recognised and

supported by the state will be harder to enforce. Hence, the chances that these measures will be incapable of easing costs of marketization are higher.

In summary, informalization of the countermovement can: [1] compromise the citizen's and the governments capacity to ease social costs of marketization; [2] reproduce reliance on informal norms institutions and practices, and thus also reproduce the prevalence of informal economic practices; [3] and ultimately, undermine market efficiency.

CONCLUDING COMMENTS

Coming back to the original inquiry of this research, asking why would the new-institutionalist remedies (establishment of market-enhancing institutions) fail to elevate social problems and benefit informally operating actors, this chapter has identified some theoretical answers. First, the new-institutionalist perspective fails to attend the embedded character of informal economic practices and hence, examine the tension between market-enhancement and informal practices. Second, the new-institutionalist remedies underestimate the need of compensating for social costs of marketization. I suggest that the shortcomings of the new-institutionalist perspective can be overcome and the insights this perspective offers can be elaborated based on Polanyian perspective on informal economic practices. This entails: first, close attention to the ways the informal economic practices are embedded in the cultural and social norms and institutions of respective societies; second, looking at capitalist society as an outcome of two contradictory processes, the process of marketization on the one hand, and the process of countermovement resisting marketization and aiming at social protection on the other. In this process informal economic practices can substitute the formal institutions both ways – through enabling exchange providing informal

norms that stabilize expectations of the actors and informally enforce agreements (as new-institutionalists argue), but also, through ensuring social protection and compensating for the risks associated with marketization process. A viable resolution to the problem of informality then will rest on the state's capacity to accomplish both: institutionalisation of markets as well as protective measures. Then, theoretically, the explanation of the suboptimal outcomes of Georgia's institutional reforms can be found in the state's unwillingness or incapacity to accomplish the second task – to ease the consequences of marketization and accommodate the social conflicts and resistance. The coming empirical chapters, examining institutional reforms and their consequences on macro, mezzo, and micro level processes, demonstrate the relevance of this discussion.

3 INSTITUTIONAL REFORM AND INFORMAL INTERVENTION MECHANISMS

INTRODUCTION

Unlike some of the Central and Eastern European countries, the post-soviet republics have hardly offered developmental miracles, be it in regards to building democracy or sound economic institutions.¹⁷ Post-revolutionary Georgia (2003-2012) was often believed to be an exception to this rule. Georgia's widely acclaimed institutional reforms reflected and were inspired by the new-institutionalist consensus of the late 1990s, and were promising in terms of reducing widespread corruption, the culture of informality and, ultimately, reliance on informal economic practices. This chapter analyses the macro-level developments in post-revolutionary Georgia, shows the limits of the new-institutionalist analysis and advantages of a Polanyian perspective on informality while interpreting the outcomes of institutional transformation in Georgia.

The first three sections of this chapter analyse the direction, content and developmental outcomes of the institutional reforms. In doing so, these sections also clarify and specify the research puzzle discussed in the introductory part of the dissertation, showing that the outcomes of the reforms came short of justifying the transnational acclaim. The second section outlines the Georgian government's visions on social-economic development and discusses the international context which shaped it. In line with the new-institutionalist perspective and the Post-Washington Consensus agenda, the Georgian

¹⁷ To be sure, the transitional success of some CEE states is currently under question, given the rapid democratic backsliding in the region (Greskovits, 2015) and heightened economic challenges since the financial crisis.

government believed that improved institutional quality, removal of informal rent-extortion and bureaucratic red-tape would be key to solving social problems. I also illustrate the role of transnational policy transfer in [1] shaping the government's visions and [2] designing the institutional reforms.

The third section gives a comprehensive and detailed overview of the institutional reforms. The section chronicles the regionally unique improvement of the institutional quality and details the changes in institutional design focusing on privatization and deregulation, but also changes in labour market policies, healthcare and social protection. The fourth section discusses the developmental outcomes of Georgia's post-revolutionary reforms. The reforms paid off in terms of economic growth, but also resulted in deepening absolute poverty and economic inequality. More importantly for this inquiry, the reforms failed to engage the majority of Georgia's population in the formal economy or to increase productivity of self-employed and small entrepreneurs.

The fifth section and the concluding part of the chapter turn back to the broad research question posed in this dissertation, reflecting on the reasons for the miserable social developmental outcomes of the reforms. The main challenge is to understand if the suboptimal results were caused by the government's adherence to the new-institutionalist perspective on informality and development or by the lack of it. Indeed, the fifth section illustrates that despite the overtime consistency in applying the new-institutionalist remedies, the Georgian government sometimes deviated from the chosen path and developed the mechanisms for informal intervention, subverting the formal institutional design. While these informal and extra-legal interventions could be partially held responsible for compromised or suboptimal developmental outcomes, I suggest that the

new-institutionalist perspective still comes short of explaining the puzzle. First, despite persistence of informal interventions, Georgia's institutional quality and design were still radically better compared to its neighbours. Thus, from the new-institutionalist perspective it is hard to understand the neighbours' advantages in terms of reducing poverty and inequality and enabling small and medium size entrepreneurship.

Second, and more important problem of the new-institutionalist interpretation is that it comes short of understanding the Georgian government's motivations for deviating from the reform path and intervening informally. The new-institutionalists would pay attention to the persistency/stickiness of informal norms and the actor's rent seeking motivations. None of these explanations seem sufficient to understand the government's motivations. First, the government's informal interventions were not remotely similar to the informal practices deployed by the previous government under President Shevardnadze. Instead, the informal and extra-legal practices were elaborated after the Rose revolution and were adjusted to the changed formal institutional environment. Second, even if individual government representatives most probably personally benefited from informal interventions, existing sources show that a considerable share of the rents extorted through extra-legal or informal means went to the state budget. In addition, the informal interventions were often deployed to address social problems, such as accomplishment of infrastructural projects, renovation of hospitals etc.

If we complement the new-institutionalist analysis with a Polanyian analysis of the marketization process, finding a more feasible interpretation to the Georgian government's dilemmas becomes possible. From a Polayian perspective, making marketization viable is possible when the state is also able to accommodate accompanying social discontent. A state

relying on marketization as a strategy for economic accumulation also needs to develop a regulatory capacity for constraining and counterbalancing expansion of markets. As I have argued in the theoretical chapter, if we extend this argument and imagine the scenario where the state is incapable or refuses to intervene in the process of alleviating the social costs of marketization, the discontent as well as protective measures can shift to or remain in the informal realm. In the case of Georgia, the social discontent became apparent about three years after the revolution. Besides popular/mass demonstrations against the government, different civil society groups, most importantly the labour unions started mobilising against the reforms.¹⁸ Because the government saw the compliance with the transnational developmental consensus (among other things, the unprecedented liberalisation of labour market regulations) as a sole determinant for Georgia's comparative advantage in attracting FDI and even developmental aid, it never seriously considered compromising on the chosen institutional design or engaging in social dialogue with civil society groups (Bagnardi, 2015; Muskhelishvili, 2011). Thus, on the one hand the government felt the need to have more tools to intervene in social and economic matters, and on the other hand, the chosen institutional design provided no formal institutional tools to do so. I suggest that the emergence of informal intervention mechanisms, at least partially, were designed to overcome this dilemma and respond to social discontent without formally altering or complementing market-enabling institutions.

¹⁸ Labour unions have been extremely weak and largely irrelevant to Georgian politics throughout 1990s. This is no surprise given that [1] labour unions have been weak since transition in majority of former socialist countries, [2] since the independence Georgian industrial sector had drastically declined and [3], most importantly, the state was too weak to enforce market-enabling institutions. Therefore, just as Polanyian analysis would suggest, the labour unions started mobilising precisely at the point when a capable state emerged and started actively pursuing marketization policies.

Precisely because the state's interventions in social and economic matters remained informal, ad-hoc and un-institutionalised, they often came short of easing social problems and meanwhile, also undermined the marketization policies (for example, by endangering the security of property rights). In summary, the new-institutionalist interpretation of these developments is partially right in emphasising the adverse effects of informal interventions. What this interpretation misses and a Polanyian interpretation explains better, is that the reason such informal interventions emerge in the first place is the insufficiency of the new-institutionalist remedies to cope with social and political challenges. Finally, these observations at the stage of examining the macro picture are suggestive rather than conclusive. The examination of a mezzo and micro picture verifies and details the contention made here, that informal measures were a response to marketization rather than simply a reproduction of the pre-existing culture of informality.

3.1 DIRECTION OF POST-REVOLUTIONARY REFORMS IN GEORGIA

Throughout the 1990s Georgia was one of the poorest former Soviet Union republics, with as large share of the informal economy as 65% of GDP per capita by 1999. By the mid-2000s, Georgia ranked 151st out of 151 countries studied by Schneider et al, with its shadow economy output approximating more than 70% of GDP (Schneider et al., 2010). Reliance of informal solutions “could be a rational coping strategy in the absence of formal jobs and social security” (Bernabè & Singh, 2002, p. v). By 2003 the government was changed through electoral revolution, and the new political elites promised a radical break with the decadent 1990s. The new elite realized that such a widespread dependency on informality and subsistence economy were among the pressing challenges. As Lado Gurgenidze, one of the engineers of post-revolutionary reforms and a former prime minister argued, Georgia could

be characterised as a failed state: “It was saddled with stifling bureaucracy and widespread corruption, little foreign investment, high unemployment, and a large rural population engaged in subsistence-level agriculture” (Gurgenidze, 2009, p. 1). However, the post-revolutionary elites never singled out the prevalence of the informal economy as a challenge of its own, but rather saw it as part of general developmental challenges Georgia faced. Thus, in order to understand the Georgian government’s vision of and remedies against the prevalence of informality, it is necessary to understand the governmental visions on social-economic development. According to dominant accounts, the two, informal economy and development, are inseparable anyways. The informal economy is one of the most important signifiers of underdevelopment, and also the biggest obstacle to development (De Soto, 1989, 2000). I suggest that the Georgian government drew largely on the new-institutionalist perspective on the informal economy and on economic development in general.

The existing literature characterises Georgia’s Rose-Revolution (2003) as neoliberal (D. Gugushvili, 2014; Lazarus, 2013) overtly neoliberal (Muskhelishvili & Jorjoliani, 2009) or libertarian (European Stability Initiative, 2010b). The set of institutional and policy reforms pursued by the Post-Revolutionary government were sometimes praised and at other points condemned for its dedication to market fundamentalism (Jones, 2012) and strict adherence to the principles of Washington Consensus (Timm, 2013a). While labelling Georgia’s post-revolutionary reforms as neoliberal seems accurate, it needs to be specified that these reforms did not merely resemble neoliberal policies of early 1990s as summarised by the Washington Consensus agenda. Instead, the post-revolutionary reforms reflected growing awareness of the shortcomings of the Washington Consensus agenda, and the new consensus on the primacy of institutions (Rodrik, 2004) that was emerging towards the end of 1990s.

At the time Georgia's Rose Revolution took place, the policy as well as the academic circles had already expressed growing disillusionment with the policy prescriptions of Washington Consensus (Stiglitz, 2002). The shortcoming of these prescriptions – deregulation, price liberalisation, privatization and macroeconomic stability – was not only that they could not ensure poverty reduction and contributed to deepening disparities, but that they also often failed to bring about economic growth (Rodrik, 2002). The critics identified lack of attention to institution building as the main shortcoming of Washington Consensus, or early neoliberal agenda. It was argued that neither democracy (Carothers 2002), nor market economy (Kolodko, 1999) can truly take roots as long as political and economic institutions are weak. Former Soviet republics served as a showcase for the argument. Weakness of state institutions, prevalence of corruption and informality were seen as the root causes of the disappointing results of political and economic transformation in the majority of the post-Soviet states. Thus, the late 1990s saw the 'paradigm shift' (Hout, 2004). The same agents that promoted the Washington Consensus policies, now came to acknowledge the theoretical contributions of the new institutional economists (North, 1981, 1995; Robinson & Acemoglu, 2000) as the "key innovation in development economics in the 1990s" (Williamson, 2004, p. 204) paving way to the emergence of Post-Washington consensus agenda. Most importantly, the key transnational developmental actors including UN, World Bank, IMF, started devoting enhanced attention to measuring institutional variables such as corruption, rule of law, state capacity, quality of government etc. On the one hand, more developmental aid was directed at anti-corruption reforms and strengthening state capacity in transitioning and developing countries. On the other hand, the aid was increasingly conditioned on country's scores on the indicators of 'good

governance' (Hout, 2004; Löwenheim, 2008; Mawdsley, 2007; Roberts et al., 2007). The development practitioners' as well as national government's interpretation and application of the remedies of new-institutionalist writings at points departed from the original theoretical arguments. For example, while the new-institutionalists took stickiness and path dependent character of institutions seriously, the development assistance focused on the policy transfer of 'best practices' that often lacked contextual sensitivity (Schueth, 2011). However, the developmental agenda remained devoted to cornerstones of the new-institutionalist theory and advocated the security of property rights, rule of law and contract enforcement as market enabling institutional preconditions for development (Hout, 2004).

The belief in market economy was thus reinforced. If markets failed, it was because there were no market-supporting institutions in place. The hope was restored that once the states get the institutions 'right', market economy would bring more prosperity and perhaps, also more equity. The mechanism through which the Post-Washington consensus envisioned delivering better economic growth and prosperity was expansion of access to the markets: "under the hegemony of Post-Washington consensus, the state was (re)conceptualised as a 'supporting' actor in expanding and delivering market 'opportunities' to the populations of the global south (and north)" (Selwyn, 2014, p. 9). In this narrative, the prevalence of poverty is explained as a result of exclusion from the capitalist economy. The question of the informal economy therefore becomes one of the prominent issues on this agenda, as the population relying on the informal economy is seen as excluded from the formally institutionalised capitalist system. The solution against the underdevelopment and poverty therefore is to enable informally operating actors to have a better access to markets by decreasing costs of

formal entrepreneurship, removing taxes and regulations as well as informal rent extraction practices of state bureaucrats.

Agenda of the young Georgian revolutionaries resonated with the emerging Post-Washington consensus. By the beginning of 2000s Georgia was widely perceived as a 'failed state' with a "quasi-feudal form of political economy" (Schueth, 2012, p. 135). Much like the local and international commentators, the post-revolutionary elites saw the prevalence of corruption and weakness of the state institutions as main obstacles for Georgia's development. The state officials repeatedly emphasized primacy of institution-building on their reform agenda. A year after the revolution the president Saakashvili summarised the task of the government as follows:

The people tasked us with changing the ruined country completely, ending its decline, restoring its strength and creating development opportunities for everyone. We were tasked with restoring the country's dignity, bringing order to the country and defeating the criminal world which had poisoned the people's lives, defeating corruption and ending the practice whereby money was extorted from the people at every corner (The Administration of The President of Georgia, Press Office, Annual Report ,2005).

From the perspective of Post-Revolutionary government the weakness of state institutions were responsible for the economic failures throughout the 1990 (Rekhviashvili, 2013). The task of capacity building sometimes even overshadowed the quest for democratic consolidation: "The generation that gave rise to the Rose Revolution does not feel that Georgia is lacking in terms of democracy: they have long enjoyed freedom of expression, media diversity, political pluralism between power and opposition, NGOs with lavish support from the West, etc. They, that is the new leadership that came to power in November

2003, feel that what Georgia is missing is a strong and efficient state, economic development, and territorial unification” (Cheterian, 2008, p. 703).

The governments’ will and more importantly, surprising success in reducing corruption rates, reforming the public administration and reshaping institutional design is explained by a set of internal and external factors. For example, Kupatadze (2012) argues that the post-revolutionary government used anti-corruption campaign to strengthen legitimacy domestically and to justify extra-legal methods used for punishing political opponents.¹⁹ Georgia’s attempt to keep up with the expectations of the Western allies and a wish to “build alternative model of post-Soviet governance that fundamentally differs from Russia”(Kupatadze, 2012, p. 30), were no less important. Georgia’s public sector reforms heavily relied on the aid received from the international donors. In the first years after the revolution the United Nations Development program and George Soros’s Open Society Foundation even provided the salaries of 11,000 civil servants (Nodia, 2005). Out of all the developmental aid Georgia received since the year of 2000 for Governance and Civil Society support, the largest share – 204 million USD – came on public sector policy and administration management related projects, while democratic participation and civil society category received 70 million (Kreutz, 2014).

In his exceptional study, Schueth (2011) offers even more complex picture of the interactions between the Georgian government and transnational actors. Relying on

¹⁹ Interestingly, some of the external observers praised Georgian government for using ‘unconventional methods’ to raise money for anti-corruption reforms. In the first years since the Revolution, the government imprisoned former officials (often relying on extralegal means) and extracted money through plea bargains. The World Bank publications praised these steps arguing that “Extraordinary times required innovative approaches. Jailed corrupt officials and tax cheats who admitted guilt and paid heavy fines were released from prison”. (The World Bank, 2012)

ethnographic methods, he describes how USAID's Georgia Business Climate Reform (GBCR) project teamed up with Georgia's State Ministry for Reform Coordination (SMRC) to improve Georgia's scores on Ease of Doing Business Index (EDBI). Not only did the USAID's GBCR group help the Georgian government to identify and adopt the 'best practices' but it also was contributing to EDBI data gathering process (Schueth, 2011). Yet in other cases EDBI project representatives got directly involved in the knowledge transfer process. Georgia's bankruptcy law was co-drafted by Georgia's state minister and the director of Doing Business Project, Simeon Djankov, in 2007. By focusing on EDBI scores, Georgia, otherwise lacking any competitive advantage for attracting the FDI, tried to gain reputational advantage, or the extraterritorial credibility of its policies and institutions (Phelps, 2007, p. 376). The case of targeting EDBI scores described by Schueth is important for two reasons. First, it illustrates how far the institutional redesign in post-revolutionary Georgia was a result of the transnational policy transfer. Through this policy import, the Georgian government was seeking to improve its comparative advantage for attracting capital but also for receiving more international aid. Georgia's relative success provided transnational actors with the legitimacy to claim that the 'transfer of external knowledge' was possible and productive (Di Puccio, 2014). Second, this observation confirms that Georgia's post-revolutionary reforms were shaped by the Post-Washington consensus agenda, or the neoliberal agenda that incorporated new-institutionalist insights concerning the importance of institutions: "EDBI provides a narrower model of competitiveness focused on regulatory rules. The model reduces institutions to the rules of the game for economic action after the new institutional economics (North 1990), and takes seriously De Soto's (1989, 2003)

exhortations that facile regulations in areas such as property registration are the secret keys to greater capitalist entrepreneurship”(Schueth, 2011, p. 59).

The government saw the changes in institutional design and strength of state capacity as means to attract foreign capital, facilitate economic growth, and ultimately overcome widespread poverty in the country. Indeed, elimination of poverty was seen as a key national objective from the very beginning of United National Movement’s rule (UNM). UNM’s 2003 election manifesto as well as key political figures talked of poverty and social problems as the most hazardous challenge (Gularidze, 2004).²⁰ As Gugushvili observes “Commitment to tackling poverty was reiterated in each of the BDD [government action plans] documents, however no specific targets were set or monitoring mechanisms identified” (D. Gugushvili, 2014, p. 87). The government expected that the successful institutional changes and economic reforms would be translated in increased employment and reduced poverty.

No single state body will treat you badly. The rest is up to people. Role of the state is to defend the law, create equal opportunities and help the vulnerable. Creation of jobs is the prerogative of private businesses (The Administration of The President of Georgia, Press Office, Annual report, 2006).²¹

To summarize, the Georgian government in close cooperation with transnational actors pursued the reforms approximating Post-Washington Consensus suggestions. The quest for economic liberalism was complemented with the institution building. Thus,

²⁰ Even though sometimes it was unclear if the government prioritized on poverty reduction itself or on improving Georgia’s reputation, and transforming Georgia from poor to middle income country. As president Saakashvili emphasized: “Once and for all Georgia must not be viewed as a legged-behind and the poorest country” (The Administration of The President of Georgia, Press Office, Speeches and Statements, 2006). While the two goals are not mutually exclusive, becoming a middle-income country is possible even without significantly reducing poverty rates.

²¹ Few years later the presidential speeches would emphasize government’s will to solve the social problems even more vigorously. In response to social unrest and sustained demonstrations throughout 2007-2009 the government tried to devote more attention to social protection.

Hernando de Soto, alongside Milton Friedman, was named as a main source of inspiration for the Georgian reformers (Jones, 2012). In line with the arguments of the new-institutionalist theorists, the Georgian state hoped that in case the state stopped being a major obstacle for citizen's access to markets and provided decent institutional framework for economic exchange, the citizen's would find their way to prosperity.²² In what follows I will first describe the reforms undertaken by the post-revolutionary government of Georgia and after, discuss social-economic consequences of the reforms.

3.2 TRANSFORMATION OF INSTITUTIONAL DESIGN AND CAPACITY

3.2.1 State capacity increase

While describing policy and institutional transformation in Georgia, we need to pay attention to two interrelated dimensions of the change: institutional design, or the content of institutional changes (Helmke & Levitsky, 2004) and enforcement capacity, which is 'the capacity of the government to effectively formulate and implement sound policies'(Kaufmann et al., 2010, p. 4). Georgian reformers managed to transform state's enforcement capacity in a few years' time. Following the revolution, Georgia emerged as a single country in post-soviet region that managed to radically transform its formal institutional design and to cut down corruption rates (Engvall, 2012). By 2010 Georgia scored twice as much as any other (non-Baltic) former soviet republic (and many other poor developing countries) on the state capacity indicators according to World Bank data on the

²² Even though prevalence of informal economy was quite a big challenge at the time of the revolution, the government hardly ever talked about this issue in a direct manner. Prevalence of informal economy was equated with the prevalence of corruption and crime throughout the rule of the president Shevardnadze. Again very much in line with new- institutionalist perspective, it was expected that informal economy will shrink as long as the Rose revolutionaries were successfully fighting corruption and criminal world and consolidating fiscal capacity.

quality of governance (see Figure 3.1 and 3.2). Moreover, being one of the most corrupted countries by 2002, (124th of 133 countries), Georgia turned into one of the least corrupted states in post-soviet region (see Figure 3.2), sometimes surpassing performance of few EU member states (64th of 188 countries).

This drastic strengthening of state capacity was a result of series of public sector reforms. First and the most dramatic change was downsizing of the public sector. The new government cut down number of ministries and state agencies and laid off 50% of public sector employees. Sometimes the personnel of certain departments and services was changed entirely. Around 15 thousand traffic police personnel were replaced by over 2000 new patrol trainees within few days' time, and 2200 employees of public registry were fired in a single day (Engvall, 2012). Many of the new civil servants were previously civil society activists and employees of non-governmental organisation, tended to be younger and relatively well-qualified (Muskhelishvili & Jorjoliani, 2009). To ensure that the civil servants were not dependent on bribes for their survival, the government increased the salaries approximately 50-fold (Kupatadze, 2012, p. 22). For example, the salary of the new patrol police jumped from 30 to nearly 450 dollars (Pomerantsev, Robertson, Ratković, & Applebaum, 2014). In parallel, the government declared 'zero tolerance' on corruption and introduced severe penalties, including discharge for even minor bureaucratic corruption.

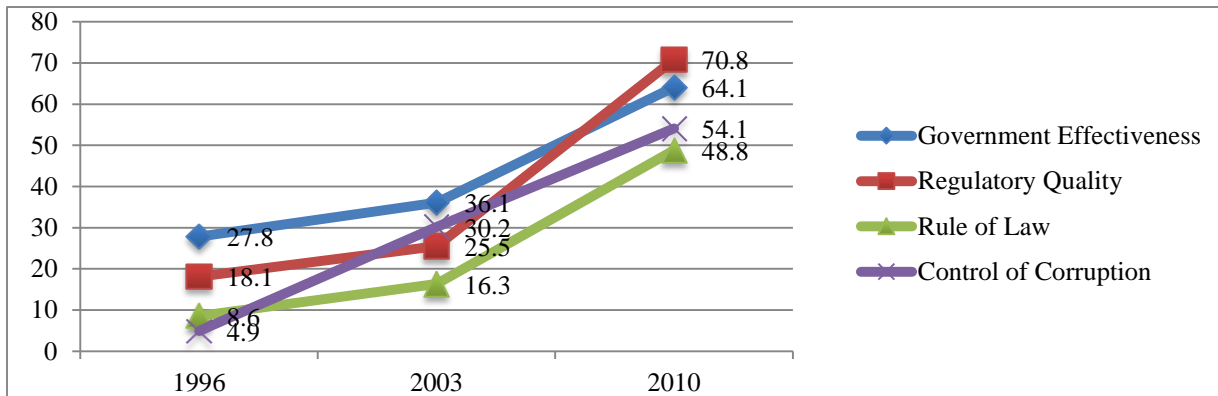


Figure 3.1 Overtime Change in State Capacity Indicators, 2010, (Based on World Bank Governance Indicators 2010)

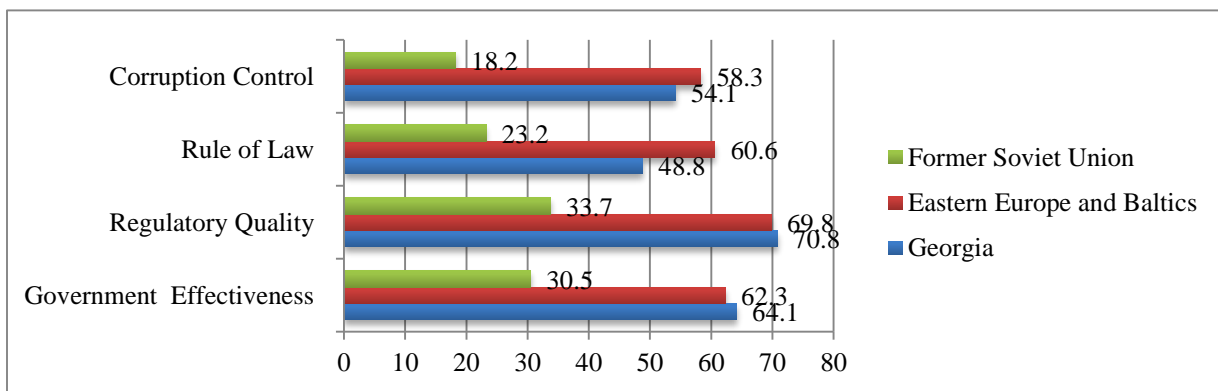


Figure 3.2. State Capacity Indicators in a Comparative Perspective 2010 (Georgia in comparison with the regional average scores of [1] Former Soviet Union [2] Eastern Europe and Baltics. Based on World Bank Governance Indicators)

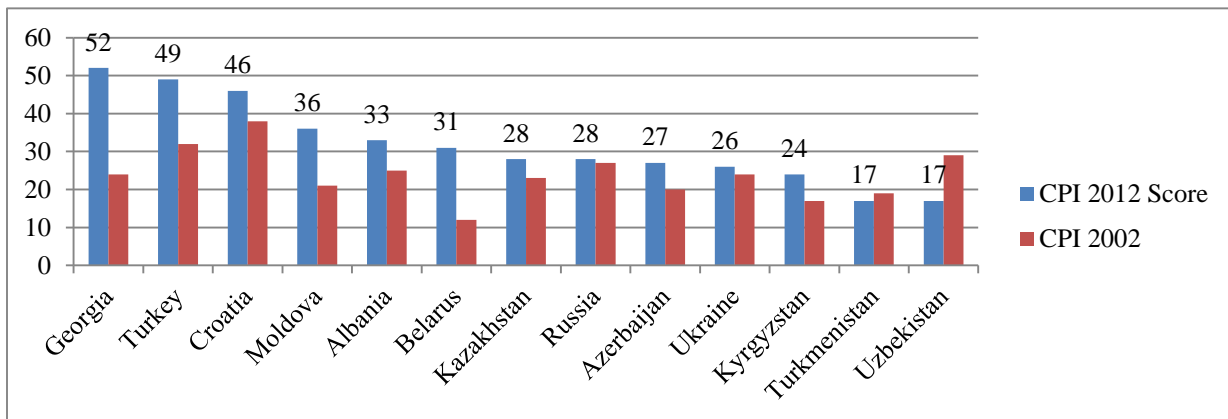


Figure 3.3. Corruption Perception Index, 2002-2012 (Transparency International, CPI scores)

In addition to downsizing, retraining and replacing public sector employees the reforms had a strong ideological component. When describing the new patrol police Pomerantsev et al. report, that the police officers “were polite and disciplined, and were soon operating out of purpose-built glass buildings whose open-plan design was intended to express a new transparency. The visual effect was strengthened with new, Western police cars with their lights permanently flashing, heralding the advent of reforms” (Pomerantsev et al., 2014, p. 7). Custom’s offices, public and civil registries, municipal governments went through similar changes. Side by side with the change of personnel, raising the salaries and recruiting younger employees, the government was trying to also transform the ways public offices and their employees looked and acted. In other words, the public service was reformed, but it also was rebranded.

If in some cases fighting corruption resulted in abolishing structures and institutions, in other cases it involved centralization of management. An infamous case was the general entrance exam. Prior to the changes the university entrance exams were administered by the universities, and were known for being a heated site of corruption. The bribes for the university spots sometimes amounted few thousands of USD. To address the problem the government started administering a common entrance exam for all the universities, improving access to higher education. This way the state was trying to project that the playing field was being equalized for the citizens. Overall, these changes made the break with the decadent 1990s very visible. Public trust for the police and public services was increased, state’s fiscal capacity was constructed, crime rates decreased. For the first time since independence the state had a monopoly on violence (Nodia, 2005).

3.2.2 Changes in institutional design

Tax cuts

The increase in state capacity went hand in hand with changing institutional design and the two reinforced each other. Tax system was one of the first to be genuinely altered. By 2008 the number of taxes were cut from 20 down to 6 Property tax was set under 1%; value added tax was reduced from 20 to 18%; corporate profit tax was set at 15%; progressive income tax was replaced by a flat income tax of 12% which was in 2009 merged with social taxes and comprised 20%. The tax exemptions and special rates for various social groups, like groups and individuals selling self-produced agricultural goods, inhabitants of high mountainous regions and others, were abolished (Torosyan & Filer, 2014). In a few years' time, the fiscal revenues increased significantly, from 15% of GDP in 2003 to 25% in 2009 (Gurgenidze, 2009). Even if the engineers of these reforms liked to claim that tax reduction increased the tax compliance, it was also a better enforcement capacity that contributed to the improved fiscal revenue collection.

Deregulation

Deregulation was a primary tool supporting government's anti-corruption drive. The World Bank enthusiastically reports the extent of the deregulation process: "In 2003, 909 permits and licenses were required, many of which could be bought and served no societal purpose. By 2011, the number of permits and licenses had been reduced to 137. Over 2003–11, the numbers of days needed to obtain a construction permit was cut from 195 to 98, and the number of procedures was reduced from 25 to 9. ...The "guillotine," reformers shut down entire government agencies that were not providing value and merely extracting bribes from the population"(The World Bank, 2012, p. 8). The deregulation efforts involved three types

of changes. First, the number of regulations, permits and licenses were reduced by 84% percent (EI-LAT, 2012). Second, the procedures for granting licenses were simplified and timeframes were reduced. Last, and most important, number of regulatory agencies and institutions were abolished, among them anti-monopoly service, structures and institutions controlling food safety, technical regulation, standardization and certification (ibid).

Trade liberalization

Georgia became a member of the WTO in 2000. It was after 2004 that Georgia started eliminating tariffs as well as nontariff barriers. As the former prime minister proudly reports, “In 2006, Georgia unilaterally set bound import tariffs of zero on approximately 95 percent of categories of goods and abolished all nontariff barriers on virtually all goods and services. The procedures and paperwork required for both exports and imports have been streamlined considerably, reducing the typical time for processing exports and imports from several weeks to a few days”(Gurgenidze, 2009, p. 8). By 2013 the country had the fifth lowest average tariff in the world and the lowest in the region (The World Bank, 2012). In parallel the customs office went through similar changes as other public services;²³ the volume of trade as well as the revenues from customs started raising (ibid).

Privatisation

The new wave of privatisation that started since the Rose Revolution is often referred as ‘aggressive privatisation’. The term was often used by the critics of the privatisation process, but initially it was coined by the ruling elites, who sought for three types of effects

²³ Like in case of the police reform, over 80% of customs officers were fired and new stuff was recruited. The smugglers and accomplices were faced with heavy penalties (The World Bank 2012).

from the process: fiscal, structural and corruption reducing. The government removed most of the restrictions concerning the transfer of property to offshore or third country investors. Even the objects that were previously defined as 'strategic', such as energy distribution lines, water utilities, and seaports as well as commonly protected public assets were open for sale. From 2004 to 2010 the state privatised up to 4000 assets worth nearly 1.4 billion USD (D. Gugushvili, 2014), while from 2010 to 2014 only 96 assets were privatised (Gujaraidze, 2014). It is argued that the primary drive for the privatisation was the expected fiscal effect "From the macroeconomic viewpoint, privatisation and the associated inflow of foreign direct investment played an important role in both GDP growth and the growth of the state budget"(EI-LAT, 2012, p. 7). Non-transparent privatisation process prior to the revolution was one of the biggest accusations against the previous government. However, the critics argue that the new government did not improve transparency of the privatisation process. Conversely, the decision making process rather avoided public discussion and involvement, which is seen as one of the main reasons for the negative environmental outcomes as well as the worker's protests in the privatised enterprises (Gujaraidze, 2014). However, according to main observers assessing the Georgia's success in terms of marketization, overall post-revolutionary reforms were seen as an un-doubtful success. As EBRD report summarised by 2013: "Georgia remains the region's top reformer. Large- and small-scale privatisation is very advanced, prices are set by the markets, and trade and foreign exchange systems are virtually unconstrained"(EBRD, 2013, p. 9).

Changes in social protection system

Like other former socialist countries, Georgia inherited a generous social protection system. Some parts of this system were altered throughout 1990s. Being clearly unable of

providing universal employment, the government introduced unemployment benefits. Also, by the mid-1990s the entitlement to universal free health care was abolished and instead, so called basic-benefit package was introduced, increasing the burden of out-of-pocket payment for the population (Baumann, 2010, p. 10). In the context of decaying economy and empty treasury, the government of course had a hard time financing the social programs. The pensions were often delayed for months;²⁴ the labour fund's inflows were shrinking over time, making unemployment benefits unsustainable. However, prior to the Rose Revolution, in its design the social protection system still resembled the conservative welfare model prevalent in continental Europe (Gzirishvili, 2012). After 2003, the system was reformed to approximate a meagre Anglo-Saxon welfare model (ibid). Towards the end of the UNM rule Georgia's welfare system was one of the least developed and the least generous systems in region (D. Gugushvili, 2013). As the table 3.1 indicates, the overall social spending was miserably and unprecedentedly low in Georgia. Excluding spending on education, social spending ranged from five percent of GDP in 2006 to seven percent by 2012. Meanwhile the military spending was growing year by year until 2008, when 8.5 % of GDP was spend on defence, making Georgia the highest military spender after Israel. Even though the military spending drastically decreased since 2008, the social spending did not increase significantly. Only since the electoral change of Government in 2012, the social spending started increasing, reaching 9.6 percent by 2014. However, changes in the design of the new social protection system, discussed below, were perhaps more important than low social spending figures.

²⁴ By 2003, the average pension was about 20% or subsistence minimum, but amounted to 14% of central budget(A. Gugushvili, 2009)

Table 3.1. Social Benefits and Education Expenditure

(Based on the data from The International Bank for Reconstruction and Development/ The World Bank Report No. 78143-GE Georgia, Public Expenditure Review, 2014)

	2006	2007	2008	2009	2010	2011	2012	2013
Social benefits (Million Lari)	846	932	1.379	1.537	1.526	1,421	1.575	1,951
Social benefits Total (% of GDP)	5.1	5	7.2	8.4	7.7	6.8	7.1	8.5
Pension	3.4	3	4.1	4.9	4.5	4.1	4.1	4.3
Social Assistance	0.4	0.4	1.5	1.5	1.2	1	1.3	2.3
Health Expenditure	1.3	1.5	1.6	2	2.2	1.6	1.7	1.9
Education	3	2.7	2.9	3.2	2.9	2.8	2.9	3

Pensions

By 2005, the government introduced a new Act on State Pensions. It is argued that the act did not fundamentally challenge the existing system (A. Gugushvili, 2009). Already in the mid-1990s, the state granted relatively equal pensions regardless of the length of a person's service or their salaries during the employment (ibid). The UNM government retained this flat-rate old-age pensions and cut all the other (84) types of pensions only to four categories (disability, old age, survivors, and victims of soviet repressions). As the tax system was also simplified, the pension benefits were now paid from the central state budget and relied on general taxation. A drastic increase in the amount of old-age pensions was the important change. By 2012, the old-age pension amounted to 125 GEL (\$75). This was less than subsistence minimum but was anyways seen as a major improvement relative to pre-revolutionary period when the pensions amounted 14 Gel (\$7) and were usually delayed for months. It can be argued that the government's approach towards the pensions deviated from its overall neoliberal direction and was quite sensible to the social-economic context of the country. In a context where over 60 percent of population was self-employed,

introducing contribution based system or differentiating based on the years in employment would prove challenging and possibly discriminate on the most needy pensioners. Indeed, it is argued that pensions were the most effective part of social protection system for poverty reduction (UNICEF Georgia, 2010).

Targeted social assistance

Introduction of the targeted social assistance marked a more radical break with the previous system. The Social Assistance and Employment State Agency (SAESA) was established to set up the database for socially vulnerable families; to collect the applications of the poor and extremely poor families; to evaluate the needs and grant the assistance. “From the very outset this program was intended to be the only social protection scheme available in the country. This meant that no specific group would get any state aid solely by the virtue of the group membership” (Transparency International Georgia, 2006, p. 4). With this reform, the state abolished a few central pillars of social protection system: social health insurance (operating since 1995), unemployment allowances, and category-targeted means of social protection for internally displaced persons, orphans, families with more than 2 children, seniors living alone, disabled, etc. In addition, the reform also abolished in-kind assistance, thus fully monetarising the benefits (D. Gugushvili, 2014). Even if the World Bank argued that Georgia’s targeted social assistance was one of the “best-performing similar programs in the world” (The World Bank, 2009, p. 94), it had a few limitations. The amount of support (around 10 Euro per person prior to 2012) as well as the coverage of the system was minimal. More than a third of officially poor households received no social assistance of any kind (UNICEF Georgia, 2010), and group specific problems surfaced with greater intensity. Disturbingly high incidence of child poverty and malnutrition, as well as families

with many children being under high risk of poverty were among the most alarming developments (Bradshaw, Chzhen, Gugushvili, & Hoelscher, 2013).

Privatization of healthcare

No other reform changed social protection system as much as healthcare privatisation did. Prior to the revolution, the Georgian system “had been limping along in a post-Soviet mix of centralized, state-funded health care with some privatization on the periphery for citizens who could afford better care” (Schechter, 2011, p. 17). Privatization was progressing slowly and incrementally, only to address the special needs of a tiny middle and upper classes. By 2007, the government announced a plan for privatization of healthcare facilities and services. A largely state-funded system was transformed to an entirely insurance-based system “practically overnight” (ibid, p. 19). The state funded insurance was made available for the extremely poor via the same means-testing mechanisms that were used for granting social benefits. Meanwhile, the initiatives such as *100 New Hospitals*, and *The Hospital Master Plan* were targeting near complete privatization of the hospital system. As TI Georgia report argued that: “Georgia’s current hospital infrastructure is in such a state of disrepair and its healthcare administration and financing system in such a state of crisis that it may convincingly be argued that healthcare here can only improve” (Transparency International Georgia, 2010a, p. 5). Nonetheless, most of the observers contended that the privatization process was making the matters even worse. First, valuable well-located facilities were sold for relatively low prices and the investors were required to keep them functioning as healthcare facilities only for 7 years. Soon after the privatization, it became clear that the investors were delaying renovations and perhaps intended to alter the function of the facilities (Schechter, 2011). Second, the government had a minimal regulatory power

over the new owners and did not even specify terms of renovation and refurbishment of the privatized hospitals. Concerns were raised that “Without a proper regulatory system in place, investors are likely to expand their facilities for providing more lucrative types of care (i.e., increase their number of “general profile” beds) at the expense of less lucrative types. In the end, patients in need of less lucrative types of care may be left entirely without local access”(Transparency International Georgia, 2010a, p. 4). Most importantly, the privatization was majorly deteriorating citizens’ access to healthcare (Hauschild & Berkhout, 2009). State funded insurances were given to the poorest based on means-testing system, but the system did not cover one of the central healthcare components (drug expenses), was non-transparent and often missed out the most vulnerable (primarily rural) population. Moreover, Estimated 40 percent of the population that did not qualify as poor but also could not afford private insurance was left without any health insurance (Ibid). While out-of-pocket (OOP) payments were prevalent even before the reforms, the privatization sharply increased the prices of OOP payments, making it unaffordable for majority of patients. This led to the situation where, “In almost 60 per cent of all households in 2008-9 at least one person needed medical services or medicines which the household could not afford to purchase. Less than a quarter of the population in Georgia is covered by any kind of health insurance and this figure drops to just less than a fifth in urban areas. Free health insurance, is concentrated in the poorest fifth of households but even in these households only just over a fifth of the population is covered”(UNICEF Georgia, 2010, p. 4).

Labour market policies

Labour Market policies, passive or active were virtually inexistent in Post-Revolutionary Georgia. The labour code adopted in 2006 was considered to be one of the

most liberal codes worldwide, depriving the workforce from any and every labour right, including freedom of association, collective bargaining, safety guarantees, etc. (Bagnardi, 2014). The labour code was in violation of most of Georgia's existing international agreements and was harshly criticised by ILO and EU commission (International Trade Union Confederation (ITUC), 2008). The Georgian government dismissed so called 'flexicurity' (Cazes, 2007) approach in favour of extreme flexibility followed by no labour policies: "the flexibility was not supported by the security aspects of the employment policy, such as income and employment (rather than job) security or (re)training measures" (Bardak, 2011, p. 12). The government also abolished the institutions and agencies (state employment agency, the labour fund, labour inspection) that were responsible for implementing labour market policies and/or monitoring working conditions of the employees. Moreover, the government was aggressively discouraging the labour union mobilisation as well as workers' strikes and protest (International Trade Union Confederation (ITUC), 2008).

3.3 DEVELOPMENT OUTCOMES OF INSTITUTIONAL REFORMS

3.3.1 Economic outcomes

The external acclaim of Georgia's reforms and significantly improved scores in various competitiveness indices was backed up by the remarkable economic recovery, at least as expressed in GDP statistics. Resumed real GDP growth, relative macroeconomic stability and a massive inflow of FDI are among the impressive outcomes of the reforms, and stand out especially compared to pre-revolutionary period, but also compared to the other economies in the region (see table 3.2).

Table 3.2 Selected economic indicators, 2003-2012

(Adapted from the World Bank Country Economic Report, 2012)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nominal GDP (Million GEL)	8,564	9,824	11,621	13,790	16,994	19,075	17,986	20,743	24,344	26,139
GDP per capita (US\$)	919	1,188	1,483	1,760	2,315	2,920	2,455	2,623	3,230	3,520
Unemployment Rate (%)	11.5	12.6	13.8	13.6	13.3	16.5	16.9	16.3	15.1	14.7
GDP Growth Rate (%)	11.1	5.9	9.6	9.4	12.3	2.3	-3.8	6.3	7.2	6.1
Consumer Price Index	7	7.5	6.2	8.8	11	5.5	3	11.2	2	-1.4
Gross National Savings (%GDP)	21.7	25	22.4	15.7	12.3	4	2.5	11.3	13.4	17.5

Even though the Soviet Georgian republic was one of the best performers (Babych & Fuenfzig, 2012) of the Union, Georgia turned into one of the worst economic performers in 1990s.²⁵ The civil and ethnic wars of 1990s, massive inflow of internally displaced and political instability had catastrophic impact on the Georgian economy at the outset of the

²⁵ Even by 2012, real GDP was only 78 percent of 1990 level (F. Khan et al., 2013).

transition. As visible in the figure 3, by the beginning of the 1990s the economy had contracted significantly, and an improved performance of the mid-1990s faded in two years' time. Overall, since the collapse of Soviet Union the Georgian economy witnessed first sustained recovery only after the Rose Revolution. Despite the negative growth in the aftermath of the war and economic crisis by 2009, average GDP growth throughout 2003-2010 was at 6.6 %, while the average GDP growth for Central Asian and East European Countries was about 5.1 percent in the same time period (Livny et al., 2013). The growth of nominal GDP per capital was also somewhat impressive relative to pre-revolutionary period, but relative to the rest of post-socialist states Georgia still stood out as one of the poorest economies (see table 3. 2, Figure 3.4 and 3.5). This economic recovery was partly conditioned upon Georgia's ability to attract FDI (see figure 3.6 and 3.7). Increased inflow of FDI can be seen as one of the direct results of the government's liberalization efforts and improved scores on competitiveness indices. By 2006 FDI was at 16.5% as a share of GDP and by 2007 it amounted to more than 2 billion USD in real terms (F. Khan et al., 2013). Even though the DFI flow declined after the War of 2008, still the average percentage of private capital flows as share of GDP over the period of 2003-2010 is impressive in the regional context (see figure 6).



Figure 3.4 Real GDP Growth, 1993-2014
(Based on IMF World Economic Outlook -WEO)

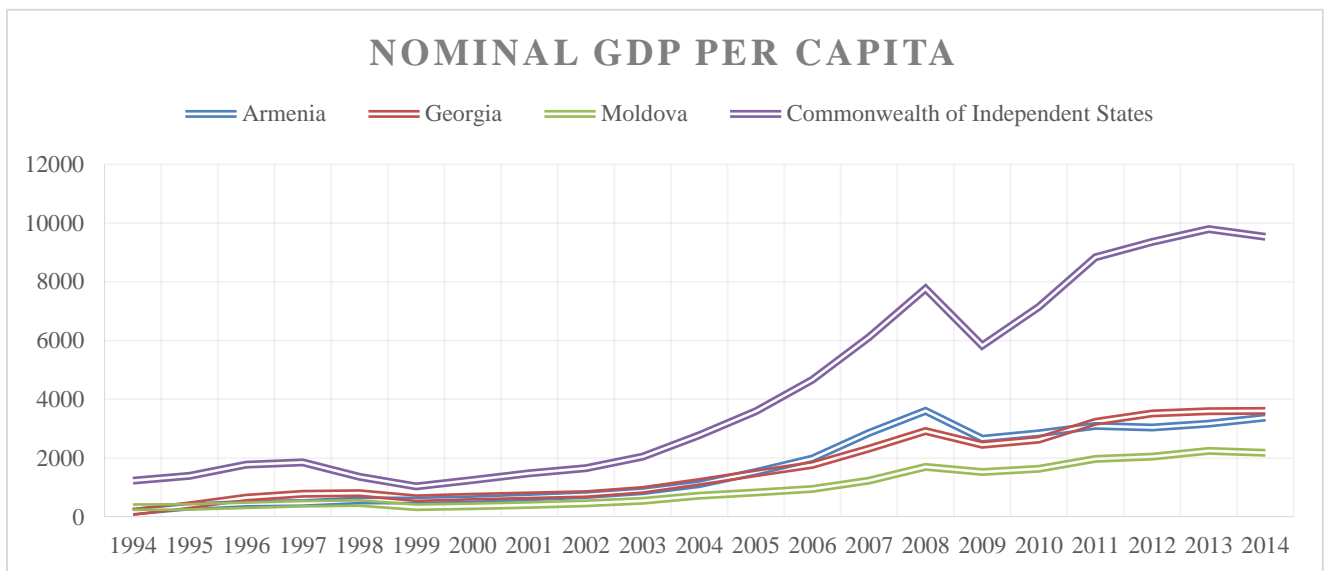


Figure 3.5 Nominal GDP per capita (thousand USD), 1994-2014
(Based on IMF World Economic Outlook - WEO)

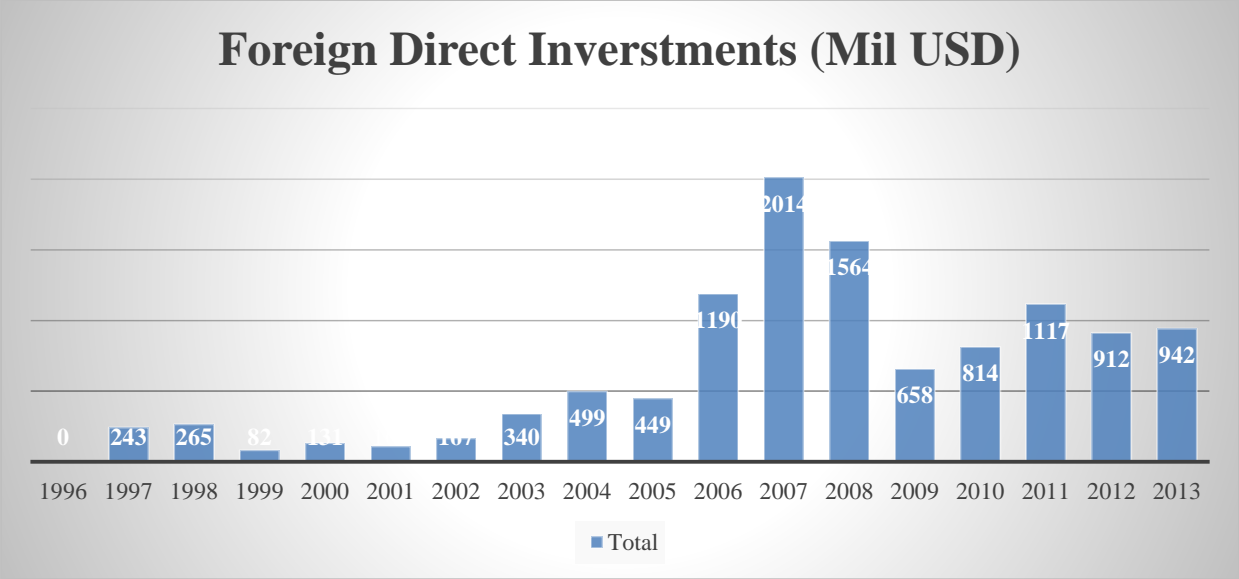


Figure 3.6. Foreign Direct Investments, 1996-2013
(National Statistics Office of Georgia)

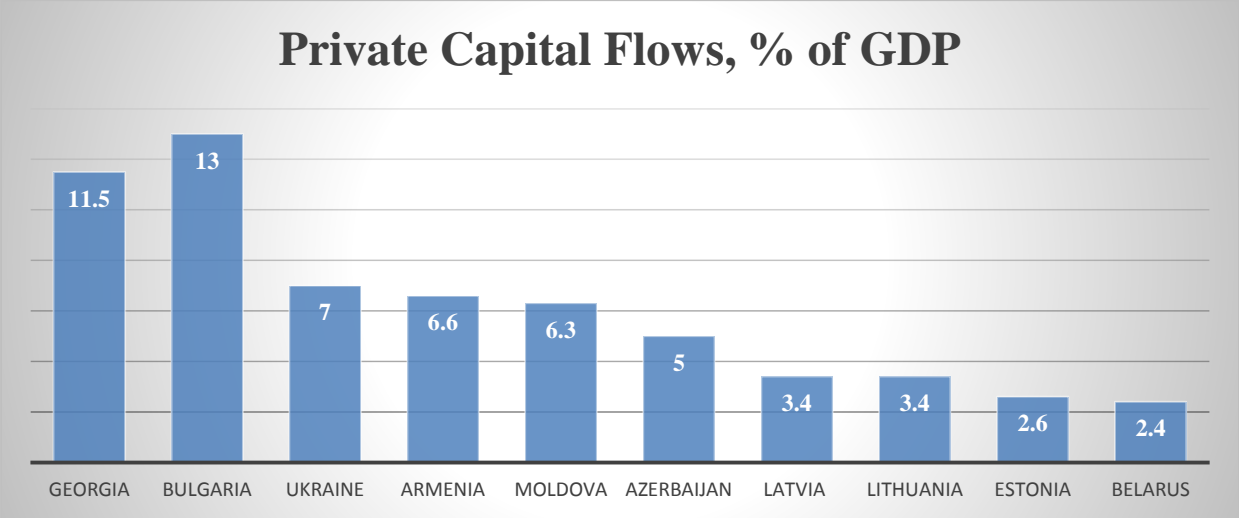


Figure 3.7. Private Capital Flows, % of GDP, Average for 2003-2010
(Data taken from Babych and Fuenfzig 2012)

3.3.2 Social outcomes

While most of macro level economic indicators looked promising, the social outcomes of the reforms was not similarly favourable. The economic transformation “bypassed several social groups and poverty and unemployment remain firmly entrenched in much of society”(Waal, 2011, p. 2). Persistence of relative and absolute deprivation, and increase in inequality and unemployment rates are particularly troublesome for two reasons. Firstly, in most of the post-soviet countries the second decade of transition brought improvements in life quality of populace. Secondly, given the regionally unique institutional performance, Georgia should have been more successful in fighting poverty and unemployment than the neighbouring countries struggling with widespread informality and political instability. However, Georgia has not even been able to keep up with the improving regional trends and continued to face immense social problems.

Unemployment has always been one of the pressing problems in Georgia. Already double digit unemployment rates have further increased since the revolution. According to the official statistics, unemployment rate was 11.5% in 2003, 13.3% in 2007 and is 16.3% in 2010 (GEOSTAT, 2015). Growing inequality rates is yet another area of concern. The tendency of widening inequality in a liberalising society does not come as a surprise. Still, the GINI coefficient reaching to 42%, surpassing even the inequality rates of oil-rich neighbours seems concerning for a small non-resource rich economy (Figure 3.8).

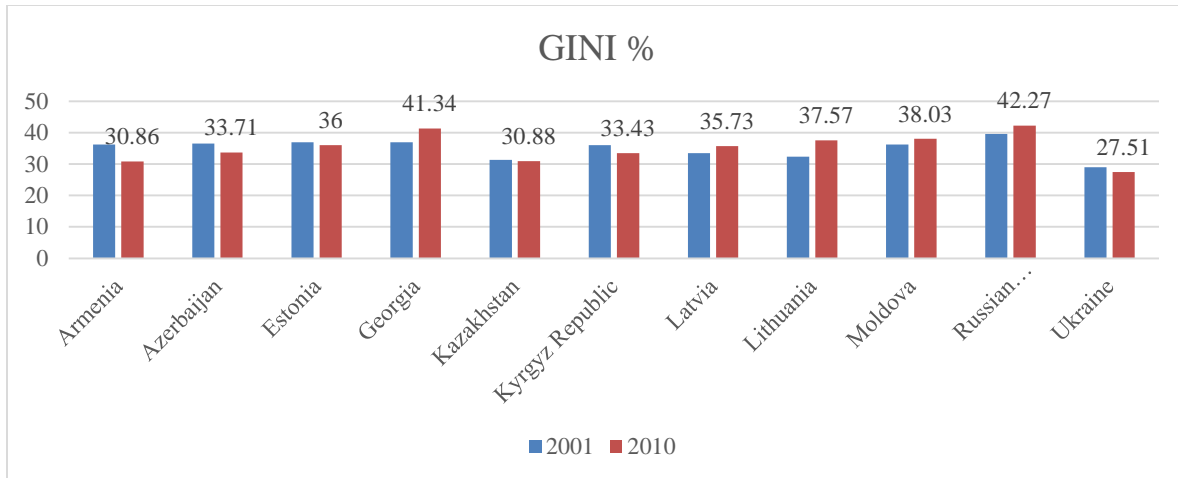


Figure 3.8. GINI coefficient, 2001-2010
(Relying on the World Bank data)

Given the rise in inequality, the relative poverty would also increase. However, a bigger concern is that even the absolute poverty rates increased throughout the decade of economic recovery. Throughout 2003-2008, the years when economic growth was the highest, the international observers concluded that “no progress can be reported as regards poverty reduction and social welfare” (Welton, Zurabishvili, & Nozadze, 2008, pp. 34–35). In order to give a comparative picture of poverty decrease in the region, I analysed the levels of 2 \$ per day and 1.25 \$ per day poverty, which are one of the lowest thresholds of poverty devised by World Bank. The data is clustered into three time slots: 1990-2000, 2001-2005 and 2006-2010; taking last available data from each time slot.

The picture that the tables 3.9 and 3.10 portray is striking. Georgia remained the only country in region that scored 32% on Poverty Headcount Ratio at 2\$ a day indicator and 15% on Poverty Headcount Ratio at 1.25\$ a day. Most of the countries by 2010 did not have even the smallest portion of population living under this threshold of poverty. Some of the countries had quite high poverty ratios in 1990s but in all cases, the ratio decreased over time. Georgia was the only country where ratio increased, even though starting point was

not as bad as for example for Moldova or Armenia. The recent comprehensive study of poverty rates undertaken by Dimitri Gugushvili, presents an elaborate analysis of Integrated Household Survey to confirm the increase in relative and absolute poverty rates: “While since 2004 a larger proportion of families found themselves in poverty, the average gap has also increased, though to a smaller extent, from 36 to 39 per cent. This suggests that not only more families are in poverty than before, but also that the average poor family is poorer than it used to be” (D. Gugushvili, 2014, p. 137).

Similarly, the recent report on food insecurity in the world, produced by world food program, indicated an outstandingly high prevalence of under nourishment in Georgia (Figure 3.11). In most of the countries of the region, the percentage of undernourished population had decreased to less than 5% of the population by the end of 1990s. Georgia remained to be the only country where over 25% of the population was undernourished by 2010-2012, and compared to the end of 1990s there was little or no progress. The proportion of undernourished has decreased in 2010-2012 relative to 2007-2009, but was still higher compared to the proportion in 1999-2001.

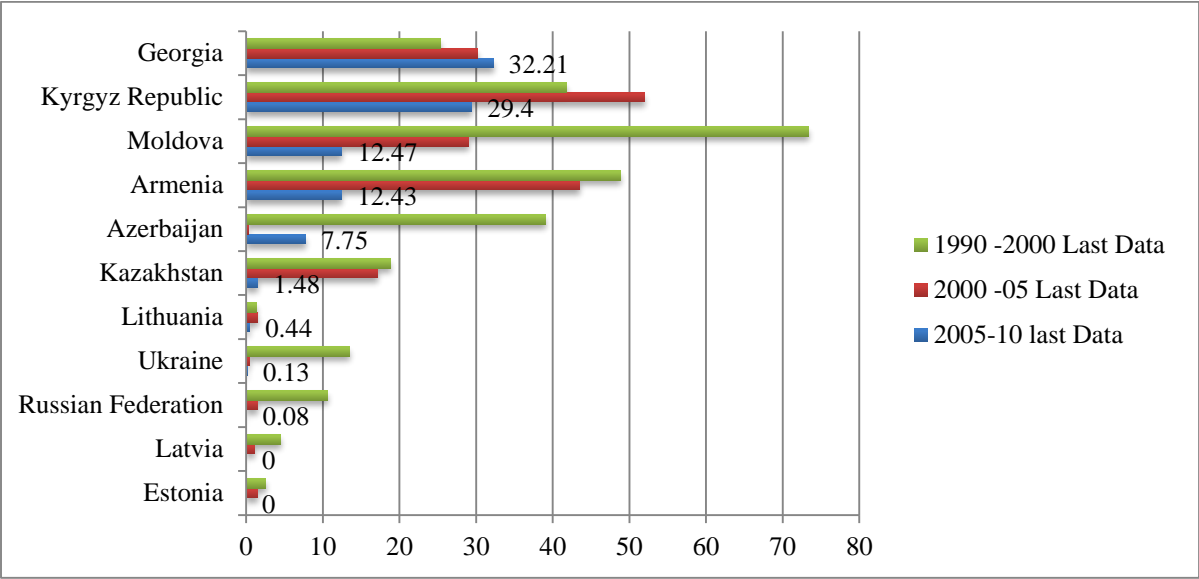


Figure 3.9. Poverty Headcount Ratio at 2\$ a Day, 1990-2010
(Author's own calculations based on the World Bank data)

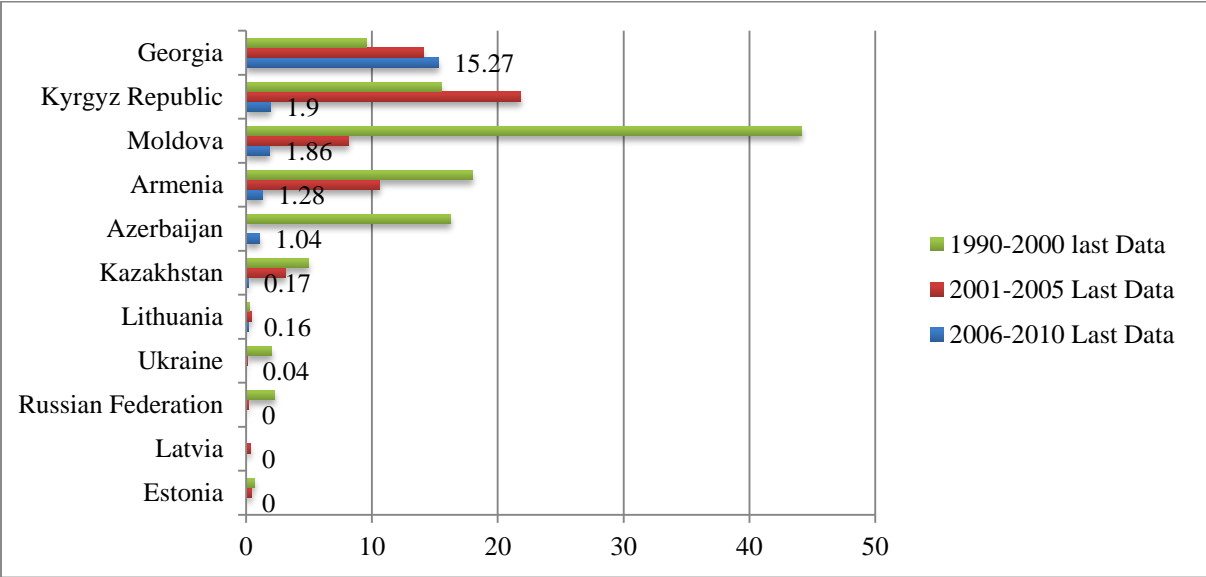


Figure 3.10. Poverty Headcount Ratio at 1.25 \$ a Day, 1990-2010
(Authors own calculations based on the World Bank data)

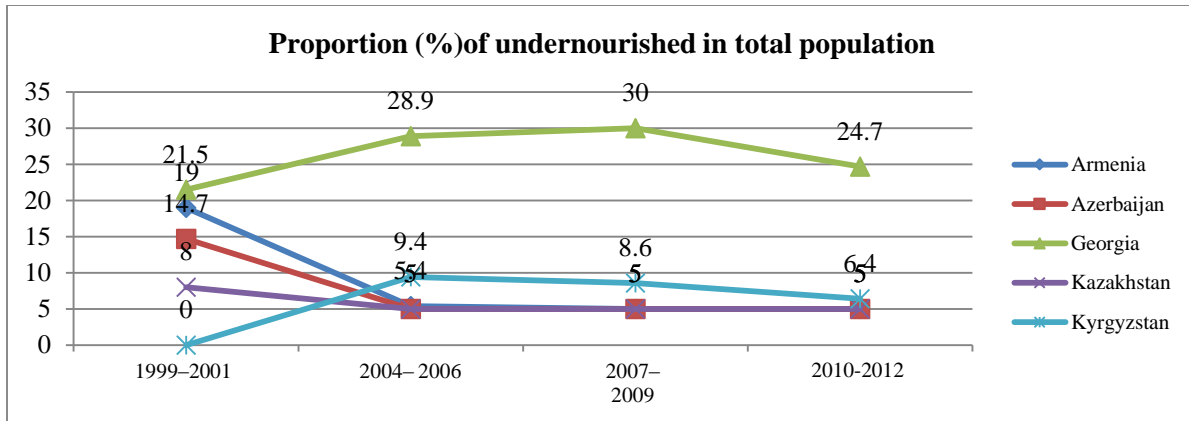


Figure 3.11. Prevalence of Undernourishment, 2012
(Based on World Food Program data)

3.3.3 Self-employed, small and medium size entrepreneurs

The fact that economic growth can occur without reducing poverty rates is nothing new or surprising per se. The challenge is rather that from the new-institutionalist perspective, the reason for non-equitable growth is the low quality of institutions and prevalence of corruption and informality that hamper citizen's access to markets. Hence, the problem is not that the poverty deepened while economy was growing, but that poverty deepened while the overall quality of institutions improved considerably. As described above, in line with the Post-Washington consensus prescriptions, Georgian government envisioned that the main mechanism for poverty reduction was enabling private sector entrepreneurship and providing the social support only for the most marginalised, extremely poor citizens. The main barriers to successful entrepreneurship, namely corruption, high taxes, and burdening regulations were removed. Thus, supposedly more citizens could become successful entrepreneurs, formalise their existing informal activities and enterprises, and overall benefit from the access to competitive markets. However, there is no evidence that improved entrepreneurial opportunities were utilised by the poor or economically vulnerable segments of the population. Instead of flourishing, small and medium size entrepreneurship stagnated and there was no sign of the self-employed persons managing to expand their economic activities.

Before touching upon the state of small and medium size enterprises, it needs to be noted that the economic growth failed to generate employment in general. Unemployment rates soared while employment rates increased only marginally (figure 3.12). Unemployment remained higher overtime in urban areas picking at 28% in 2008 and returning to pre-crisis rate of 26% in 2012. Correspondingly, the unemployment rate was

lower for rural areas, where the population is predominantly self-employed in subsistence agriculture. The overall structure of the employment has not changed either and 61% of all employed persons remain self-employed (Figure 3.13). As Livny et al. underline, it is obvious that “Georgia has so far failed to engage the majority of its working age population in formal sector of the economy” (Livny et al., 2013, p. 10). Yet more concerning is the fact that the income from self-employment has decreased since the post-revolutionary changes. Gugushvili estimates that an average household’s income from self-employment is four times lower than income from wage employment confirming that the productivity of the self-employed has not improved. While wage incomes have been rising over the decade, the monthly income of the self-employed has dropped by 5% in real terms. Moreover, the impact of the decrease is more articulate for poor families that are more dependent on self-employment compared to the non-poor families (D. Gugushvili, 2014). The households relying on self-employment were also facing higher risk of falling below the poverty line: “In 2011, the incidence of poverty was 10.8 percent among those households engaged in wage employment, 15.6 percent for the self-employed, and 24.2 percent for the unemployed” (F. Khan et al., 2013, p. xv).

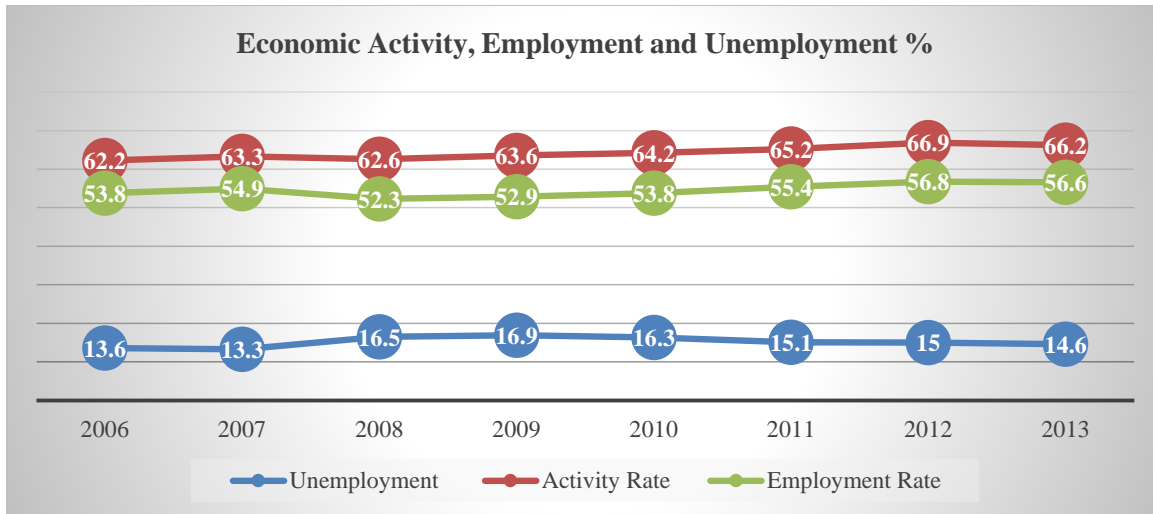


Figure 3.12. Rates of Economic Activity, Employment and Unemployment, 2006-2013
(Data from National Statistics Office of Georgia)

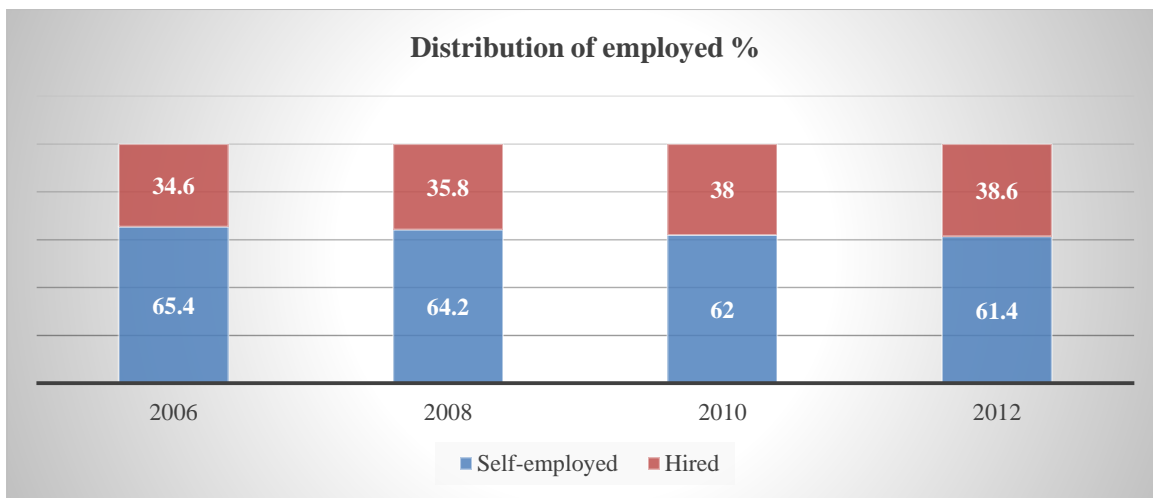


Figure 3.13. Share of Self-employed, 2006-2013
(Data from National Statistics Office of Georgia)

The calculation of the market and non-market real income growth by Gugushvili provides an invaluable visualization of the role market and non-market incomes for the poor and non-poor families. As the table 3.3 shows, the market income (wages as well as

enterprise profits) for the poor families did not increase from 2004 to 2011. For non-poor families the increase in market income was more significant, however the rise in non-market income (social and informal transfers) is considerably more significant compared to the market incomes. Informal transfers were much higher for the non-poor families indicating that the increase in informal transfers was one of the major drivers of the average income growth for the non-poor, who relied on informal redistributive mechanisms.

Table 3.3. Change in Market and Non-Market Income, 2004-2011.

(Based on Gugushvili, 2014)

	Poor		Non-poor	
	Market income (GEL)	Non-market income (GEL)	Market income (GEL)	Non-market income (GEL)
2004	106.0	34.4	255.3	53.2
2011	105.0	88.2	319.6	132.3

Thus, the productivity of the self-employed was on decline, the overall structure of employment did not change considerably, and the poorest benefited the least from the market expansion. A look at the performance of small and medium size businesses again confirms that entrepreneurship could hardly be a solution for the relatively vulnerable segment of the society. Those limited studies on the entrepreneurship in Georgia that are mostly produced by international organisations or financial institutions on the one hand praise the policy changes and institutional/regulatory framework in Georgia (Kuriakose, 2013; OECD et al., 2012). On the other hand, the only achievements they are able to report are the existence of ‘strong entrepreneurial spirit’ measured as willingness of becoming self-employed, and increasing entry density of the firms (Kuriakose, 2013). Beyond this, the state

of small and medium size enterprises seems quite dire. According to the World Bank study by Kuriakose (2013), despite high entry density, firm ownership levels remain much lower than the Europe and Central Asia (ECA), as well as developing country averages. The share of latent entrepreneurs is also very low compared to ECA average and the immediate neighbours. More importantly, Georgian enterprises are neither innovating nor competitive on international markets. The study compares the Georgian case with Armenia, finding that while 67% of Armenian firms reported improvement in products and services, in Georgia only 7% did. Georgian firms invented no products that were new to the world markets. While Georgian firms predominantly focused on local and regional markets (90% of sales) and their source of knowledge was confined to their customer's feedback and small-scale market research, Armenian firms invested in Research and Development, offered innovative products, and focused on international sales.

The data provided by National Statistics Office of Georgia also speaks of decreasing productivity of the small and medium size enterprises. The small and medium size enterprises employ 43% of all persons employed in private enterprises but their turnover is 17% while large businesses generate 83% of turnover in 2012 (figure 3.14).

To illustrate the overtime dynamics the figure 14 examines the trade sector (including enterprises of trade, vehicle repair, personal and household goods). The share of persons employed by large enterprises dramatically rose from 14% in 2002 to 49% in 2012. However, by 2012 the small and medium size enterprises still employed 51% of all employed, but their combined production value was 22% and turnover was 20%. In other words, Georgia's economic growth has predominantly relied on the performance of larger firms. This would not be of any concern if, the large firms were able to generate jobs, but

more importantly, if the Georgian government did not see small-scale entrepreneurship as a main source of job creation and poverty reduction.

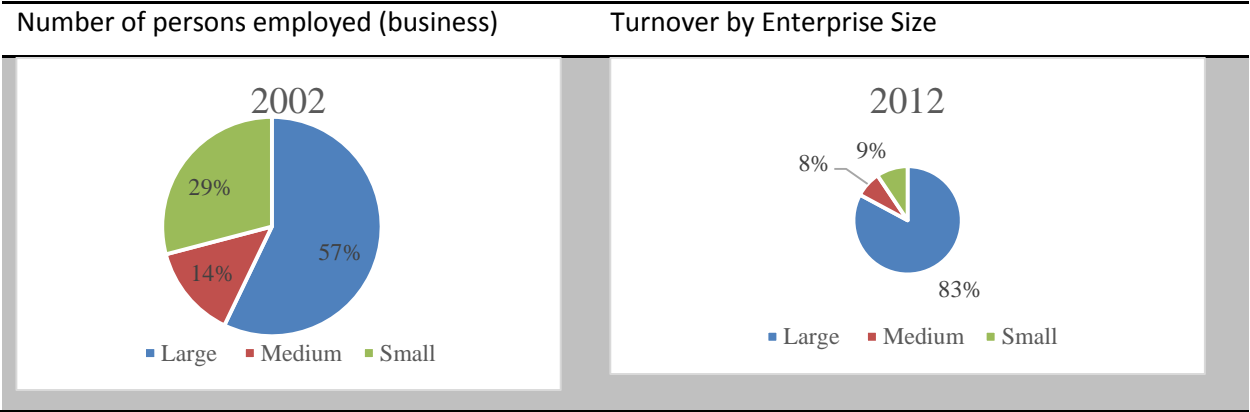
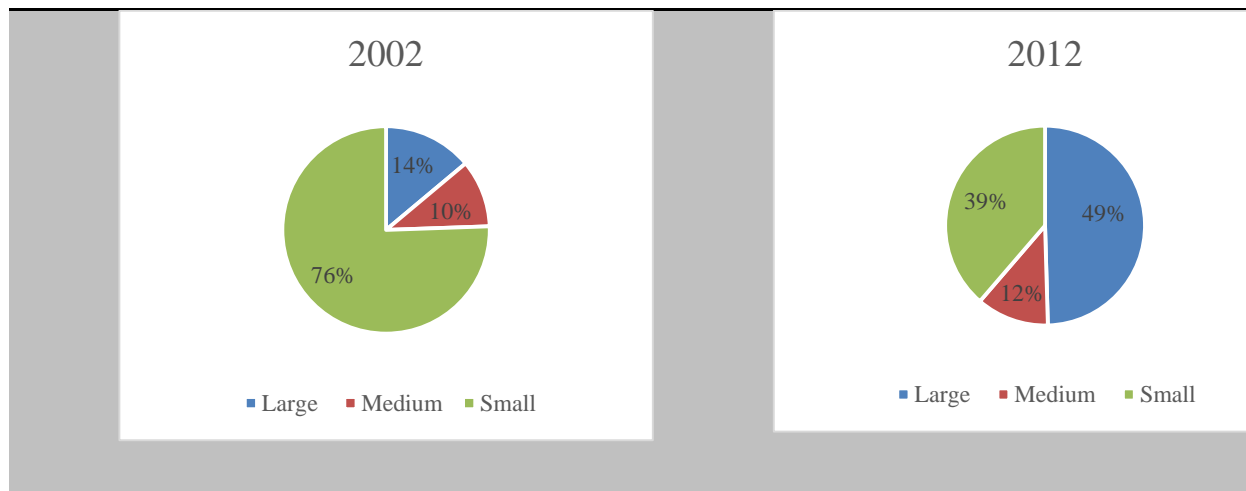
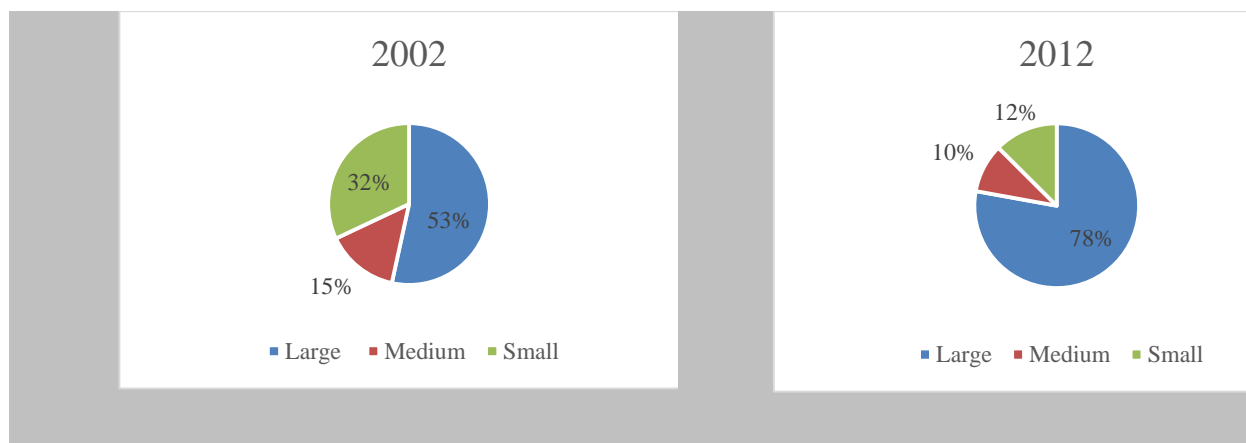


Figure 3.14 Number of Persons Employed and Turnover by Enterprise Size, 2002-2012
(Author's own calculations based on the data from National Statistics Office of Georgia)

Number of employed persons in enterprises of trade; repair of vehicles, personal & household goods by size of enterprises



Production value in enterprises of trade, repair of vehicles, personal & household goods by size of enterprises



Turnover in trade by size of enterprises

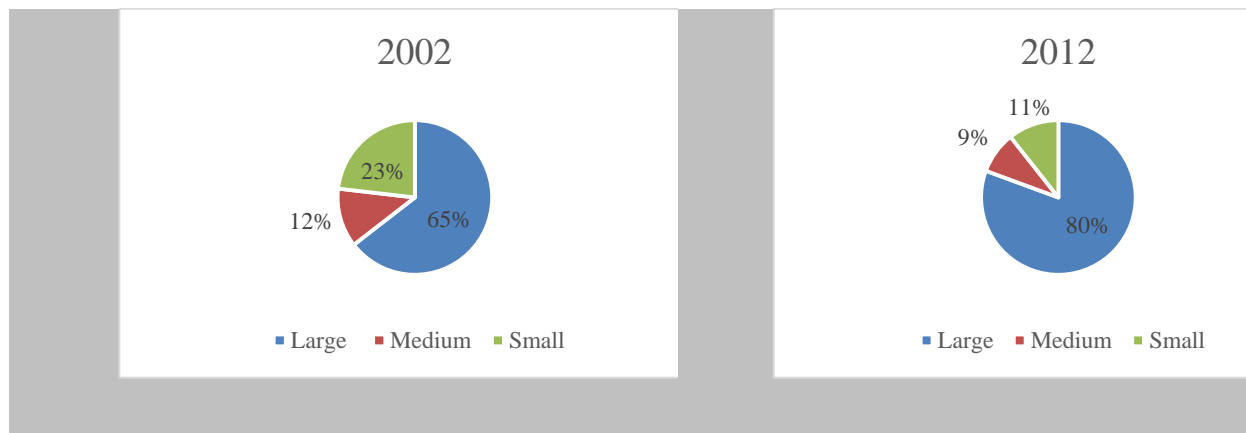


Figure 3.15. Number of Persons Employed, Production Value and Turnover by Enterprise Size in Trade, 2002-2012

(Author's own calculations based on the data from National Statistics Office of Georgia)

Towards the end of the rule of post-revolutionary UNM government, even supportive commentators started raising concerns over the shortcomings of the Georgia's acclaimed reforms. The inability of the Georgian economy to generate employment and to produce export oriented goods and services was casting doubts over the sustainability of the economic growth. The most pronounced concern was that Georgia's economic growth was largely driven by total factor productivity (TFP) growth rather than by capital accumulation or labour force increase. On the one hand, TFP based growth is characteristic of transitioning economies that go through liberalization process and it is hardly sustainable over time. On the other hand, and to make the matters worse, TFP growth did not reflect increased product innovation, but rather reflected process innovation, defines as " Implementation of a new or significantly improved production or delivery method"(Babych & Fuenfzig, 2012, p. 8). Moreover, "productivity improved primarily in the nontradable sectors, while export sophistication and quality stagnated. Important drivers of firm-level productivity growth in manufacturing, including allocative efficiency and productivity over the firm lifecycle, have also been missing in Georgia"(F. Khan et al., 2013, p. xi).

The studies identified the quality of human capital and non-existence of vocational training, and other types of labour policies as some of the most concerning challenges. The constraints analysis conducted by the government of Georgia in cooperation with Millennium Challenge Corporation, identified two main binding constraints to Georgia's economic growth: low quality of human capital and road infrastructure. This study claimed that the underdevelopment of the human capital created the mismatch between demand and supply on the labour market and advocated for improving higher education quality (Government of Georgia, 2011). By 2013, the World Bank analysts also started focusing on

education and labour market policies. Among other suggestions, such as raising the levels of national savings and addressing firm level constraints, the World Bank study by Khan et al. identified the need for the vocational training and establishment of job matching services (F. Khan et al., 2013). Thus, a decade after the reforms started, the government, as well as its closest allies started acknowledging that the state needed to assume a greater role to the least in the form of investing in higher and vocational education and offering some labour market policies. At this point, it was clear that the chosen reform path was not only incapable of providing shared prosperity but was also making the sustainability of economic growth questionable.

3.4 DEVIATIONS FROM THE CHOSEN PATH: FORMAL AND INFORMAL INTERVENTIONS

The developmental course of the UNM government was as a tendency praised by national and especially transnational observers. However, towards the end of its rule the concerns over the government's shadow interventions started mounting. As Gugushvili observes, "While Saakashvili's government has been exceptionally consistent in its reform agenda and has sought to institutionalize firmly its approach with the Liberty Act²⁶, from time to time it has deviated from the orthodox neoliberal path due to pragmatic considerations" (D. Gugushvili, 2013, p. 96). From the perspective of the liberal critics (such as Transparency International or the World Bank), the post-revolutionary government made significant progresses, but a few drawbacks, such as the controversial state-business

²⁶ In 2011 the government proposed and the parliament approved the 'Economic Freedom Act' (also known and 'Liberty Act'). The main goal of the act was to assure the business elites that the government was devoted to its liberal policies. The Act introduced a set of legal restrictions over the government. Among other things, it obliged the government to keep the state budget lower than 30% of GDP, to keep the national debt below 60% of GDP. Introduction of the new taxes was only possible through national referendum and the possibility of switching to progressive taxation was constitutionally banned.

connections and flourishing elite-level corruption, prevailed (Engvall, 2012; US Department Of State, 2011). In contrast to this linear vision of the progress which presupposes that remaining challenges would also be solved over time, more in-depth accounts illustrate that the government's self-proclaimed liberalism and shadow interventionism were the two sides of the same coin. More precisely, development of and reliance on informal mechanisms became necessary as the government gave up almost all the formal institutional and policy mechanisms to steer social and economic matters. As Timm puts it: "The radical abandonment of formal instruments, however, increased the necessity of informal interventions to steer economic processes for political purposes, which undermined the introduced liberal economic model"(Timm, 2013a, p. 17).

Despite the fact that the government radically liberalised the architecture of the economic institutions and claimed that the state would not intervene in economic matters,²⁷ in practice the government tended to intervene heavy-handedly, especially so since 2008. The relatively generous fiscal stimulus package (2.2 Billion Lari) to counterweigh the effects of the war and financial crises was the most vivid example of deviating from non-interventionist path.²⁸ A large share of the stimulus package was directed to infrastructure projects, and a minor share was used for tax cuts. In addition, the government made a commitment that it would purchase surplus new apartments from the construction companies to compensate for the post-crises losses of previously booming construction sector. In a similar vein, the government gave subsidies to the wine companies and smaller

²⁷ According to Jones "The Georgian administration's Basic Data And Directions plan for 2007_2010 denounced all forms of state interference, and demanded the 'minimum necessary administrative interference in the economy'"(Jones, 2012, p. 8)

²⁸ The stimulus package was relying partially on the aid that the government received after the War of 2008, and partially on the loans from IFIs.

farmers to compensate for the costs of the Russian ban on Georgian wine and mineral waters (D. Gugushvili, 2013). In terms of social policy, the government also made exceptions. Prior to eliminating unemployment allowances in 2006, the president initiated adding 50000 persons to national employment program. The private entrepreneurs were asked to employ the program beneficiaries for three months and the government covered the labour costs for the company. As Papava reports, a tiny minority of the beneficiaries got employed through the program. "In most cases, a simple deal was made. Businessmen agreed to subscribe to any contract under which they could pretend that they employed some people who did some job. Such a deal made an unemployed person happy, too, because he made USD\$255 in three months for doing nothing. In essence, it can be said that USD\$12.7 million allocated from the national budget was nothing but an allowance for the unemployed" (Papava, 2008, p. 4). After 2008 the ad hoc social programs intensified and manifested in provision of universal one-of benefits (cash or in kind). At some points the government would give free fertilizers and a few litters of fuel to the farmers, while at other points the government granted food and/or electricity vouchers to all families (D. Gugushvili, 2014).

According to most observers, informal or extra-legal interventions were even more widespread. These interventions included a range of practices that allowed the government to reshape the distribution of economic advantages. One such practice was coercion of the enterprises to 'voluntarily' donate money and property to the state. This practice was used most intensely in the first years after the revolution to expropriate the resources from pre-revolution political and business elites (Rimple, 2012). According to transparency International's calculations up to 138 million Lari was collected throughout 2004-2007 only (Transparency International Georgia, 2013). Instead of being privatised through tenders, the

extorted property was often redistributed through a direct transfer to another company. While these practices intensified since 2008, new forms of intervention also emerged. The study by Khishtovani and Pirveli illustrates that the government expected the politically connected health insurance companies to take corporate political responsibility, defined as an instance “when an ordinary private player on the market faces a necessity to complete a “political-economic” activity, usually financially harmful, ruled by the government”(Khishtovani & Pirveli, 2012, p. 4). On the one hand, the government was pressuring the companies to invest in the hospital market, to build new and renovate existing hospitals. On the other hand, the government tried to provide reciprocal favours, and purchased the state funded health insurance from the cooperating companies (ibid). The government retained the biggest informal coercive power over the companies that were either dependent on governmental tenders (construction companies that were involved with the government funded infrastructural projects) or were the biggest service providers for the state programs (health insurance companies). However, even the sectors that were less susceptible to intervention experienced the governmental pressure. For example, it is claimed that a share of investments in touristic zones and part of hotel privatisation process was also affected by informal coercion practices (Timm, 2013a). Yet another way of resource extortion was related to the plea bargaining process: “Many people were jailed and/or paid enormous fines to be released before going to court, in a method authorities first called “bail” and later instituted as plea bargaining, although it more resembled extortion. One such case involved Gia Jokhtaberidze, Eduard Shevardnadze’s son-in-law and owner of MagtiCom, the largest telecommunications company at the time. He was charged with evading 700,000 GEL (\$318,000) in taxes and agreed to pay \$15.5 million to the state budget to have the charges

dropped” (Rimple, 2012, p. 6). Only in 2011 over 70 million GEL was transferred to the state budget as a result of extracting money through procedural/plea bargains.

The informal interventions and reliance on extra-legal methods can be simply seen as a result of rent-seeking behaviour of the political actors and a path dependent development. However, this would be a simplification of a rather complex story. First, the methods deployed by the post-revolutionary government hardly resembled the practices of the predecessors. Second, the government intensified informal interventions and elaborated more forms of informal interventions only after 2008. Lastly, and perhaps most importantly, the informal interventions and extra-legal tools were the most often deployed to extract the resources that directly went to the central budget. Yet in other cases, the state used informal pressure on the private businesses to deliver electoral promises, such as building infrastructure, rehabilitating the hospitals etc.

The timing of intensification of the informal interventions is very important. 2008 was not only the year of the war and financial crisis, but also the year of political turmoil. The widespread and sustained wave of demonstrations towards the end of 2007 forced the president Saakashvili to reset the presidential elections to January 5. Even if Saakashvili won the elections, the elections made clear that the president and his ruling party had lost the unconditional support they enjoyed immediately after the revolution. More importantly, the demonstrations of 2007, which resurfaced in 2009, signalled the citizen’s dissatisfaction with persisting and grave social-economic problems. As Jones observes: “The mass demonstrations of 7 November 2007 were in large part due to the continued failure of Georgia’s economic reforms, which despite promises of a Caucasian Singapore, and dazzling

macroeconomic figures that seduced the West, failed to provide ordinary Georgians with jobs or decent incomes”(Jones, 2012, p. 12).

The rapid marketization process and stripping labour off the rights also triggered activation and resistance of Georgian trade unions in the years of 2006-2007. As the government did not seem open to social dialogue the Georgian labour unions, particularly Georgian Trade Unions Confederation (GTUC), started approaching external actors to put pressure on the Georgian government. It is argued that throughout the Saakashvili rule “The confrontation with the government led the unions to take the lead of the social opposition to the unpopular political elite, obtaining the support of a bigger portion of society”(Bagnardi, 2015, p. 52). They also managed to have ILO and EU advocate for the change of the labour code and force the government into agreeing on tripartite negotiations. However, for the government that thought of liberalisation of labour market as one of the key comparative advantages established by the reforms, negotiating the labour code or other parts of the reform with trade unions was the least desirable development. This is why the tripartite negotiations never brought any results, the government didn’t show willingness to make any compromises (Muskhelishvili, 2011), and ultimately, “almost two years of social dialogue under Saakashvili delivered absolutely no results”(Bagnardi, 2015, p. 57).

While the government refused to negotiate reforms through allowing political participation, by 2007-2008 it became aware of the discontent over persisting poverty and social vulnerability. Starting from 2008, the presidential public speeches started increasingly focusing on poverty and unemployment, promising that the government would ensure dissemination of the fruits of the economic success:

Every small result within our plan strengthens our faith in the fact that Georgia is advancing. But it is a fact that a lot of citizens of our country, in the cities and villages of Georgia, still do not feel this advancement in terms of their family conditions.

...(We should) Not only create a richer country, but expand the circle of the people who will benefit from these riches; a wider circle of developed villages, accessibility of healthcare, citizen involvement, optimism, and success(The Administration of The President of Georgia, Press Office, 2011,2012).

By 2008, the government announced a second wave of social policy reforms and promised that instead of focusing on infrastructural development (renovations of educational and healthcare facilities), it would now focus on accessibility and quality of education and healthcare. However, throughout 2008-2012, the government came up with new initiatives every year. Each new initiative disregarded the previous ones and postponed the implementation of the new initiative to coming years. Similarly, the discourse on economic development became more inconsistent. Throughout 2004-2007, the government had a consistent vision of development that included reforming public sector administration, uprooting corruption, liberalizing the economy and attracting foreign direct capital. Since 2008 the government started interfering in economic matters to a greater extent and took pride in becoming the 'biggest investor in the economy'(Rekhviashvili, 2013) . Realizing that this discourse could possibly be in conflict with the projected image of a liberal, minimal state, the government also stressed that it was not planning to deviate from the chosen economic path. The introduction of the Liberty Act (2011) which imposed constitutional constraints on the state was a clear example of the need to reassure the interested parties in the government's consistency.

CONCLUDING COMMENTS AND AN OUTLOOK ON POST-2012 EVENTS

In the middle of its decade long rule, the post-revolutionary government understood and even acknowledged publicly the limitations of its own developmental vision and social-economic reforms. However, the state had already given up a range of the formal mechanisms to steer economic matters. It had also already removed and scaled down the tools and institutions for social protection. It had annulled labour rights, removed labour market policies, marginalised the labour unions, privatized healthcare facilities, and abolished all types of social benefits in favour of targeted social assistance. In times of political and economic crisis, and in the face of increasing social discontent, the government realised that it needed to assume a greater role in steering social and political matters. However, as their hands were largely tied due to institutionalisation of liberal reforms, it was either informal or ad-hoc /one-off solutions that became the dominant form of intervention. The Georgian government started acting as a developmental state informally because the formal institutional structure and commitments to the liberal economic development path limited the opportunity of formal intervention: “the liberal deregulation policy after 2003 was initially driven by anti-corruption and a deep-rooted suspicion towards state authorities. The consequential reforms resulted in a massive decrease of state supervision and a radical privatization of economic relations. As a consequence, formal rules forfeited their function of mirroring and perpetuating power relations. The low regulatory density and the prevailing dogma of non-intervention contributed to a relocation of the distribution of economic advantages from the formal to the informal sphere”(Timm, 2013b, p. 2).

In conclusion, the disappointing social developmental outcomes of Georgia’s institutional reforms cannot be only attributed to the shortcomings in implementing the

new-institutionalist remedies. Instead, these very remedies that triggered impressive economic recovery also tied the government's hands while handling the episodes of political crisis and easing the social costs of marketization. The government's choice to avoid institutionalisation of protective measures and introduction of market constraining regulations was shaped by the need to prove its devotedness to liberal reforms and reassert international credibility. Ironically, the informal interventions compromised this international and domestic credibility of Georgia's reforms. It was the inability of the Georgian government to complement the new-institutionalist remedies by institutionalising also protective measures that led to the informalization of the government's interventions and consequently to sub-optimal developmental outcomes.

So far, the scope of the discussion has been limited to the institutional reforms pursued by the post-revolutionary (2003-2012) UNM government. In the remainder of the chapter, I briefly comment on the political processes around and after the 2012 parliamentary elections in Georgia. The post-election developments illustrate and articulate the shortcomings of the UNM reforms at best and reflect the analytical strength of the Polanyian predictions. These elections, I suggest mark a partial institutionalisation of previously suppressed countermovement in Georgia.

Towards the very end of the UNM rule, the social dissatisfaction with the market-enhancing reforms, as well as the political elite's awareness of this discontent and the need of investing in welfare measures became markedly obvious. In the months running up to the elections, the post-revolutionary (UNM) government established an entirely new ministry of employment. However this desperate, last minute attempts were based on dubious and

inconsistent premises. For example, the prime minister Merabishvili promised “to fight unemployment just like he fought criminals and corruption”(DFWatch, 2012). In contrast, the political opposition, united under the Georgian Dream coalition and mobilised by a local billionaire, Bidzina Ivanishvili, seemed slightly more consistent in their attention to the social problems. To understand this competition, I need to explicate whose interests the Georgian Dream was trying to represent.

The opposition coalition (currently the ruling coalition) drew on three types of criticism of the UNM government. First, they represented the business elite’s concern with the UNM governments’ informal pressures and interventions. Second, the coalition endorsed (or at least benefited from) the new student-led leftist movement, called *Laboratory 1918*, that (vaguely) cooperated with the labour unions and emphasized the importance of social and labour rights. Third, the opposition endorsed and utilised the mobilising power of the Georgian Orthodox Church, which at that point, had emerged as a single strongest civil society actor. This landscape of opposition had two important implications. First, the two latter interest groups, the leftist movement and the conservative, nationalistic and anti-western movement led by the Orthodox Church represented a countermovement against the marketization process. The UNM governments’ outright repression of leftist movements and labour unions throughout the decade of its rule, combined with their political reliance on the nationalistic discourses of the church, can be held responsible for the church’s enhanced capacity to speak for the socially disadvantaged and dissatisfied parts of Georgia’s population. Second, this also implied that the Georgian Dream represented the constituencies with diverse and contradictory interests.

Once the Georgian Dream came to power through democratic electoral process, marking the first peaceful power change in independent Georgia, this representation of the contradictory interests shaped the controversies in their policy reform choices. First, the coalition's choices indeed reflected the concerns with social insecurity. The new government appeared relatively more democratic (reflected in improving scores on civil and political liberties). The government also worked out a new Social-Economic Development strategy. Although it is contested how realistic are the predictions made in the document (Patsuria, 2014), at least it identifies pro-poor growth and redistribution of the economic benefits as the key goals. Besides, the new government altered the labour code (TI Georgia, 2013), increased social spending and introduced a universal healthcare insurance (Kukava, 2013). These developments can be seen as attempts to institutionalise protective measures.

Second, because the Georgian Dream also represented the dissatisfied business elites, their compromise to this interest group was a promise of non-intervention in economic matters. Thus, the government and the business elites relied on a liberal criticism of the UNM rule discussed in the previous section. The problem, from this perspective was not the UNM's exclusive reliance on market-enhancing institutions, but the UNM governments' rent-seeking, informal interventions and pressures on the businesses (TI Georgia, 2015). This implied that the new government did not rethink or reform the economic institutions, extremely low taxes and little regulatory power of the state. Some of the government's attempts of introducing more social regulations were undermined by the business elite's opposition. For example, because of such an opposition, the changes in labour code were marginal and superficial. As an outcome then, the government tried to extend social spending and welfare benefits without incorporating the labour unions' voices, without

changing the tax base or introducing any alternative economic development strategy to the UNM's liberal development vision.

Finally, the government also had to bow to the interests of the Orthodox Church. After the elections, the church claimed its role in the victory of the Georgian Dream Coalition. Each time the government attempted to challenge the Church even on a rhetorical level, the Church representatives directly threatened the government, referring to their capacity of mobilising their vast conservative constituencies against the new government. This condition incapacitated the government to protect the minorities and uphold some of the crucial civil and political rights of their electorate. Enjoying the moment of glory, the church intensified insults on ethnic, religious (TDI, 2014) and sexual minorities and enhanced its presence in different spheres of public life (Antelava, 2015) . The violent counter-protest mobilised by the church and counting up to 40-000 participants against a tiny LGBT rally on 17th of May (Roth, 2013) served as the critical case to prove, [1] the churches immense mobilising power and [2]the governments unwillingness to stand up against the church to protect the minorities.

It is yet to be studied what are the social developmental outcomes of these efforts? Is the government capable of balancing between market-enhancing institutions and institutions for social protection? Are the recent economic challenges related to the increase in social spending? Importantly for our inquiry, a brief overview of the post-election processes confirms that it was the UNM government incapacity to ease the social costs of marketization that mobilised the opposition, and resulted in a partial institutionalisation of the countermovement.

4 SOCIAL AND CULTURAL EMBEDDEDNESS OF INFORMAL ECONOMIC PRACTICES

INTRODUCTION

The previous chapter has detailed the changes in institutional quality and design in Georgia, and the developmental consequences of those reforms. Moving beyond the macro-level data, this chapter traces the evolution of informal economic practices and informal institutions in Georgia based on [1] available secondary literature on informality in pre-soviet, Soviet and post-soviet period and [2] examination of the questions related to informality in recent national surveys. The chapter aims at accomplishing two main tasks. On the one hand, it provides a background information on the overtime-transforming role of informal practices and institutions in the Georgian context. It discusses which spheres of social and economic life were dominated by informal practices and institutions prior and after the Rose Revolution. On the other hand, and more importantly, examination of the historical role of informality is important in relation to the theoretical debates that this dissertation engages in.

As I have shown in the theoretical chapter, for the new-institutionalist perspective the function of informal social and cultural institutions is largely related to enabling economic exchanges between the profit-seeking agents. In a similar vein, the informal (or illegal markets) are perceived as free or unregulated markets. In contrast, from a Polanyian perspective, emergence of self-regulating markets is not a spontaneous process²⁹ driven by

²⁹ Recently David Graeber has provided extensive ethnographic evidence in his book “Debt: The First 5000 Years” adding to Polanyi’s argument and illustrating that: first, creation of markets is tightly connected with the creation of states; second, instead of being spontaneous and bottom up process, emergence of markets were more often related to wars, violence and top down imposition of markets (Graeber, 2011).

profit seeking entrepreneurs. Instead, self-regulating markets became the dominant mode of integration as a result of a deliberate state intervention. When the existence of a self-regulating market economy is not self-evident, we need to make an effort to understand how the economy is placed inside the social institutions, relying on a substantivist understanding of the economy (Machado, 2011). While this warning is important for any inquiry on historically specific social-economic orders, it is particularly alarming while studying informal economic practices that are not subjected to the state-enforced process of marketization.

The first section of the chapter elaborates the theoretical debate on the example of the Soviet 'second' economy and black markets. I discuss the two conflicting readings of the second economy that correspond to the new-institutionalist/formalist and Polanyian/substantivist interpretations of the social-economic orders. The new-institutionalist type of reading sees the informal economy as efficiency-enhancing tools elaborated by rent-seeking actors within the inefficient socialist economy. More anthropological readings undermine this narrative, showing immense role of informal networks, redistributive and reciprocal norms shaping the considerations of the actors. Further elaborating on the role of redistributive and reciprocal networks, the second section discusses one of the key Georgian cultural institutions of '*supra*' in detail. This section advances three arguments based on the case study of *supra*. First, it illustrates that a vast share of the economic exchanges related to *supra*, are entirely unrelated to market logic and base on reciprocity and mutuality. Second, despite overtime changes in role and meanings of *supra* since the pre-soviet period, its social and economic functions have always been immersed with the symbolic, identity-defining meanings of the institution. Finally, I show how the conservative as well as liberal segments

of the Georgian civil society actors found *supra* morality incompatible with the values associated with a modern, capitalist state. The third section looks at the transformation of informal practices and institutions since the Rose Revolution. It shows that the post-revolutionary reforms succeeded in reducing citizen's reliance on informality while dealing with public services. However, reflecting the lack of the welfare provisioning, the informal practices have remained crucial for guaranteeing the social security. Georgian citizens belonging to different social classes and generations still rely on kin and friendship networks when they need care, help related to household matters or financial assistance.

Among the diverse observations made in this chapter, two implications of the discussion should be emphasized. First, not only the informal practices remain socially and culturally embedded even when they are related to market-based activities (e.g. illegal markets), but these practices and the respective cultural values are often incompatible with market institutions. Second, when emphasizing that the expansion of a market economy undermines culturally embedded practices, I do not try to make an argument in favour of their preservation. Instead, I argue that the process of marketization, far from being harmonious, is painful for the involved actors as the cultural/symbolic relevance of the practices are marginalised and social-safety providing functions of these practices are undermined. In consequence, instead of ignoring such concerns, the modernisation projects, such as the Georgian one, should make careful attempts to compensate for the social costs of marketization. Without such interventions, the Georgian case demonstrates that informal practices reshape and transform to adjust to the new challenges.

4.1 READING THE 'SECOND ECONOMY' IN SOVIET GEORGIA

By the 1970s Georgian Soviet republic was one of the most corrupt republics, with the largest share (over 25% of GNP) of the second economy (Mars & Altman, 1983). At the same time, the living standards of the Georgian population were believed to be one of the highest among the soviet republics. Those few accounts explaining this high prevalence of the informal economy in Soviet Georgia in the 1960-70s, approximate what would be a formalist and a substantivist reading of economic practices. On the one hand, Levy describes corruption, that enabled functioning of black markets, as efficiency enhancing practice (Levy, 2007). On the other hand, Mars and Altman explain the prevalence of the informal economy through analysing the distinctive cultural features of Georgian society (Mars & Altman, 1983).

The emergence of corruption and rent-seeking behaviour in Georgia was a response to the inefficiencies of a centrally planned economy and constant shortages in goods and services from Levy's perspective. Relying on extensive anecdotal evidence from his childhood years spent in Georgia, Levy offers a rich and detailed account on the diversity of informal practices that enabled functioning of black markets in Georgia. He describes how the traders in the bazaars and nearby shops inflated the official prices of the goods. They bribed the printing presses to print the price tags with inflated prices, and bribe the police officers to turn a blind eye to the inflated prices. For the goods in high demand, the traders created artificial shortages, insisting they did not have the right size/amount of requested goods, compelling customers to offer a higher price for the good. In addition to inflating official prices through different means, the practice of 'counterfeit merchandize' was also prevalent. Many of the Soviet enterprises underreported the amount of production and sold

goods on black markets. From Levy's point of view, the primary driver of all these illegal transactions was the rent-seeking motive of the engaged actors. The main function of black markets was to introduce market incentives, thus overcome rigidities of centrally planned economy, increase the output and overall, enhance efficiency of the economy: "Indeed, Georgian economy had prospered and Georgians were enjoying a relatively high standard of living in comparison to the rest of the Soviet Union, at least in part, thanks to the "free market institutions" that Georgians were able to establish and promote" (Levy, 2007, p. 443).

Levy's reading of the Soviet 'second economy' approximates the new-institutionalist interpretations that also explain informality by referring to the shortages and deficiencies of the Soviet economy.³⁰ The problem with this interpretation arises when it is faced with the persistence of corruption as well as diversity of informal economic practices long after the collapse of the Soviet Union. The same practices that were seen as unregulated market exchanges, under the post-soviet period came to hinder the advancement of market economy. Commonly, there are two answers offered to explain the paradox stemming from the formalist interpretation. One is evoked by Levy himself: "it should be noted that the corruption in Georgia likely has socio-cultural roots as well. For example, the corruption seems to persist even in contemporary Georgia despite the process of large-scale privatization and other free market reforms implemented by Georgia's current reform-minded government"(Levy, 2007, p. 426). This way, the persistence of these practices is explained by socio-cultural roots of these practices. This interpretation in fact can be supported by the new-institutionalist analysis of path dependency of informal institutions

³⁰ For the original accounts on understanding socialist economy as 'economy of shortages' see Janos Kornai (Kornai, 1992).

which might persist even after they are no longer efficient (North, 1995). Yet another new-institutionalist explanation of the persistence of informality would refer to the weakness of the post-Soviet states that failed to put in place market supporting institutions, thus informal markets continued existing and imposing high transaction costs over the economy. To say otherwise, the 'second economy' was efficient relative to socialist economy, but remained inefficient relative to a well-functioning market economy.

What seems odd with this explanation is that the socio-cultural roots of informality become a primary explanatory variable under post-socialism while they are hardly seen important during the socialist period. While under socialism institutions were seen as deficient and actors were seen as rational, during post-socialism the institutions became similar to the capitalist institutions, but this time, the actors appeared to be heavily influenced by socio-cultural norms incompatible with market rationality (Thelen, 2011). This paradox would not arise if we considered Polanyian distinction between the existence of markets and a market economy. Markets have existed throughout history and in many economies, but commonly it was dismissed that: first, they were not central or dominant mode of integration prior to the capitalist era, secondly, they were often strictly regulated according to the norms and social institutions of the respective societies (Polanyi, 1957). The portrayal of soviet black markets as 'free market institutions' ignores that markets were not central to the Soviet economy in general, and where they existed beyond the purview of the state, they were embedded in dense networks and social-cultural institutions of the respective societies.

Interestingly, Levy himself gives hints on informal norms and regulations that were shaping black markets in Georgia: "Various types of profit-sharing mechanisms that the

Georgians have developed were designed in such a way that all participants had incentives to follow the unwritten rules. The system worked precisely because everybody benefited from it and nobody had an incentive to disrupt its smooth functioning” (Levy 2007, p. 444). To say otherwise, the black markets were embedded in the informal/alternative redistributive networks that operated based on unwritten but well enforced rules. The importance of the networks and cultural norms becomes apparent in the substantivist reading of Georgia’s second economy by Mars and Altman.³¹

Describing the core cultural values of the Georgian society is the starting point for Mars and Altman. They characterize the Georgian society as part of Mediterranean and Latin cultures, emphasizing the importance of descent and family membership: “When an individual’s acts are evaluated, this is done in the context of an assessment – and of continual reassessment – of his family and honour. The same assessments, through less pronounced, apply also to associates and to friends” (Mars and Altman 1983, p. 548). Describing the cornerstones of Georgian ‘honour and shame’ society, they underline the importance of asserting masculinity as understood in Georgian culture, as a perpetual struggle to prove oneself as a worthy and honoured man. Networks are seen as a ‘backbone’ of the second economy as these networks define individual’s access to different resources and even their occupational choices. Networks rely on trust relations, trustworthiness being the basis of

³¹ This piece was published by Mars and Altman in 1983 basing on the method that they refer to as ‘retrospective reconstruction’. As an opportunity of making direct observation on informal economic practices in Soviet Georgia was restricted, the authors conducted an ethnographic study with Georgian Jews in Israel. The authors were aware that Georgian Jews could not be seen as culturally synonymous with the Georgian majority, but as Georgian Jewish population was well integrated into the society, they rightfully consider their findings to be generalisable on non-Jewish population of Georgia. The narratives that the Georgian Jewish respondents recall from the period of their stay in Georgia also confirm that the practices they describe were not constrained to Georgian Jewish population, but rather characterized the rest of the society as well.

one's honour. The Georgian culture is portrayed as encouraging competition and, as Mars and Altman call, 'reckless' risk taking. Taking business related risks, drinking and eating out with friends, dressing up well, displaying, and sharing resources are all part of performing identities and reaffirming honour and respectability. Mars and Altman even see a kind of 'entrepreneurial spirit' in Georgian culture, but they are carefully underlining the cultural specificity of this 'spirit': "Those are entrepreneurs of a different mould from those traditionally associated with Western Capitalism- with the development of thrift and with Weberian ideas of deferred gratification: these are gambling entrepreneurs concerned to spend and display" (Mars and Altman 1983, p. 550). Success of informal and illegal operations is in turn, to a big extent defined by actors' embeddedness in social networks and kinship ties. Trust enables the actors to borrow money, exchange goods and raise huge sums in case they face unexpected failures. The reciprocal obligations of the network members are coercive - all the members are expected to keep up with the rules of the game and their failure to do so can come at high social costs.

In contrast with the formalist view on the second economy, interpretation given by Mars and Altman allows for highlighting two important, commonly under-emphasized aspects of Soviet Georgia's second economy. First, in this interpretation, culture is not merely a supportive condition for operation of rational actors but the very bases of economic exchange. The motivation of the actors is rather shaped by their urge to improve social standing and successfully perform manliness, trustworthiness and honour. The success of establishing oneself as an honourable member of the society in turn defines not only personal attributes, but the reputation and standing of the family and respective peer networks. Second, this value system stresses importance of reciprocity and

alternative/parallel redistribution, placing the actor's will and ability to share his profits and resources as an ultimate proof of successful performance of the identity. This type socially embedded economy cannot simply be seen as an economy that imposes high transaction costs on the actors due to its' informal character and costliness of enforcement. To be sure, the enforcement in itself does not seem excessively costly due to high levels of institutionalisation of norms inside the informal networks. In contrast, the norms in themselves are costly, as they demand that the individuals share resources with kin and peer networks. Just as Polanyi describes, the interdependency that characterises reciprocal exchanges highlights social motives of economic actors. Above described norms, unlike the ones assumed under a market economy (Streeck, 2011b), impose the 'roof' to the profit maximizing behaviour, and ensure relative social security of respective network members.

4.2 CULTURE AND INFORMAL ECONOMIC PRACTICES

In order to understand the conflict and incompatibility between the embedded practices and advancement of markets, or to understand what is lost in the process of marketization, we need to observe the meaning of the social and cultural institutions of a respective society. Despite the fact that similar integrative modes (reciprocity, redistribution, household) are found in diverse societies, the cultural distinctiveness of each society defines the place of the economy within the society. In embedded economies: "neither the process of production, nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. These interests will be very different in a small hunting or fishing community from those in

a vast despotic society, but in either case the economic system will be run on non-economic motives” (Polanyi, *The Great Transformation* 1957, p. 44). While describing Georgia’s second economy, Mars and Altman indicate their awareness of similar economic practices in other Soviet republics. Not only in Georgia, but also in Russia, Ukraine and elsewhere, people relied on social networks and help of ‘friends of friends’. However, while explaining the prevalence of the informal economy in Georgia, they insist on an acknowledgment of cultural specificities of the Georgian society: “it is the degree to which networks in Georgia are institutionalised as a means of linking individuals through trust-based honour commitments that form the cornerstone of Georgia’s second economy. The difference may appear to be merely one of degree, but it is based on a fundamental cultural distinction” (Mars and Altman 1983, p. 559). To move beyond general characterisation of Georgian culture as described by Mars and Altman, here I discuss interconnectedness of culture, social norms and economy on the example of traditional feast and an expression of Georgian hospitality culture *supra*’.

4.2.1 Informal institution of *supra* as a case study

At the first sight, it seems odd to start a discussion on the informal economy from a seemingly unrelated phenomena like hospitality and codes of behaviour at traditional parties. In a Polanyian vein, I suggest it is precisely the inseparability of culture, society and economy that distinguishes embedded economies from disembedding markets, where the economy gains existence of its own, independent from the society. There are two reasons why I select *supra* to illustrate embeddedness of informal practices in Georgian case. First, unlike many other aspects of everyday life in Georgia, *supra* has been thoroughly researched: “no single aspect of Georgian life and culture has attracted as much attention as the Georgian feast, or *supra* ”(Manning, 2007, p. 1). Relative abundance of the literature on *supra* and

allows for a careful examination of the practice, its social meaning and controversial character. Second, *supra* is believed to be the central entry point for understanding the Georgian cultural institutions: “Whoever wishes to learn about Georgian society, to understand Georgian culture, the *supra* encapsulates it all. It is at the feast that relationships are formed, commitments exchanged, deals cemented and bonds reaffirmed. These in turn will have direct implications on all spheres of life: family, work, friendships, social networks” (Altman, 2011, p. 2).

In essence *supra* is a ritualised way of feasting on special occasions as well as on daily bases. It is a gathering of two or more than two men (can go up to hundreds), that sit around the table, drink wine, enjoy food and make topical toasts orchestrated by a toast master called *tamada*. The toasts structure the *supra*, and commonly follow an established flow of topics. *Tamada*, as a main decision maker at *supra*, proposes the toasts which are taken up by the rest of the participants. *Tamada* can be flexible in defining the flow and topics of the toasts, but he should not dismiss some of the key/obligatory toasts, for example toasts for family and deceased (Muehlfried, 2005). Exposing a clear hierarchy of gender roles and strictly defined rules of behaviour, *supra* is seen as a highly codified practice (Curro, 2013). If, at the first glance, *supra* seems to be one out of many localised rituals of collective food and drink consumption, once observed more closely, its diverse and complex meanings unravel.

First and foremost, *supra* is seen as a marker of a national identity. From Tuite’s perspective, Georgians tend to believe that they are baptised as Christians in church, but they are “baptized as Georgians specifically at the *supra* ” (Tuite, 2005, p. 21). Georgians like to see *supra* as a tradition that goes back for centuries. However, the researchers only trace the

emergence of *supra* as a ritualised drinking accompanied by topical toasts back to the early and mid-19th century. In this sense, *supra* can be seen as an example of ‘invented tradition’, which “fulfils the function of creating and reinforcing national identity” (Muehlfried, 2005, p. 17). Timing of the ‘invention’ does not seem incidental, as the second half of 19th century also witnessed consolidation of nationalist sentiments in Georgia. Ironically, the unification of Georgian territory, that hosted numerous kingdoms under the influence of Persia and Ottoman turkey prior to the 19th century, was accomplished under the rule of Tsarist Russia. In turn, by the mid-century, Georgian nobles educated in Russia, started engineering overarching Georgian identity as opposed to the Tsarist Empire. In this context, lengthy toasts made at the banquets offered the nationalistic interpretations of the history: “Remembering the past as a toast became a form of national education after the Russian annexation of Georgia in 1801 and the consequent suppression of national sovereignty. In this context the verbal evocation of the past becomes a patriotic mission at the table” (Muehlfried, 2005, p. 2). In addition, unlike all the other foreign forces exercising influence over Georgian territories, Russians shared the religion with Georgians. Thus, under Tsarist Russia, religion became unfit to mark national specificity of Georgians and folk culture as embodied in *supra* became a primary signifier of the distinctiveness.

Throughout the Soviet period, retaining the role of a national identity marker, *supra* became the stage for political critique of the Socialist state. In Soviet Georgia *supra* was seen as an alternative, or ‘true academy’ for younger generations, where the nationalist narratives, as well as critical evaluation of the Socialist system, would be voiced. Recalling Scott’s distinction between the ‘official transcripts’ and ‘hidden transcripts’ (Scott, 1985) of the subordinated segments of a society, Curro argues that *supra* and culture of hospitality

can be seen as an everyday form of resistance against the official structures of the socialist state (Curro, 2013). Unsurprisingly then, the Soviet officials associated *supra* with corruption and subversion of the state institutions: “Under socialism... the image of the *supra* was often mobilized as an image of society as opposed to the state, an image of undesirable aspects of everyday life such as immoderate consumption, obstacles to production, and political corruption, the colonization of the state bureaucracy with the personal networks and kinship” (Manning, 2007, p. 2).

Supra was also seen as ‘the only functioning “civil-society” institution during the Soviet period’ (Tuite, 2005) and a specific expression of ‘civility’ (Altman, 2011). The bonds that link a person to kinship and extended kinship circles, is taming an individual into a social being: “kinship through blood, and through ‘ritual’ enables people to achieve fullness of being, to become a ‘real human’, *namdvili adamiani*” (Dragadze, 1988, p. 100). *Supra* can be seen as a type of socialization that aims at bringing together non-civil, self-interested individuals into a cooperative community (Altman, 2011, p. 6). Even if hierarchical and codified, *supra* is structured so that the presence and the honour of each member is acknowledged.³² The social roles of the members (as parents, children etc.) are reinforced, but it is made sure that each member receives an equal share of attention and honouring.

Perhaps most importantly for our inquiry, *supra* is an informal institution which brings together numerous informal economic practices, reflects and reinforces social-economic organisation of the Georgian society. *Supra* is an expression of personalised social

³² To clarify, this is true only in relation to the man present at the table. Even though the toasts to women and mothers are obligatory part of the *supra*, women’s presence and ability of voicing own perceptions or ‘toasts’ is neglected.

bonds that place high expectations on its members and imply reciprocal resource sharing and helping. *Supra* provides the space to continually reassert the importance of existing ties, and also, is the space where new relationships become institutionalised: “The relationship thus initiated is intended to be long-lasting, to be reciprocated and renewed by further acts of hospitality” (Tuite, 2005, p. 17). Being a member of a reciprocal network reasserted at a *supra* presupposes range of social and economic exchanges inside the network. These exchanges involve psychological support, assertion of each other’s identities, shared consumption of recourses, and reliance on each other’s favours. Sharing food and drinks extend to sharing costs in good times and hard times. The network members are expected to contribute with the costs of weddings and burials, to visit each other when sick, to lend money or collect money to help out a member of the network in case s/he faces unexpected misfortunes. The network members are also expected to provide considerable amount of unpaid labour for each other.³³ Friends and relatives are expected to participate in organisation of big festivities, such as weddings and burials. Commonly the type of help provided is gendered. Women spend days for preparing food while man take care of other logistical issues, like shopping, product delivery, etc. More importantly, sharing the labour is part of daily lives, covering activities such as providing care of friends’ and relatives’ children or parents, helping in housework, maintaining each other’s property, etc. As Curro summarizes, “Both in Soviet and post-Soviet Georgia, hospitality exchange networks have been an informal means of psychological, social, and economic defence against the

³³ Clearly, calling the mutual help inside the informal networks as ‘unpaid labour’ is an evaluation one can make as an outsider. This type of discourse hardly is ever enacted inside the networks. If anyone wants to complain about the amount of hours spent for helping kind and friends, the complaint would rather underline inability of the other parties to reciprocate with physical presence and help in similar occasions, than the inability of other parties to pay for the work hours.

shortcomings of official institutions... Such relationships provide solidarity, shelter, food, and, most importantly, long-lasting connections” (Curro, 2013, p. 4).

Observers assert that the informal institutions like *supra* and economic practices that are embedded in them involve symbolic meanings as well as pragmatic considerations. Give and take that occurs inside the network serves for both, access to material and immaterial resources. The parallel between the informal institutions and practices that are described in reference to hospitality tradition in Georgia, and Polanyi’s description of the pre-capitalist societies is obvious: “The explanation in terms of survival is simple. Take the case of a tribal society. The individual’s economic interests is rarely paramount, for the community keeps all its members from starving unless it is itself borne down by catastrophe, in which case interests are again threatened collectively, not individually” (Polanyi, *The Great Transformation* 1957 [1944], 44). Describing the persistence of the traditional organization of the family and community in rural Georgia, Dragadze illustrates a very similar relation of an individual to its social surroundings: “Villagers identify with their household – their family, in which virtually all their interests are tied up. The community recognizes this identity...It would be inconceivable for them, nevertheless, that an individual’s personal character and concerns should not be identified closely with those of his or her family” (Dragadze 1988, p. 46). To say otherwise, the fact that certain societies do not centre on the interests of a rational profit-seeking individual does not equate to absence of a specific type of calculation and rationality. The distinguishing character of embedded economies is twofold: firstly, economic interest is not the end in itself, but it serves as a means for reasserting honour and social stranding: “man’s economy, as a rule is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of

material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end” (Polanyi, *The Great Transformation* 1957, 44). In turn, social belonging serves as a guarantee that an individual does not face risks and hard times alone, but can lean back on the support of the community. Secondly, even if these practices serve for pragmatic ends like ensuring one’s survival or wellbeing, they are not reducible to that. Informal institutions, or as Polanyi would say ‘cultural institutions’, shape identities and belief systems of the respective societies.

Informal economic exchanges that are embedded in informal institutions like *supra* and the networks that are mobilized at *supra* , can hardly be seen as a compensation for insecurity of property rights and the state’s inability to enforce contracts. Starting from marking one’s national identity, making a human into a ‘real human’ (*nambvili adamiani*) and a member of a community which secures one’s survival in the long run, the economic practices embedded in cultural institutions like *supra* serve a diversity of purposes, irreducible to one’s interest of wealth possession. It seems unimaginable to disembed an individual from these institutions by altering strictly economic costs and benefits of his economic operation (as new-institutionalists would suggest). What still needs to be established is how the embedded economic practices and advancement of markets influence each other. To examine the conflict between marketization and embedded practices in Georgian case in the next section I discuss the transformation of informal practices since the breakdown of the Soviet Union.

4.2.2 *Supra* in crisis: embedded practices in post-soviet Georgia

While some think that informal economic practices will transform into formal entrepreneurship with the advancement of markets (e.g. new institutionalists), and others

think they can coexist with capitalism and create parallel system of production and allocation of resources (e.g. post-structuralists), Polanyian institutionalist perspective insists that marketization is a direct threat to the cultural institutions in which informal economic practices are embedded: “These institutions are disrupted by the very fact that a market economy is foisted upon an entirely differently organized community; labour and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society” (Polanyi, 1968, p. 49). In the Georgian context cultural institutions and economic practices embedded in those institutions faced diverse challenges since the collapse of the Soviet Union, but also served to cope with these challenges.

In the onset of 1990s, the collapse of Soviet Union created a ‘redistributive vacuum’ (Burawoy, 1999), and brought about a massive impoverishment of the populations of newly independent states. Interestingly, in many post-soviet states experiencing poverty was difficult not so much because of material deprivation people faced, but primarily due to their inability to keep up with social responsibilities: “While in many instances the conditions under which people live in this region are better than in much of the developing world, people respond to the harsh social and economic conditions of the last decade with pronounced humiliation, shame, bewilderment, and confusion” (Narayan, 2000, p. 65). While the sudden deterioration of the living standards is important, inability to follow established norms and be a responsible member of reciprocal networks caused the biggest anxiety. For example, in Georgia, people would avoid answering the phone calls and escaped invitations for birthdays if they could not afford buying gifts (ibid). Tuite tells a very similar story about one of his informants, Manana, who pretended she did not see her friend in the public

transport, as she did not have enough money to invite her for the ride: “The depression and isolation that Manana experienced because she could not, or would not, extract her relationships from the old, familiar system of presentations and interdependencies, brings home one crucial component of the psychological cost of sudden poverty for a significant segment of Georgian society — a cost that Western economic and political analysts overlooked”(Tuite, 2005, p. 19).

The three wars of 1990s, a massive inflow of internally displaced persons, and a rising crime rates disrupted social trust and undermined the stability of networks. The lawlessness and disruption of networks could be seen as mutually reinforcing processes: “once societies start unravelling, it is difficult to reverse the process... the breakdown of social solidarity and social norms that once regulated public behaviour leads to increased lawlessness, violence, and crime, to which the poor are the most vulnerable” (Narayan, 2000, p. 7). Hence, the costs of the sudden systemic collapse were amplified by the costliness of maintaining social networks. Despite, the same networks served as a sole, most functional alleviator of social-economic hardships. As in most of the other post-soviet countries, in Georgia the economic exchanges embedded in informal institutions and networks became the cornerstone for surviving through the hard times (Bernabè & Singh, 2002). Networks mattered for providing basic goods, but also they defined how the persons perceived their social-economic vulnerability (Dershem & Gzirishvili, 1998).

Despite their immense role for social reproduction, informal networks, institutions and economic practices came under increased critical (re)evaluation by the end of the 1990s and beginning of the 2000s in Georgia. On the one hand, the international observers got increasingly concerned with prevalent corruption. On the other hand, Georgian

commentators took up this point, but also extended their criticism to cultural institutions. To explain the meaning of internal/local debates concerning the culture of informality in Georgia I again focus on the case of *supra*.

By the onset of the 2000s, numerous Georgian scholars as well as young, western-educated employees of non-governmental organizations started voicing their discontent with allegedly un-civil, hierarchical, primordial character of *supra*. If during socialism *supra* was a stage for criticizing the system, under post-socialism new elites started criticizing *supra* as an inward looking, outdated ritual: “Ten years after independence, this critique of the political from the authentic perspective of every day life (symbolized by the *supra*) has been replaced in some circles by the political critique of everyday life itself, in particular the *supra* ” (Manning 2007, p. 2). Representatives of Georgian NGO sector, or so called third sector, started rejecting hierarchical, gendered, pre-modern *supra* in favour of a more ‘democratic’ new form of feasting, commonly referred to as ‘a la fourchette’. These modernizing discourses and western-like practices were in turn opposed by older elites, or ‘red intelligentsia’. The older intelligentsia portrayed the third sector as ‘grant eaters’ implicating their high dependency on foreign donors, and blamed them for selling the country on foreign capital: “one of the most popular arguments of the “red intelligentsia” against the “grant-eaters” is that the latter are trying to destroy the national culture in order to integrate Georgia into a global market. In this context, denying the “ancient tradition” of the *supra* is seen as a conscious attempt to extract one of the roots of Georgian culture” (Muehlfried 2005, p.18).

The arguments of the ‘red intelligentsia’ sounded much like a conspiracy theory, and the arguments by the third sector were based on a superficial comparison of Georgian

cultural institutions with perceived standards of a Western-like democracy and civil society. A noteworthy aspect of their contestations, however, is that both sides agreed that ritualised *supra*, along with other cultural institutions and informal practices on the one hand, and modern, capitalist society on the other, are incompatible forms of social-economic organization.

The reasons why *supra* is seen as incompatible with democracy, and western-like civil society can be found in the very organization of *supra*. The ritual is highly gendered and hierarchical, following (informal) institutionalized rules and standing in opposition to the ideals of equality, freedom of expression etc. The problem manifests than, in other aspects of the daily life too. *Supra*, and the networks it consolidates, ultimately values personalized relationships over any other type of relationships. In turn, external space, the space which is not incorporated in dense personalized networks, is treated with suspicion and disregard: “The correlate of the negative conception of external space, alas, is a tendency toward predatory, exploitative or neglectful behaviour in areas beyond the borders of the homestead and village...It appears as well that anonymous others (i.e. non-guests, non-kin) encountered in public space are equally liable to be treated with neglect or worse” (Tuite, 2005, p. 17). Thus, the extensive care the network members express towards each other is mirrored in their neglect towards non-members. One could even say that respectful and impartial treatment of the ‘anonymous other’ comes in conflict with the norm of respecting and thus privileging kin and peers. ‘*Supra* morality’ and meritocracy are mutually exclusive categories. This is why, much of the informal practices that penetrated state bureaucracy throughout 1990s and were commonly classified as ‘corruption’, were to a certain extent ‘licit’(Polese & Prigarin, 2013) or socially acceptable practices. While people commonly

complained of corruption, the same society harshly judged a person's failure to help out friends and relatives, placing mutually exclusive normative demands on (mainly) public officials, but also private entrepreneurs and third sector employees.

Yet a bigger challenge is the incompatibility of informal networks and practices with the functioning of a market economy. Cultural institutions like *supra* and the practices associated with it, support collective consumption of food but also other types of resources, and emphasize the importance of sharing. One need not confuse this type of sharing with charity. In contrast with a voluntary help, sharing and helping kin and peer networks is a systematic, reciprocal routine, imposing high penalties on a (regular) failure of a member to reciprocate favours. This stress on reciprocity does not mean either that the networks are completely symmetric. In contrast, they can be redistributive, as the strongest and the better off are expected to share more, but the rest should be willing to reciprocate in the scope of their capacities and stay loyal. The demands this system puts on an individual makes the save and invest imperative unaffordable in practical/financial as well as moral terms. An extremely telling and deep exploration of this incompatibility between market and reciprocity is offered by Frederiksen, discussing another cultural institution 'Dzma'atsoba' (brotherhood, brother-man) among young man in one of the bigger Georgian cities, Batumi. 'Dzma'atsi' is a non kin, which is treated as if he was a kin. Similar to other authors observing kin and peer relations, Frederiksen illustrates that being a trustworthy and helpful member of the brotherhood defines man's standing and reputation in a society. Brotherhood creates a safety net for its members, but more importantly, each respectful member of the brotherhood is appreciated also by non-members, for his generosity towards the friends. In this type of community, earning money as well as money earners – in this case,

businessmen – are treated with mistrust primarily because they are suspected in abandoning their friends: “The fact, that the *biznes-men* were often looked upon in terms of a negative image had less to do with the fact that their activities were illegal than with the fact that they were rumoured to have forgotten their friends after earning their money. They had big bellies but not good hearts” (M. D. Frederiksen, 2013, p. 173). It is one issue the young men find business making incompatible with being a good friend and an honourable man. The other side of the conflict between informal practices and formal markets is that this type of community does not welcome, or allow commodification of fictitious commodities in practice. Money, labour, and property are embedded in a set of reciprocal relations and are regulated by the norms prevalent in these networks, and the prices (or rather a value) of these commodities hardly reflect market prices.³⁴

It is because of incompatibility of the normative bases as well as the very mode of organisation of embedded economic practices and disembedding markets, the two constantly threaten each other. Once the market institution advances, it undermines social and cultural institutions. On the contrary, persistence of those institutions continuously hampers the advancement of markets. In the Georgian context, institutionalisation of a market economy very clearly required undermining ‘culture of informality’, or disembedding the economy and state institutions from the influence of informal networks and practices. However, the costs accompanying such a process were never taken seriously by the policy makers. Refusing to establish institutions that would be responsible for social

³⁴ Lack of commodification of land labour and money can be traced in variety of practices. For example, interest on, or due date of returning borrowed money largely depends on the type of ties between lender and borrower. Often money is even borrowed without interest. Moreover, failure to return in a long run, even if frustrating, is often tolerated. Similarly, members of informal networks extensively rely on each other’s unpaid labor, starting from care activities to helping out during burials and weddings.

protection, the post-revolutionary Georgian state offered close to nothing to the individuals and households to replace their dependency on kin and peer networks. Thus, since 2003 a paradoxical situation was created: on the one hand, the backbone of reproducing informal institutions and practices was broken, the state institutions turned largely immune from corruption and influence informal networks, which in turn, undermined the viability of informal economic practices. On the other hand, the social protection was not institutionalised, and the burden of social protection again fell on informal networks. It is at this stage, when informal economic practices embedded in cultural institutions, start serving as a countermovement, resistance towards the process of marketization.

4.3 AFTER THE ROSE REVOLUTION: INFORMAL NETWORKS FOR SOCIAL PROTECTION

As the previous chapter demonstrated, the post-revolutionary Georgian government was successful at eliminating corruption and combating crime rates (Engvall, 2012; Slade, 2012). The official discourses as well as the reforms were targeting corruption, not the cultural institutions per se. But in doing so, a variety of informal practices and institutions were framed as corrupt, thus primordial and unwanted.³⁵ Reducing corruption was a

³⁵ On a personal note: I represent the generation which was in late teen years by the time of the Revolution. The radical change in the discourse concerning the acceptable norms of behaviour impacted our generation to a great extent. All the practices that were never questioned before – like bringing flowers to the teachers, bringing a pack of coffee to the doctor etc – were no longer seen as legitimate. The norms were not simply questioned but reversed – the same practice that was seen as generous was now seen as immoral. For our generation, or at least (somewhat) middle class segment of this generation, it seemed relatively easier to reject previously dominant norms and try to keep up with the new ideal image of a citizen – non-corrupt, not seeking for patronage, achieving success independently. For older generations these changes meant rejection of their very core values and caused anxiety. Personally for me, even if it seemed easy in the beginning, this radical turn appeared quite challenging over time. Each time I am willing to offer or receive a gift or a favour I am scrutinizing the decision, as I have no easily available benchmark or guideline to evaluate rightfulness of the decision. Each time I try to calculate the power balance, or possible implications of the exchange. The process is unnecessarily frustrating as in search of avoiding being perceived as ‘corrupted’ or ‘corrupting’, I usually deny myself (in my perspective) a very simple, humane pleasure of giving gifts and offering help.

popular demand, thus the electorate was supportive of the changes. However, a by-product was that the core social values were challenged, and condemned in the process, which caused widespread anxiety primarily in older generations. More importantly, the institutional changes undermined the very foundation of informal economic exchanges. The state officials could no longer offer favours to their respective social networks; and they could no longer be bribed to turn a blind eye to informal and illegal economic transactions.

While the role of connections, gifts and informal payments infiltrating public institutions radically decreased, the role of the informal networks for providing social security did not. The institutional transformation in Georgia has been well documented, but its impact on informal practices remains understudied. Huseyn Aliyev's article on informal economic practices in Georgia is an exception, illustrating that informal economic practices never lost their importance as social safety nets. The post-revolutionary reforms: "succeeded in undermining the overall importance of informal practices in dealings with state bureaucracy, education system, healthcare, law enforcement, judiciary and some other areas previously dominated by informality. However, the reliance on informality did not disappear, and informal networks are still employed as coping mechanisms and as social safety nets" (Aliyev, 2014, p. 19). Relying on the surveys by EBRD and CRRC Huseyn illustrates that over 60% of the Georgian population rely on private social safety nets, and almost all (95%) of respondents turn for help to relatives, families and friends (83%) in hard times. In contrast, only 30% of respondents stated they would address state institutions for help (ibid).

These observations can be further substantiated based on the data retrieved from Caucasus Barometer Surveys (The Caucasus Research Resource Centers (CRRC), 2015). Not

only 14% of the respondents' reports receiving remittances from abroad, but similarly, 14% of respondents say that their income relies on the money received from the relatives living in Georgia. It is visible that sharing labour or providing unpaid labour to friends and relatives primarily in housework is still a well-established norm. As, Figure 4. 1 illustrates, 57% of the persons aged 36-55 have helped neighbours/friends in last 6 months with household chores. The same chart shows that 35-45% of respondents report making charity contributions, however, younger generations tend to engage in charitable behaviour more than older generations. In contrast, cleaning public spaces, does not seem to be the priority for any age group. It is certainly challenging to make any decisive inferences based on this data, as it is always hard to know how a respondent conceptualises cleaning a public space or even making a charity contribution. However, it can be said that generally, personalised help seems more important, primarily for older generations compared to taking care of more impersonal, public space.

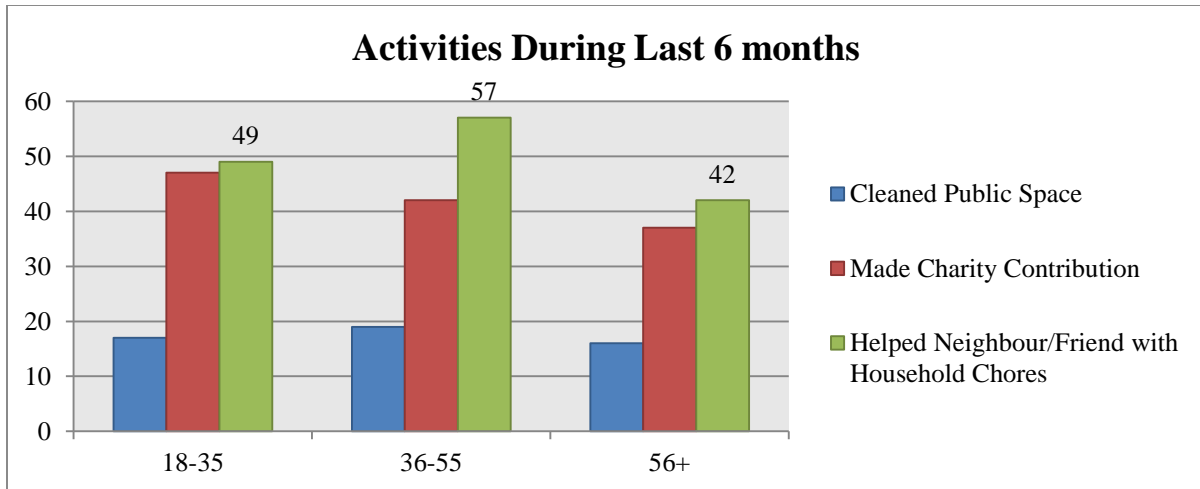


Figure 4.1. *Helping in Household Chores, 2013*
 (Author's own calculations based on Caucasus Barometer)

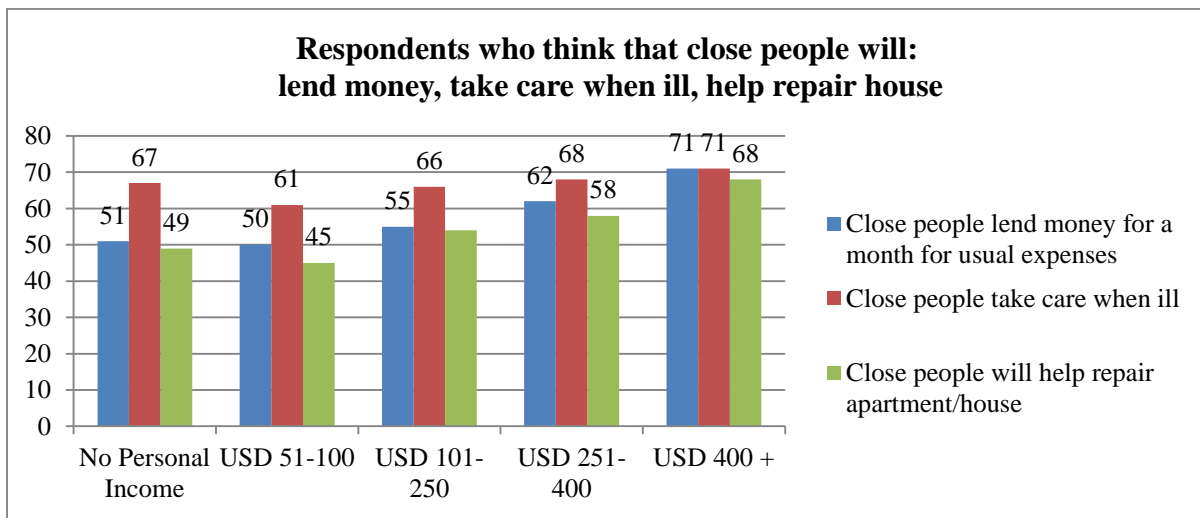


Figure 4.2. *Reliance on Kin and Friendship Networks, 2013*
 (Author's own calculations based on Caucasus Barometer)

The respondents have a firm expectation that friends and relatives will lend them money, take care when sick and repair their apartments. Figure 4. 2 illustrates that 45-68% of all respondents think close people will help repair the apartment/house, 51-71% thinks close people will borrow money, and the highest amount, 67-71% of respondents believes close people will help when they are sick. As the data is desegregated based on a respondent's income, it is visible that help from close people is not only expected by the persons with

lower, or no income, but by all income groups. High reliance on informal networks for social safety by relatively well-off respondents indicates that helping cannot simply be seen as a survival strategy, but it is rather a cultural norm prevalent across different social classes.

CONCLUDING COMMENTS

In line with a Polanyian assertion of the importance of reading economic exchanges in a substantive manner, observing economic as well as social and cultural significance of the economic organisation of a respective society, in this chapter I have outlined the cultural basis of informal economic practices in Georgia. I illustrated that informal economic practices cannot be discussed in isolation from the cultural institutions and informal networks that organise informal exchanges and shape the motivations of the persons engaged in informal exchanges. Observing the complex and controversial meanings of the cultural institutions that serve as bases for informal economic exchanges allows us to move beyond instrumental reading of informal economic practices. Moreover, I have demonstrated the contentious and the conflicting relationship between informal economic practices and the advancement of a market economy.

The overtime overview of the cultural basis of informal economic practices described in this chapter has a few important implications. First, much of informal economic practices that take place inside the kin and friendship circles are entirely unrelated to market-like practices. The bigger part of the informal economic exchange –sharing labour, money, and resources - is reciprocal or redistributive, based on long-term relationships and mutual obligations. Second, even those informal economic practices that involve market-based, impersonal exchanges often remain embedded in the cultural institutions. The case of the

black markets in Soviet Georgia provides a clear example of an embedded market-based exchange. On the one hand, it was informal networks that enabled actors to trade in black markets. On the other hand, the informal norms defined how the profits were redistributed and consumed. Lastly, and perhaps most importantly, the informal economic exchanges that are shaped by the cultural institutions are not reducible to their economic role for respective actors, networks, and societies. Instead, they are functionally diverse – shape identities, carry symbolic value and provide a considerable degree of social security. The informal economic practices are not simply there to facilitate economic exchange, albeit with higher transaction costs. On the contrary, more often, informal economic practices are there to reassert social bonds, provide mutual support and the economic exchange it involves is the means rather than the ends of the exchange.

This being said, there is no need to idealise the prevalence of informal economic practices. As I have also noted elsewhere, despite their social and cultural significance, embedded economic practices are not necessarily related either to justice or to freedom. In the Georgian case, informal institutions and practices reinforce different inequalities. First, they reinforce deep-rooted gender inequalities and extensively base on women’s invisible and unvalued labour. Second, counterintuitively, existence of reciprocal networks also can foster social inequalities: “While stemming from bonds of consanguinity and affection, therefore perceived and defined as genuinely altruist dynamics, network-based exchanges are exclusive, reproducing patterns of inequality” (Curro 2013, 5). The informal reciprocal networks can be redistributive internally, but tend to be exclusive and insensitive towards the non-members. This often means that while the resources and favours are shared inside the reciprocal (kin and friend) circles they are hardly shared across the circles. Higher trust

in personalized relations and extensive responsibilities towards the network members mirrors in low trust towards the strangers. Loyalty to the network often overrides the considerations on social justice, resulting in favouritism and clientalism. On a societal level than, prevalence of informality causes numerous problems, well documented in the existing literature. It undermines the state institutions and hurts the economy. As discussed in the theoretical chapter, the new-institutionalist analysis is accurate while emphasizing the extensive costs of the prevalence of informality.

The challenge is, that the new-institutionalist remedy, state supported marketization, is not a sufficient solution to the problems that the prevalence of informality poses to a society. It is true, that disembedding the economy from informal/cultural institutions is necessary for both, establishment of impartial state institutions and a market economy. But, the process is painful as it, on the one hand, destroys those informal institutions and practices that have complex social and cultural significance, and on the other hand, exposes the society to numerous risks and instability. In a Polanyian sense, the process removes the protective tissue from the society. Once these costs of marketization are not considered and addressed, the informal economic practices transform to address the new challenges. In other words, marketization can reinforce and even amplify the significance of informal economic practices as informal defensive measures.

5 MARKETIZATION AND PETTY TRADE IN TBILISI

INTRODUCTION

The previous two empirical chapters showed that informal economic practices, informal institutions and interventions remained vital to social and political life in Georgia. This is true even a decade after a drastic improvement of institutional quality and design took place in the mid-2000s. It is not surprising that gaining of the state capacity and the redesign of formal institutions did not entirely eliminate informal practices and institutions over a decade. However, the findings are noteworthy for two reasons. First, informal interventions by the state did not simply represent reproduction of the informal practices of pre-reform or pre-revolutionary period. Instead they were designed to cope with the challenges created by the new, post-revolutionary institutional design aimed at pursuing the marketization process. More precisely, the informal interventions allowed the state to act as a shadow developmental state and to accommodate some of the social grievances and conflicts arising in response to the marketization process. Secondly, informal safety nets and networks remained vital primarily for social security provisioning (Aliyev, 2014). Based on these observations I have argued that informality did not simply reproduce in Georgia because informal norms and institutions are sticky, but informality was reinvented and reshaped to address the social and economic challenges that the marketization process brought about. In the following two chapters I discuss and analyse a micro level case of informal petty trade to validate, explicate and elaborate this argument (please see the introductory chapter and Appendix 1 for methodological questions). I propose that this part of the empirical study provides the best opportunity to follow the chronology of events,

identify causal links and specific mechanisms that led to reproduction of informality as well as reproduction of the social vulnerability of numerous informally operating actors.

Describing the transformation of the conditions for petty trade throughout the rule of post-revolutionary government in detail, this and the following empirical chapters explore the central questions of this research - *why did improved institutional quality and changed institutional design not benefit (previously) informally self-employed persons*. In order to address this broader question this chapter identifies two sub-questions: [1] Why did the business-friendly Georgian government need to take harsh measures against petty traders? [2] Why did the petty traders insist on trading informally in public spaces when they were no longer burdened either by high taxes or exposed to bureaucratic corruption? The next empirical chapter extends the discussion over the petty trade asking [3] how the institutional changes were resisted by the traders? [4] and what kind of mechanisms were devised to counterbalance the social and economic costs of marketization?

In what follows, I firstly offer a brief history of petty trade in Tbilisi since the 1990s. Secondly, I illustrate what made the control of petty trade an integral part of the marketization strategy pursued by the post-revolutionary government. I show that enabling marketization in general, and commodification of urban land and property in particular, was crucial to the state to ensure growth of the state budget and to facilitate economic growth. To pursue these goals, the state needed to enforce functional division between private and public space, and support the security of the core market-enabling institution of private property. However, as Polanyi notes, economic progress or 'improvement' does not mechanically translate in improvement of social wellbeing, but instead endangers

'habitation'. Therefore, in the third section of the chapter I explicate why the marketization process was socially and economically costly for numerous petty traders. I conclude by discussing the fieldwork informant's opinions on how the losers of marketization can be treated by the state, and summarise the implication of the findings of this chapter for the theory on informal economic practices.

5.1 A BRIEF HISTORY OF PETTY TRADE IN TBILISI

Like many other post-Soviet countries that experienced 'enormous burgeoning of petty trade' (Humphrey, 2002), small scale trade, alongside household subsistence agriculture, gained particular importance in the beginning of 1900s in Georgia. The costs of the breakdown of the socialist redistributive economy were amplified by the short civil and two ethnic wars, and resulted in the inflow of internally displaced persons and widespread unemployment (Mooney, 2011). In the first years of the 1990s the Georgian government, unable to provide needed social support, instead enabled the population to pursue 'do it yourself' tactics. Household farming was enabled through the rural land privatisation process, while petty trade was enabled by the presidential decree that allowed public spaces to be used for commercial purposes. A similar strategy was used to accommodate over 300 thousand internally displaced persons (IDPs) that remained property-less (Rekhviashvili, 2015). Incapable of providing housing or allocating agricultural land to internally displaced persons, the Georgian government issued a decree which stated that IDPs had the right to occupy state owned property which was not in use at the time. The displaced independently identified empty but liveable spaces in the urban areas and then approached the government to approve their occupation. Allowing trade in public spaces was also largely designed to meet the needs of IDPs as the latter had limited opportunities of finding formal employment.

While informal trade was legal, the government also largely tolerated the illegal actions – construction of kiosks and stalls- that the informal trade involved.

Spatially, informal trade concentrated in and around the former Soviet trading places – bazaars, gastronomes, and state department stores (Universalnyi Gosudarestvenni Magazin, GUM), that were still part of the state owned property. Additionally, the surroundings of metro stations also turned into trading sites, hosting numerous kiosks and stalls. Erection of illegal kiosks was also quite common on central avenues, streets and squares. This unregulated trade heavily reshaped public spaces in the city: “During the 1990s a remarkable share of shopping was done in Kiosks. Hundreds of them were dotting the pavements/sidewalks along the main streets of the city and clustered in specially organised open markets, so called bazroba³⁶ (term derived from bazaar)”(Salukvadze, 2009, p. 176). The number of persons engaged in trade increased radically throughout 1991-1994. As Florian Muehlfield documents in his research on one of the central Bazaars – ‘Deserter’s Bazaar’, 82 percent of his respondents trading at Bazaars had started trading only since 1991 (Muehlfried, 1997).

It was only after the Rose Revolution of 2003 that the Georgian government started taking steps to restrict informal trade across the country, but most vigorously in Tbilisi (Saladze, 2011). Meanwhile the state also started privatizing the state owned bazaars including centrally located bazaars like Desertire’s Bazaar, former Sameurneo (Kholkhozni) bazaar, Saburtalo Bazaar (Khutsishvili, 2012). While the statistical information about the

³⁶ In Georgian context term Bazaar refers to the grocery markets, while Bazroba denotes open or semi-open market places where non-agrarian goods are sold.

number of illegal street vendors is unavailable, the number of persons trading inside public markets alone prior to privatization process started (2007) is estimated to be up to 100,000 (International Trade Union Confederation (ITUC), 2008, p. 9). In addition to privatizing bazaars, the state also leased or allowed privatisation of the land and property where trade was taking place informally, so that private owners of new trading spots could rent the stalls to the vendors. Thus, on the one hand, the government facilitated privatisation of urban land and on the other hand it started regulating public space, to ensure that the commercial activities were legalised and took place on privately owned/managed property.

None of these changes were welcomed by the petty traders in Tbilisi. From 2004 to 2008 the traders were mobilising in ad hoc manner, protesting and disobeying governmental decision, demanding legalisation of street vending. By 2008 the changed mobilization tactics from ad hoc, to institutionalized mobilization and established the Street Vendors' League.³⁷ As the government was either dismissing or actively repressing the collective mobilisation, since 2010 numerous vendors modified their tactics, became more mobile and invisible to escape police control but persistently continued vending in public spaces.

While many of the traders turned into illegal street vendors and refused to legalise their activity, the state needed to tighten control over the vending. Prior to 2010 the control of illegal vending was exercised by the police. As by 2010 vendors had devised diverse tactics to escape control of the policemen, Tbilisi City Hall assigned the responsibility of controlling

³⁷ At this point the group of petty traders was being divided into legally operating bazaar traders and illegal street vendors. It needs to be underlined that neither groups were stable. The same persons were at points able to trade inside bazaars but at other points forced to the streets. Overall, legally as well as illegally operating traders were opposing privatization of bazaars and restrictions on usage of public space for trading purposes.

the vendors to a special unit – Tbilisi City Hall Supervisor’s Unit. The City Hall supervisors had to penalise illegal vendors and additionally, were allowed to confiscate vendor’s goods. When the government changed in 2012, the City Hall Supervisor’s unit stopped controlling the vendors and the responsibility was delegated back to the police.

By the summer of 2014, only two years after the Post-Revolutionary government of President Saakashvili was replaced by the Georgian Dream coalition, it became obvious that informal petty trade has once more changed the urban landscape in Tbilisi. Since the landmark parliamentary elections of 2012, petty traders started slowly but persistently occupying streets, squares, and sidewalks. They came back to the light from the back streets and undergrounds, created or rather, recovered vending sites around the metro stations, put their stalls on the main avenues, decorated bus stations with the jewellery and souvenirs, and opened up the doors to the courtyards where fresh vegetables are sold. Similarly, the small shops in all the neighbourhoods started expanding on the expanse of public spaces. The change, compared to the pre - election period, was clearest in the city peripheries where otherwise gloomy soviet mass housing estates had become lively places for trade. In between apartment blocks semi-legally built garages were used as shops, or offices. The city was still nothing like it used to be in the 1990s, when Tbilisi was entirely covered with improvised kiosks and open-air bazaars. The city infrastructure was recovered from its decadent state of the 1990s, bazaars were privatized, renovated, new shopping malls were erected. These developments had limited the expansion of petty trade and forced traders to be more subtle about the ways they appropriate the space. However, the current revival of petty trade in the city is the most visible sign illustrating the defeat of the attempts of the post-revolutionary government to restrict petty trade in Tbilisi and elsewhere. Informal trade never truly

disappeared from the city, but became invisible for a limited period. As soon as the pressure and control became relaxed, it gained the foot again.

This brief overview of the way petty trade transformed in Georgia, particularly in Tbilisi, leaves us with two puzzling questions. On the one hand, it is unclear why, the Georgian post-revolutionary government, well known for its pro-entrepreneurial liberal reforms, needed to resort to harsh and sometimes violent measures against petty traders. On the other hand, it is unclear why the petty traders insisted to continue vending in public spaces in the context where they were no longer burdened either with high taxes or exposed to bureaucratic corruption.

5.2 MARKETIZATION AS A STRATEGY OF THE STATE

At a first glance, the governmental efforts to remove street vendors from public spaces do not seem to follow the logic of neoliberal transformation. The Georgian post-revolutionary government, usually seen as a pioneer of neoliberal reforms, in this case was rather suppressing the interests of the private, market-based actors like traders, in the name of freeing and revitalising public spaces in the city. The explicit political justification of the fierce struggle against vending referred to the rights of the city inhabitants to clean urban environment and safety of consumer goods. As the city authorities explained: “The interests of street vendors are very important, but we cannot act in their interest alone by ignoring other people’s needs...Many of the people who lived in buildings near these vendors complained about the bad smell. A lot of these vendors sold highly-perishable goods, and didn’t follow hygiene procedures” (Fedorenko, 2010). Indeed, the observers have noted that these steps were hardly consistent with the government’s liberal policies that usually

seemed business-friendly and supportive of private initiatives. According to Manning, the war on the bazaars and petty commerce “is difficult to rationalize coherently in terms of any typically liberal ideology of ‘bottom up market liberalism” (Manning, 2009, p. 243).

In order to explain seemingly counterintuitive moves of the government, the existing accounts turn the attention to the political motivations of the post-revolutionary government. It is argued, that the government cleaned the city from ‘unwanted residents’ which highlight social problems, such as vendors, internally displaced persons or beggars, in an attempt of designing modern, civil and European-like state as perceived by western-oriented political elites (D. M. Frederiksen, 2012). The vendors and traders at traditional bazaars were seen as backward looking, oriental remnants of the past, which needed to be replaced by what was seen as more ‘modern’ forms of commerce (Khutsishvili, 2012; Manning, 2009). According to Manning, the government was taking ‘aesthetic offence’ at these marginal economic actors, which only indicated shallowness of Georgia’s liberal reforms: “the Rose revolution allegedly ‘westernizing’ reforms are preoccupied with westernization of surface appearances than substantive economic goals”(Manning, 2009, p. 243).

While it is important to acknowledge the control of the public space as a political project aiming at modernisation, I argue that the same strategies of control also had a consistent economic rationale, pushing the process of marketization. Tightened control of the public space, restrictions on the commercial use of the public space and subsequent dispossession of petty traders was part, and a necessary condition for enabling neoliberal marketization in Georgia for a few interrelated reasons. First, dispossession of petty traders

from their accustomed vending sites became necessary, as some of the sites became subject of privatization. For the post-revolutionary Georgian government privatization of state owned land and property was one of the key strategies to attract foreign direct investments and raise revenues: “During the process of privatisation the primary accent was placed on fiscal effect, i.e. the accumulation of budget revenues via privatisation. One of the key effects of this was to increase the inflow and growth of foreign direct investment, as this derived from the purchase and further operation of objects of privatisation”(EI-LAT, 2012, p. 7). This intense or ‘aggressive’ privatisation of urban state owned land and property included enclosures of parks, public underpasses, and open-air market places (bazaars). Thus, dispossession of traders from their previous vending sites was a by-product or unintended consequence of intensive privatisation process in the city.

As we know, the state also restricted trade in the public spaces and state owned property that was not targeted for privatisation. The question is why would the government evict the traders from those spaces that were not privatised?

For the government so dependent on the revenues derived from the privatization process it was important to support creation of property markets and to have the value of urban property rising. To accomplish this goal, control as well as redevelopment of the public space becomes the means, one of the drivers of accumulation. As the critical literature on public space explicates, “Under capitalism private property implies a further set of relations. As a fungible, delineated thing, its use value to a large extent, equivalent with its exchange value. The purpose of owning property is to have it increase in value... In the city, private property – and the values it contains – is a necessarily determined in part, by the practices

laws and meanings that determine the use of public property” (Mitchell & Staeheli, 2006, p. 149). Hence, from the perspective of Mitchell and Staeheli, the politics of public space is tightly tied with the property relations. For the capitalist accumulation and more specifically for propelling property value, it is necessary that first of all, the property can be commodified (Polanyi, 1957, 1968), which requires delineation of public and private property and establishment of the institution of private property. Secondly, the value of the private property will at least partially depend on the way public space is controlled, managed and designed, as it needs to meet interests and tastes of potential investors, owners and residents.

For the Georgian government it was necessary to locate commercial activities away from public space inside the private sector to enforce functional division between public and private property and to enable commodification of urban land. If majority of urban land continued being used for private commercial purposes under unclear/informal ownership, its liquidity would remain restricted, and it would be impossible to subject private urban land to self-regulating demand and supply principle. If the public property was used as if it was private property, then the demand for private property would not be reflected in property prices. In this sense, controlling public space and restricting its commercial use, lies at the very heart of a market economy that depends on commodification of land and other fictitious commodities for capital accumulation. Moreover, as the petty traders, like other marginalised groups present in public space were associated with poverty, lack of order and hygiene, they undermined the governmental attempts of making different districts and locations more attractive for investment. Therefore, what Manning calls an ‘aesthetic offence’ that state took at the economic activities of marginal actors was not simply the issue

of the aesthetics, but was also related to the redesign of economic institutions. In turn, the new Western- like aesthetics the government was trying to impose was not only a political, but also an economic project, aiming at facilitating urban land commodification and increase in property value.

Last, but not least, the governmental actions can be understood as an attempt to simplify the governance related tasks. If the government was to satisfy trader's demand and allow vending in public spaces, but simultaneously attempt to tax the vendors and secure spatial order, it would need to invest considerable resources. Both, provision of vending space as well as revenue collection from numerous petty traders would be a challenging task. After all, the returns of the traders were often too small to be taxable, and indeed, the micro-businesses (annual income not exceeding 30 thousand GEL) were exempt from personal income taxes (Ministry of Finance of Georgia, 2014). Instead, the government leased and sold urban spaces to private owners so that they could, in turn, rent stalls to individual vendors. In many newly established market places, the traders did not hold cashboxes, or pay taxes directly to the state in any other form. However, they did have to pay the rent price to the market owners. The state then taxed private owners of the markets, while the owners were responsible to collect rent from the individual vendors. This way the government aimed to simplify its task of governing public space as well as of revenue extraction.

After all, the government initiated offence on petty traders does not seem that counterintuitive. Rather, this offence and the attempt to free public space from commercial activities as well as 'unwanted residents' was a necessary condition for pursuing neoliberal marketization policies. In other words, instead of contradicting its own liberal reform course,

as some of the observers would contend, in the case of handling petty trade the government rather proved devotedness to its own objectives. Yet another question is why the government needed to resort to aggressive methods to force the traders vend inside privately owned market places, or why it turned out so hard for the traders to legalise their trade.

5.3 COSTS OF MARKETIZATION FOR PETTY TRADERS

As I have argued elsewhere, it would be hard to interpret the reasons behind the disobedience and resistance of the vendors from the new-institutionalist perspective. As the new-institutionalists see informal economic practices as market-like practices, that rely on the productive resources of restricted liquidity, they envision that the process of resource commodification and reduction of the state imposed costs should benefit informal entrepreneurs (Johnson et al., 1998; Loayza, 1999; Piculescu & Hibbs, 2005; Schneider, 2006; Schneider et al., 2010). From a Polanyian institutionalist perspective informally self-employed persons do not necessarily have to be seen as lucrative entrepreneurs, or 'economic man', unless proven otherwise. Besides, the subjection of core productive resources – land labour and money – to a self-regulating price mechanism can indeed signify economic progress. However, far from being a harmonious process, the process of disembedding fictitious commodities from social control endangers a society by dismantling cultural institutions, and inevitably triggers resistance (Polanyi 1968, 1957 [1944]). If we look at informal economic practices from Polanyian lenses and acknowledge social and cultural embeddedness of these practices, then it becomes easier to interpret traders' discontent against the marketization process. This second section of the chapter discusses the economic, and more importantly, the social costs of the marketization process for

Tbilisian petty traders to understand their discontent with the institutional changes in post-revolutionary Georgia. In this section, I first show what embeddedness of informal practices meant for petty traders, and secondly explain why marketization unravelled the social fabric at the trading sites. The next chapter further elaborates the theme and illustrates reasons for resistance as articulated by the traders and revealed through their tactics of resistance.

5.3.1 Embedded petty trade

To understand why marketization might not be welcome by the informal traders, first the nature of the informal trade needs to be discussed. In the first place, the reason why marketization is suggested as a solution to informality, is that the actors involved in the informal economy are assumed to profit-seeking entrepreneurs and their interactions are assumed to be reducible to economic exchange. The fact that the informal practices are not regulated by the state is confused with the existence of ‘unregulated’ markets. However, a vast amount of existing literature has illustrated, that far from being unregulated, informal economic practices are organised and regulated according to socially and culturally embedded norms and values (Morris, 2014; Morris & Polese, 2014; Stenning et al., 2010). In a Polanyian sense, markets can coexist alongside other forms of social organisation, but only an economy that is dominated by the self-regulated demand and supply principle can be called a market economy. At the first glance, it might sound paradoxical to say that petty trade is not exactly a market-based activity as it obviously involves trade with (petty) commodities. However, far from representing an activity predominantly organised according to a demand and supply principle, informal petty trade in Tbilisi was and still to an extent continues to be regulated according to culturally embedded institutions and relies extensively [1] on non-commodified resources, [2] limited competition, [3] and informal

reciprocal and redistributive networks. Commodification of previously non-commodified resources not only enhances financial risks, but also requires that the involved persons change values and attitudes, and see resources that they have been accessing free or relying on their social capital as tradable resources. Even more importantly, the instability at the trading sites and frequent displacement deprives the traders of the most important (sometimes the only) resource they have – the access to social safety networks. To understand what embeddedness means for a petty trader the way she accesses *money*, *labour* and *land* should be explained.

Money

Despite a much easier availability of micro-credits since the 2000s (Chlaidze, 2011), by 2012-2014 the traders still, at least partially, relied on informal reciprocal networks to access credit. One way of accessing non-commodified money is to rely on the reciprocal relations that emerge among the vendors and traders throughout the years of trading together. Illegal vendors often form small groups comprising of 5 to 15 persons. The group members bind together, socialise throughout the day, (especially in the case of elderly women) and take care of each other's health. Besides borrowing plastic bags, and small change from each other on a daily basis, these groups also organise their common resources for raising credit necessary for (re)investment in retail goods, and for coping with unforeseen costs. These small groups often engage in, so called 'lottery' practice. The lottery is a way to pool money together. All the participants contribute to the pool on a daily or weekly basis, and use the gathered amount for reinvestment in turns. This way the vendors avoid paying interest, access money, and also reinforce social bonds. Additionally, in cases when any of the members face unexpected costs, such as fines or health problems, all the

members feel obliged to contribute to cover the costs, thus creating a type of small-sale, informal social insurance.

Another way of accessing money is related to pre-existing relationships: friendships, family and kinship ties. The reliance on kinship ties is the most obvious in the case of Georgian Roma traders. Because the kinship ties of Roma groups are quite extensive, they are able to pool money together and collectively purchase large amounts of goods from the wholesale retailers. They share the responsibility for selling purchased goods, share the profit and contribute to a common pool of capital for reinvestment. This intensive cooperation and centralised control over money as well as labour, gives the Roma groups relative advantage over smaller and less organised groups that cooperate on voluntary bases. However, ethnic Georgian vendors and traders are better endowed with social networks also outside of the circles that emerge at the marketplaces. Many of them accessed initial capital for trade through the remittances they received from family members and relative working abroad, and can borrow money from relatives in hard times. In cases when money is accessed through informal networks, the interest as well as due dates for the return of the debt depend on the type of relations between lender and borrower. This type of borrowing certainly involves high risks as well as possibility of the default. Close kin relations, however are not broken down as a consequence of the default. The cases of default rather are perceived as socialisation of losses³⁸.

³⁸ To clarify, not all informal ways of accessing credit are related to networks of kin, friends or colleagues. Among the vendors that sell retail goods (rather than sell own agricultural products) it is very common to borrow the goods from, so called, 'distributors' and pay back in cash once they sell the goods. The distributors are the middleman, that either serve under wholesale importers that import goods from Turkey, China, Azerbaijan or elsewhere, or they buy goods from larger, wholesale markets (for example Lilo market) and deliver them to the petty traders in and around bazaars and shopping malls. The traders in turn return parts

Labour

The way labour is exposed at trading sites depends on how social relationships are organised across the families and communities. Illegal vendors as well as small traders inside the privately owned market places are predominantly women over forty. They commonly either have dependants, children and grandchildren, or have nobody to support them. Interestingly, many of them report having sons and daughters in their twenties and thirties that have higher education, but no jobs. It seems counterintuitive that the elderly pursue risky vending activities while the young people shy away from trading, but this dynamic only reflects existing norms that govern intergenerational relationships and responsibilities, as well as negative social prejudices against petty trade. Like in other post-soviet states, petty trade is a negatively prejudiced activity in Georgia. Most of the vendors and traders dislike their work, try to disassociate trade from their identity and see it as a temporary solution, even if it has become a permanent activity for many. This is why the traders prefer to spare their adult children from trading activities, even when those are unemployed. As a considerable share of traders are not only literate, but sometimes even hold higher education degrees, they tend to support their children to receive higher education and are willing to sustain them economically while the latter search for more socially valued jobs. Moreover, the traders sometimes also support unemployed husbands that find it shameful to work at

of the credit on daily or weekly bases. On the days when vendors do not manage to sell enough goods, they fear the appearance of the distributors as they cannot afford to pay back the daily due. In this case even if money/goods are accessed informally, the money is still commodified. However, what distinguishes this borderline practice from formally accessed credit is that the interest as well as due dates of credit return are negotiable. Even if the relations between distributors and traders get confrontational at points, they still operate on the bases of interpersonal trust. Traders and distributors are aware of each other's challenges related to trade, but also health, family and other parts of life. The terms of exchange between them are shaped in the context of intimate social interaction.

the bazaars.³⁹ These perceptions of gender and intergenerational roles clearly stand in the way of the traders need to accumulate capital. Instead of employing household members, the traders often support working age persons and remain unable to reinvest in their own little businesses. Georgian Roma provide an exception to this general picture. The Roma community usually employs all generations in trade activities, which on the one hand increases Roma household and community returns from trade, but on the other hand reproduces the social exclusion of Roma community as children remain deprived of the opportunity to receive even primary education.⁴⁰

Land

Urban land and property was the commodity most intensely and clearly commodified as a result of the governmental moves – privatisation and restriction of access to public space for commercial purposes. The resistance of the vendors was largely aimed at reversing or hampering this commodification. Besides clear economic losses that the privatisation and the control of public space imposed on the vendors, the reasons for general outrage also lay in traders' specific perceptions of the meaning of public spaces. Confusion concerning the boundaries between public and private spheres and spaces can be dated back to Soviet (if not earlier) times. It is usually considered that public spaces were of limited use due to

³⁹ The predominance of women in devising survival tactics since the 1990s is also documented in Russia and Ukraine (Burawoy, Krotov and Lytkina 2000, Round and Williams 2010 respectively). For women it appeared easier to take on socially unvalued jobs compared to man, who found their skills and education unfit in the transition years but perceptions of masculinity, honour and reputation often prevented them from taking up stigmatized jobs like small trade. In the Georgian case, a similar tendency is visible in patterns of rural-urban migration as well as emigration. As a tendency it is the women that migrate to the cities and abroad to trade or start serving in the informal care sector.

⁴⁰ To make sure, Georgian Roma as a socially excluded group has limited hopes for social mobility. The challenges for the Roma community, as one of the small but clearly socially excluded minorities, are not addressed or even publicly discussed either by the state or by non-governmental actors. Therefore, lack of schooling of Roma children is rather caused by the inability of the state to integrate the Roma community.

extensive political control and surveillance, making the ideal of ‘everyone’s space’ effectively into ‘no-one’s space’ throughout the Soviet period (Zhelnina, 2013). However, perception of public space as ‘no-one’s space’ rather encouraged households and individuals to appropriate these spaces as they found it fit, often at the expense of reducing their accessibility or publicness.⁴¹ Throughout 1990s, the appropriation of ‘no-man’s lands’ became a widespread practice, resulting in the erection of illegal constructions, garages, occupation of abandoned buildings and plots of land (Salukvadze, 2009). For the population, unaccustomed to perceiving definite boundaries between public and private, the restrictions over the public spaces was a confusing development and was experienced as profoundly unjust. The petty traders reported that it was inconceivable for them to be punished for using a piece of land to earn money in their own country. This way, the right to public property was reclaimed, evoking the concept of national belonging. For the traders it seemed paradoxical that in independent Georgia citizens still had no right to their ‘own’ land. The division between public and private remained an alien concept for traders, thus the state’s attempts to enforce this division were rather understood as a direct insult to the group of traders.

Trading sites as spaces of sociability and safety nets

The embeddedness of petty trade is perhaps the best manifested in the attachment of individual traders to the places and social safety nets, associated with these places. As Round and Williams argue, the reliance on social capital “demonstrates the importance of place in

⁴¹ These practices resonate with the overall perceptions of public resources in the Soviet period, when appropriation or even stealing of the resources from public organizations or production sites was usually a socially acceptable behavior.

everyday life as social capital flows through, and becomes entwined in, the locations it is employed in” (Round & Williams, 2010, p. 188). Trading sites, and particularly bazaars, are also known to retain their importance primarily due to the specific types of sociability that arises at these sites (Nasritdinov, 2012; Polese & Prigarin, 2013). Even if petty trade is a socially undervalued or prejudiced activity in Georgia, the traders are attached to the specific type of socialisation that emerges at the trading sites. As the Georgian anthropologist, Ketevan Khutsishvili, observes:

Bazaars in Tbilisi still play an important role in everyday culture, constructing and containing social relations with their own economically significant attitudes and their own set of values. These circumstances are ignored by the city officials and the bazaar culture seems to be diminishing. However, at the same time, spontaneous and partially hidden street bazaars are continuously emerging. This speaks of the need for bazaars by citizens who, so to speak, vote by foot and still, though not conspicuously, keep on participating in the bazaar culture, both as vendors and customers. For many Tbilisians, bazaars continue to play a significant role not only in the economic life of the city, but in its culture too (Khutsishvili, 2012, p. 46).

Illegally, as well as legally trading women often form groups which serve as safety nets for its members. The reciprocal groups that can count five to fifteen women play a vital role in the daily lives of its members. Even the street peddlers, who walk around the streets alone, as a tendency belong to groups, and come around to visit their friends a few times a day. Seemingly insignificant but a highly valued role of these groups is to simply provide space for interaction during lengthy, often over 10 hour’ long working days; to share jokes, rumours and concerns. Besides, the group members borrow money, plastic bags or scales from each other, break down each other’s cash and look after each other’s goods if somebody is absent. As described above, these groups also rely on special arrangements to provide credit without interest for each member, and share the costs in cases of a member facing

health problems, or unexpected financial problems. The elderly women are there for each other to measure the blood pressure, share medication, and keep an eye on each other's health condition in general. This type of social network is of special importance for those traders that do not have families in their proximity, such as the elderly single women, and the younger women who left their families behind, migrated from rural areas and cannot rely on kinship networks.

These small groups operate according to untold rules that balance the intergroup competition. They tend to sell complementary goods. For example in a group of eight to ten women trading with small garments, one or two persons will sell female underwear, another group of two - male underwear, yet others will sell socks and shirts. Similarly, among the group of agricultural food vendors, some will sell herbs, while others will sell vegetables, fruit, cheese, etc. This complementary arrangement allows the traders to refer the customers to each other's goods and creates a non-competitive environment inside the group. These small groups are well integrated in the micro-environment that they are located in. They interact with the local residents, with other groups of traders, the shop owners, the security guards of shopping malls, and even district police officers. They rely on the specific food vendors that offer coffee and khachapuri (Georgian cheese bread) for an affordable price, and feel responsible to take care of even more vulnerable persons who appear at the vending sites.⁴²

⁴² In many occasions the vendors regularly give change to those beggars that stick around their vending sites. In the case of the group of vendors that stand in a park, behind the shopping centre, I have observed that relationships between traders and some of the beggars can sometimes become personalised. This group of traders was often visited by a man in his 50's with slight but recognisable mental disability. He would sit around for a while, talk of politics, make jokes and ask for change. Overtime I learned that the man suffered from cancer and it was the traders that raised funds for his surgery.

5.3.2 Instability and displacement

Attending the social and cultural embeddedness of informal economic practices reveals that many of the assumptions concerning these practices might not hold true. The traders cannot be assumed to be primarily profit-seeking individuals, or aspiring entrepreneurs. Instead, in the case of Georgian traders, the attitudes towards petty trade and towards the bazaar culture, the perception of the temporariness of self-employment, and the extensive responsibility towards kinship and friendship networks, shapes the traders' decision-making process on how much profit they can save and how much they need to redistribute in a community. The social considerations overlap with, and often override the profit maximizing reasoning of the actors.⁴³ The social and cultural norms regulating access to resources and lack of liquidity of these resources indeed reduce an actor's capacity to expand their trade or accumulate capital. However, it is precisely the reliance on non-commodified resources and limited competition that enables numerous actors to pursue informal economic activities for income generation. Moreover, reciprocal and redistributive networks allow the traders to cope with regular insecurities or unusual losses, in other words to ensure relative social security. What economists would call 'high transaction costs' (for example delayed repayment of debts), are the costs that families, kinship and friendship networks sometimes willingly bare to compensate for the losses of the community or family

⁴³ The motivation of the consumers that decide to purchase goods from illegal vendors cannot be reduced to efficiency maximising either. The consumers cannot be motivated by price differences as the illegal vendors do not always offer cheaper prices relative to the prices found at formal market places. Instead, illegal vendors have developed lasting relationships with some of the customers who prefer to buy the goods from them, not because of the quality or price of the goods, but because of personal loyalty. Additionally, the weakest of the vendors often approach the passersby, asking (or begging) them to buy some of their goods. One can observe that those who choose to buy goods from illegal vendors often make it explicit that they never intended or planned to buy these goods, but they buy a limited amount out of compassion. In the case of petty trade, demand is created by oversupply, and it is not the consumer but often charitable considerations of buyers that enables the operation of numerous petty traders.

members. Given that the social networks and non-commodified resources are so crucial for the petty traders, the process of marketization, imposing displacement and instability, comes financially and socially costly for the traders.

Instability of rent prices

The instability of rent prices as well as the instability of new trading were among the main challenges the traders experienced due to the commodification of urban land and property. The dispossession of the traders from privatised bazaars and trading centres, coupled with the restrictions over the usage of public space for commercial purposes,⁴⁴ enhanced the demand for privately held land and property. Because of this vast demand, the market owners were able to raise the rent price, which in balance created the situation where only the traders with a bigger turnover could afford trading inside a privately owned marketplace. On the one hand, the state never attempted to regulate rent prices; on the other hand, renting the place inside the market did not require any long term contract between a trader and an owner, which resulted in the volatility of the marketplace rents.

Not only the vendors, but even the city hall supervisors identified the rent price instability as a core challenge for the traders. As the head of Tbilisi city hall supervisors' unit

⁴⁴ The traders could only use public space for vending in the case they received the permit from the city hall. Firstly, even if some of the vendors were able to meet the conditions for the permit, it would only be a limited number of them and not resolve problem for majority of the vendors. Secondly, meanwhile a few companies started competing for the permits for vending kiosks. According to the research of the Georgian Young Lawyer's association (GYLA), 2515 appeals were made for vending permits during 2009-2011, and only 735 (29%) of all applications were satisfied (Saladze, 2011). As bigger companies entered the vending market, they drove self-employed individual vendors out of the market as they were more capable of meeting permit requirements, and it was be easier for state authorities to extract taxes from the companies rather than individual vendors. Thus, vending legally in kiosks was not an option for the individual traders and they had to find a place inside privately owned bazaars or shopping malls.

argued, the fact that the prices were high and unstable, complicated supervisors' task of enforcing the regulations at the vending sites: "It is of outmost importance that the marketplaces offer low rent prices. These prices have to be acceptable for people and should be somehow regulated. If you (as a state official) are fair, and offer a person (a vendor) an acceptable price and conditions, only then you can demand compliance from her" (Interview with the head of Tbilisi city hall supervisor's unit, 2013). The city hall supervisors supported illegal vendors to find places inside the privately owned market places. Sometimes they informally participated in the rent price negotiations between traders and owners. However, as the supervisors reported, as soon as illegal vendors started entering market places the owners would increase the rent prices. As the city hall supervisors often underlined, they could only facilitate negotiations but had no right to intervene in the business of private owners. Thus, they had no power to resolve the disputes concerning the rent prices.

Displacement

In addition to the volatility of the rental prices, frequent enclosures of the bazaars and the instability of the newly established shopping places was a challenge. As previously publicly held bazaars were privatised, the new owners first enclosed the building, started renovation or demolished old buildings to erect the new ones. Not only were the traders not offered alternative, temporary arrangements to continue the trade, or compensation for the period they were expelled from their usual trading sites, they were often not even informed about the privatisation in time. Describing the privatization and demolition of one of the old, centrally located and perhaps the most famous bazaar, Deserter's bazaar⁴⁵ in 2007, Ketevan

⁴⁵ Deserter's bazaar is one of the central and perhaps the most famous bazaar in the city, and also the main site of my ethnographic observation in 2012-2013. It used to be the most visited bazaars prior to privatization.

Khutsishvili reports that the authorities refrained from informing the traders of privatisation. Instead, the traders learned of the bazaar's privatisation through rumours circulating in the city. One of Khutsishvilis informants' reports that the traders:

When they wanted to destroy the old bazaar, the sellers announced a demonstration at 12:00 in front of the Parliament, but in the morning when they came to their workplace, the building had already been destroyed and the police had surrounded the territory. They even could not manage to save their goods. Some of the traders later received their goods back. Compensation for spoiled and lost goods were offered to the amount of 100 GEL, but that was not well organised and thus many sellers have not received anything" (Khutsishvili, 2012, pp. 48–49).

The Deserter's bazaar was reopened only in 2013, but only the first floor of the new three storey building got populated by the wholesale traders of agricultural goods. Many illegal vendors, as well as the traders inside smaller bazaars located nearby the Deserter's bazaar remained suspicious of the new arrangements at Deserters' bazaar. This mistrust is no surprise given that since the demolition of the original building and enclosure of the territory, the traders were not informed about the future of Deserter's bazaar.

In parallel to privatisation of old bazaars, the land and property nearby the bazaars was also often leased or privatized. It became quite easy for the new property owners to organise new bazaars at these locations and absorb the demand on vending pitches. However, it was also easy for the owners to close down the business in the case they found it unprofitable and to use their land and property for other purposes. A case of Bordjomis bazroba can illustrate the difficulties attached to this instability.⁴⁶ Bordjomis bazroba was established in spring of 2012 in between the central railway station and Deserter's bazaar

⁴⁶ Bazroba is a term derived from bazaar. Commonly Bazroba is a place where instead of agricultural goods the traders sell garments, textiles and or other household necessities.

(then under construction). The outer, open-air part of bazroba, was designated for agricultural goods while the inner part hosted the traders that sold garments, shoes and textiles. Many of the Georgian Roma traders were allocated in the inner part of bazroba. I first visited Bordjomis bazroma in the first month of its opening. The traders reported that the customers were not yet used to the location, but they hoped that people would soon get accustomed to this new place. In less than two months after the opening, the owners of the bazaar declared the abolition of the inner bazroba and turned the whole space into an open-air agricultural bazaar. The persons that were evicted from the bazroba reported considerable financial losses. To secure the stalls inside the bazroba they had already paid a fixed price to the owners. In addition, they were paying daily rent to the owners despite the fact that in the meantime they could not manage to sell goods and the customers were not aware of the existence of this newly opened bazroba. The traders hoped that over time the trade inside bazroba would become profitable. Being evicted from the bazaar left them with debts and little prospects of selling the goods they had already invested in.

This type of unexpected dispossession of the traders was a regular, rather than exceptional occurrence (for similar examples please see Chapter 6). According to the traders, the losses imposed due to the enclosures of bazaars or public parks and squares were devastating. On the one hand, they experienced significant financial losses. They lost goods, could not easily find a place to continue trading, so their trade activities were halted for a while, their debts mounted and the ability to reinvest in tradable goods diminished. On the other hand, their social relations were disrupted, long lasting customers were lost and the small reciprocal groups of co-workers were dissolved. In order to retain and reconstruct these social bonds the traders usually tried to stick to locations around the enclosed places.

CONCLUDING COMMENTS: WHAT HAPPENS TO THE LOSERS?

In the second month of my fieldwork, a young city hall supervisor told me that the illegal vendors are the losers of the competition. They are unable to compete, so they continue competing with the rest on unfair terms. Everybody has to pay rent prices and sometimes taxes, but illegal vendors avoid payments and can afford to sell goods for smaller prices. Keeping in mind the painful experiences of the traders since the post-revolutionary transformation started affecting petty trade, I initially considered this statement to be genuinely unjust. After a while in the field I realised that the city hall supervisor was quite accurate in his assessment. The process of marketization had created scarcity on access to the land, which in turn enhanced competition, and articulated the dividing lines between more and less resourceful traders. Even if the Georgian government employed less humiliating methods to pursue the marketization, the outcomes would have been similar, driving a share of traders out of the retail business.

The most important lesson that can be learned from observing the embeddedness of petty trade and the challenges that arise from the marketization process is that it is the lack of dependence on commodified resources that enables informal economic practices. When describing informal practices of blue-collar workers in a provincial Russian town, Jeremy Morris pays attention to the almost unrestricted availability of informal work: “A complex, but socially compressed web of contacts works to maintain informal labour opportunities that in this town can encompass any willing worker” (Morris, 2011, p. 60). The key to the wide availability of informal work is not simply avoidance of taxes and regulations, but the dependence of informal relations on non-commodified resources, and hence, (relative) avoidance of competition and resource scarcity. The reason why petty traders prefer to vend

in public spaces is not simply that vending in public spaces is free, but because its non-exclusive.⁴⁷ A pitch in a public space can be claimed by a vendor through overtime presence at the same place. It will be her social circle that will approve and enforce her right to use a specific spot. It is precisely because the claimed space cannot be easily traded, that no single vendor will be able to claim too big a space, or too many vending pitches. Public space, as a non-tradable resource cannot be concentrated in the hands of a few actors, and therefore can host a virtually unrestricted number of vendors. As the expansion of the trade in such circumstance has boundaries, the vendors continue working for marginal returns. In other words, reliance on non-commodified resources limits the opportunities for accumulation and expansion of the economic activity, but guarantees the availability of employment opportunities for numerous interested actors. Similarly, sharing and pooling of financial resources within the reciprocal networks and redistribution of financial resources within the (extended) kinship networks often constrains an individual trader's capacity to save and invest. However, in a long-term perspective the same networks ensure the individual's social safety. In Polanyi's words "The maintenance of social ties ... is crucial. First, because by disregarding the accepted code of honor, or generosity the individual cuts himself off from the community and becomes and becomes an outcast; second, because in the long run, all social obligations are reciprocal, and their fulfillment serves also the individual's give-and-take interests best"(Polanyi, 1957, p. 44).

⁴⁷ Mind that the assumption that access to public spaces are free might not always be true. Prior to the post-revolutionary changes and elimination of petty corruption, the traders would pay informal rents to district policemen and/or non-state racketeers. Even when the state or non-state racketeers are able to extract money from persons relying on public spaces, those spaces are still non-commodified.

Once some, or all of the relevant resources are commodified, the importance of informal social safety nets and the importance of remaining non-commodified resources are amplified for those actors that experience the losses. In the case a trader fails to pay the credit to formal financial institutions, be it banks or micro-credit providers, she will attempt to borrow from kinship and friendship circles to repay the debt. In the case her circles are unable to raise the sum and the trader loses her flat to a bank, then she will move to live with relatives.⁴⁸ Similarly, the higher and more volatile the prices for the pitches are inside the privatized bazaars, the more vital becomes the access to public spaces for a vendor. In other words, the higher the market related risks, the higher the need for social security and the mechanisms compensating for the possible losses. Hence, it is no wonder that the rent price fluctuations as well as frequent displacements, cutting the traders off their social safety nets, threaten numerous traders and trigger resistance.

The relevance of these observations for the theory on informality, as well as policy-making are immense. The remedies offered by new-institutionalist theorists, suggesting to enable resource commodification, dismiss precisely the aspect of informality discussed in this chapter. While the new-institutionalists rightfully detect that limited liquidity, or lack of commodification of resources stands in the way of accumulation, this literature fails to perceive that [1] lack of commodification of resources is also the main reason why so many people (often lacking marketable skills, as well as financial resources for investment) find informal income generating opportunities; [2] enabling commodification inevitably puts limits to the wide availability of informal work. As much as it is nice to imagine that

⁴⁸ Far from being hypothetical, such events occur on daily bases in traders' lives.

marketization can allow harmonious transition of the informally operating actors into the informal entrepreneurs, the scenario is highly infeasible. It is close to impossible that tens of thousands of petty traders in Tbilisi turn into successful entrepreneurs, if they compete with each other, and more importantly, much larger retail actors and supermarket chains in the context of unregulated market competition. Hence, the trade-off between allowing numerous actors to generate minimal but still vital income for the survival purposes and enabling a limited number of actors to maximize profit is apparent. In Polanyian sense, the inherent tension between economic improvement and habitation is inevitably haunting the marketization process.

The core question then, is what happens to the losers? The next chapter describes what kind of solutions were devised in practice to compensate for the costs of marketization. In the last few paragraphs of this chapter let me briefly describe two competing solutions to the problems of the losers proposed by my informants. According to the same city hall supervisor I mentioned above, the illegal vendors will over time learn that their behaviour compromises the law and will stop vending on the streets. The notion of justice evoked in this case is the 'market justice'. According to this notion, the losers of the competition should accept the loss and stop engaging in unfair competition with law abiding traders. Interestingly, some of the winners of the process, primarily the property owners understood the process in more complexity. By the spring of 2013 when the Deserter's bazaar reopened it faced difficulty in attracting sellers to occupy empty stalls. The owner⁴⁹ of the bazaar was concerned with the competition from illegal vendors. When I asked if he could think of a

⁴⁹ More precisely, the respondent is the largest shareholder and the chief manager of Deserter's bazaar.

solution he replied that after all, the biggest problem was that the state was unable to provide sufficient pensions to the elderly ladies. Those ladies would probably never afford paying rents inside bazaars, they would always go around the rules and trade in public spaces. Seeing that illegal trade is possible, even more capable traders would opt for outdoor trade instead of paying for a pitch in the bazaar. Taken as a whole the process hurt his business. He said, he could not think of a solution, unless the most vulnerable segment of the vendors had access to social security. This would in turn make it easier for the government to enforce the rules, control public spaces and overall, also support the property owner's interests. In this case, 'market justice' needs to be coupled with some degree of social justice and the two are seen as reinforcing each other. However, as the owner of Deserters' bazaar rightfully underline, the Georgian government refused to acknowledge the need for compensatory, protective mechanisms, which only lead to the situation where the inevitable countermovement got locked in an informal realm. This solution, even if easing the traders challenges, was suboptimal not just for the traders, but also for the bazaar owners and was subverting the governments' efforts at enabling marketization.

6 COUNTERMOVEMENT: TRADERS' RESISTANCE AND STREET-LEVEL OFFICIAL'S INFORMAL INTERVENTIONS

INTRODUCTION

Just as destruction, so the countermovement can be creative under capitalism. In a Polanyian thought the countermovement is understood as a societal self-protective response against the advancement of markets, manifesting itself in diverse forms (Polanyi, 1957). The fact that countermovement serves social protection does not mean either that the countermovement, in its turn, does not endanger the society or that the countermovement is always successful in providing social protection. For Polanyi, the emergence of the Nazi regime in Germany and the socialist, although repressive and totalitarian regime in Russia, was just as much a response to a liberal capitalism as the emergence of workers' movements, trade unions, labour regulations and broadly conceived welfare state. In this chapter I trace a localised, micro case of the countermovement against marketization. Even if the societal self-defence ultimately results in state level institutionalisation of protective measures, the countermovement, prior to institutionalisation, can be seen as a "more spontaneous, hidden, molecular process" (Burawoy, 1999, p. 4). I suggest that the countermovement in the Georgian case was also a spontaneous, molecular process that remained hidden and uncoordinated due to the unwillingness of the state to institutionalise protective measures. However, it succeeded in undermining and counterbalancing the marketization to a limited but noteworthy degree.

In the previous chapter, I have explained why marketization, and primarily the commodification of urban land and property was strategically important for the post-

revolutionary Georgian government. I have also shown that, the same process was socially and economically costly for numerous informally operating traders that had to face rent price instability and frequent displacement. The present chapter is devoted to discussing [1] the ways the marketization process was contested and resisted by petty traders and [2] the measures taken to ease the social consequences of the process. The first part of the chapter discusses the attempts of the self-employed in general and illegal street vendors in particular, to mobilise collectively and communicate their concerns and demands with the government. Given the overall weakness of labour unions in Georgia, difficulties in mobilising a group as large, diverse and dispersed as self-employed, and the post-revolutionary Georgian government's hostility to and sometimes outright suppression of the labour union mobilisation, these attempts at utilising formal political participation channels were largely unsuccessful. I see this relatively short-lived mobilisation (2007-2011) as a failed attempt at mounting a countermovement in a Polanyian sense.

The second part of the chapter discusses how, this unsuccessful episode of an attempted countermovement, was followed by the acts of trader' disobedience. Moreover, it was followed by informalization of the countermovement, expressed in the informal involvement of street-level officials – the policemen and the city hall supervisors⁵⁰ - in accommodating traders' needs and easing the conflicts at the trading sites. This dissertation treats the informal practices and interventions of the street-level bureaucrats as a case of

⁵⁰ I define both, policemen and city hall supervisors, as street level officials following Lipsky's criteria (Lipsky, 1980). Policemen and supervisors are public employees that regularly interact with citizens, have considerable independence in decision making and their decisions make important difference for the lives of the citizens, in our case small traders and illegal vendors.

micro-level, informal countermovement⁵¹, because those practices and interventions [1] were not similar to the informal practices pursued by state agents prior to the marketization process (thus were not merely reproducing the pre-existing informal practices), and [2] they were devised to ease the social costs of marketization. First, the street-level officials understood that the supply of vending pitches inside the privately owned bazaars and shopping centres was insufficient to accommodate the traders, and started informally asking private investors to open up more bazaars. Second, the street-level bureaucrats also realised that the absence of regulations over the rent prices and the lack of longer-term contractual relations between traders and market-place owners resulted in the volatility of the rent prices. Therefore, they became informally involved in negotiating the rent prices between the traders and the market-place owners. Finally, the street-level officials acknowledged the need to differentiate the lucrative entrepreneurs from the persons taking on entrepreneurial tactics for survival purposes. Thus, they tolerated the illegal vending practices of the vendors that they perceived as more socially vulnerable. Overall, these informal interventions served as a protective solution for the traders. The interventions also had shortcomings primarily because they remained informal and were not endorsed or legitimised by the state. They

⁵¹ As discussed in the theoretical chapter the countermovement in the existing literature is most often related to [1] utilization formal political participation channels to communicate the demands with the state or transnational political actors and [2] establishment of formal regulatory mechanisms and institutions for social protection. The two interrelated aspects make up the countermovement. First, the countermovement is a set of acts, practices, interventions, and, in Poalnyi's words, 'measures' that ultimately can be formally institutionalized. Second, these practices and institutions are primarily directed at mitigating the social costs of marketization. When talking of informal countermovement, the concept should not be confused with all kinds of informal institutions (informal norms, unwritten rules) or informal economic practices. Instead, only those practices and institutions that are directed at mitigating social costs of marketization can be seen as comprising the informal countermovement. The reliance on informal measures, practices, and institutions for counterbalancing the costs of marketization can indeed result in reproduction of informal economic exchanges. Hence, the informal economy is not in itself a countermovement, but the reliance on the informal economy can be reproduced as a result of informalization of the countermovement.

represented a set of improvised, unsustainable solutions, which undermined the state's legitimacy and ultimately, also challenged the state's efforts at enabling the marketization.

In the remainder of the chapter I discuss these topics at length, exposing the traders' justifications for disobedience, as well as the reasoning of the street-level officials while elaborating the informal intervention mechanisms. Among a number of observations, three arguments made in this chapter are of outmost importance. First, supporting the argument developed in the previous chapter, this chapter illustrates that the resistance was primarily directed against the marketization process. Secondly, the chapter shows that the emergence of protective measures is an inevitable development. By avoiding the need of institutionalising protective measures, the state unintentionally facilitates informalization of the countermovement. Lastly, informalization of the countermovement is arguably more dangerous than making an effort to intervene formally. Balancing between marketization and protective measures is a challenging task even when both of the tasks are endorsed by capable governments (Bohle & Greskovits, 2012). Balancing between marketization and informally pursued fixes of its social costs only complicates the problem.

6.1 A FAILED ATTEMPT OF MOUNTING THE COUNTERMOVEMENT

As described in the previous chapter, the post-revolutionary institutional changes enabling deepened marketization in Georgia had shattering consequences for the petty traders. Primarily, the urban land and property commodification process that involved restrictions on access to public space and intense privatization of state owned property dislocated traders from their usual vending sites and disrupted their social networks. The instability of rent prices at private market places and frequent closures of market places

imposed both social and economic costs on the traders. Enhanced competition only deepened the lines between the winners and losers of the process. Near the end of the rule of the post-revolutionary government, both legally and illegally operating traders reported worsening of their returns and working conditions. However, the resistance towards these changes did not fade throughout the entire decade. The petty traders, particularly the ones that did not find a way to legalize their trade and pursue street vending illegally, opposed the changes through collective mobilization as well as individual disobedience. The losses were contested and the new tactics of regaining access to the public spaces were devised.

6.1.1 Mobilization

The process of driving the vendors out of central markets, streets, and squares lasted for years. The vendors were commonly protesting on the spot, resisting dislocation, and mobilizing in an ad hoc manner. This type of mobilization of the traders lasted from 2004 to 2007. At the time, the traders were still concentrated in and around public markets, thus it was easier to coordinate and mobilize spontaneously. As at the time only public markets/bazaars across the country hosted up to 100 000 persons, with over 5000 persons located in bigger markets, (International Trade Union Confederation (ITUC), 2008) it was not easy for the government to disregard the traders' protests. The response of the city authorities was to ease enforcement for short periods. This temporary lifting of the pressure weakened the trader's mobilization. As soon as the resistance faded, the city authorities started to enforce the regulations and drive the vendors out of the markets. Illegal vendors and the traders inside now private marketplaces, describe these cycles of enforcement. They indicate that each wave of unexpected attack on vending undermined their resources. Disruptions in their activity brought losses, as they were unable to sell products and pay off

the loans. The recovery of the losses would be followed by new disruptions and the next round of worsening conditions. This way the government undermined the economic resources of the traders as well as their capacity to mobilize.

Starting from 2007, the petty traders responded by changing mobilization tactics from ad hoc, to institutionalized mobilization. By 2007, the Georgian Trade Unions' Confederation (GTUC) facilitated establishment of the Union of Self-employed and Commercial Workers. The main goal of the Union was to fight for the rights of informally self-employed persons and mainly targeted traders at bigger, permanent market places, as the latter were more easily identifiable than isolated traders or street vendors. Only in three months after its establishment, 2500 persons had joined the Union only in Tbilisi. In essence, the union needed to respond to the interests of a large and diverse group of self-employed persons (over 60% of the population, counting about 1.4 million persons), many of whom were taxpayers. Therefore, it focused on broader questions of improving social security for self-employed persons. As trade union representatives reported, they "would like, for example to get better pensions for them: a supplement to the basic pension is calculated according to the number of years someone has been employed...but these years are not taken into account if the person has worked in the informal economy, even if they've been working hard for 10 or 15 years in order to survive and have been paying tax all that time" (International Trade Union Confederation (ITUC), 2008, p. 9).

By 2008, yet another union - Street vendors' league - was founded to address the specific needs of the illegally operating vendors. The Street vendors' league on the one hand coordinated the protests, and on the other hand worked on legislative initiatives to reclaim the right to vend. The League worked on the legislative initiative together with the

Conservative Party and numerous attempts to have the initiative heard at Tbilisi municipality. The conservative party, more particularly, one of the members of the conservative party, Lasha Ckhartishvili, was the single politician that supported vendors' mobilization and helped with drafting an initiative (Modebadze, 2010). The initiative envisioned giving the individual licenses to the persons who had been involved in vending over last two years, to vend in the predefined public spaces. The persons applying for the license had to present the evidence that he/she had been involved in vending activity over the last two years. As the government's declared concerns were the restoration of order in the city and securing hygiene norms, the initiative was extensively addressing these issues. The proposal aimed to ensure that: norms of sanitation and hygiene were enforced; that the vending would not hamper pedestrians or traffic. It offered specific solutions to accomplish these goals, including establishment of special zones designated for vending, standardizing the vending stalls and kiosks, and collecting fees for cleaning vending sites.

The main goal of both initiatives – the Union of Self-employed and Commercial Workers, and the Street Vendor's League – was to ensure a minimal degree of social protection and to open up the dialogue between self-employed persons and the government. While the Union of Self-employed and Commercial Workers addressed broad questions of social security, the Street Vendors league essentially fought to protect individual vendors from competition on vending sites. The core aspect of the legislative initiative proposed by vendors was to ensure that the vendors that could prove they were engaged in vending activities over the past two years would gain a guaranteed access to public spaces for vending. This was a clear protectionist move, aiming to bypass competition from the side of

new companies entering vending markets as well as banning new individual traders from accessing public spaces for vending.

The city government as well as the national government denounced the legislative initiative proposed by the Street Vendors' League. Acceptance of vendors' proposals would denote more governmental involvement in regulating street vending, as well as acknowledgement of the privileges of those vendors that had been present on the vending sites throughout the last few years, hence discrimination against new market players. This would clearly go against the government's declared policy of non-intervention in the workings of the private sector. However, the government did not attempt to accommodate the traders' interests in any other form. On the contrary, it started using newly increased state capacity to suppress and undermine collective mobilization of the unions. The Georgian government on the one hand undermined all the legal bases of labour right protection once it changed the labour code in 2006; on the other hand, it embarked on repressive informal strategies to discourage any form of mobilisation (Jobelius, 2011). The 2009 report by the International Trade Union Confederation summarises the extent of the government's hostility towards labour rights and trade unions:

The Labour Code of 2006 severely reduced workers' basic trade union rights through its limitations on freedom of association and the right to organise, such as the threshold for establishing a trade union, which is excessively high. There are severe restrictions on the right to strike, solidarity strikes are prohibited, and in practice, trade unionists receive threats and intimidations and face dismissals without explanations. The Labour Code and the authorities provide insufficient protection against anti-union discrimination and the law gives a de facto green light to union busting and a marginalisation of collective bargaining (International Trade Union Confederation (ITUC), 2009, p. 1).

In such an unfavourable general context, the Union of Self-employed and Commercial Workers and the Street Vendor's League were largely doomed to failure. By 2012, when I was conducting the fieldwork, the representatives of the Street Vendor's League reported that even if the League was still registered on paper, it largely stopped functioning since the government in 2010 rejected their initiative. Despite initial hopes that the Union of Self-employed and Commercial Workers expressed in 2007, this Union was also unable to achieve any tangible outcomes. Throughout the rule of the post-revolutionary government, the union remained weak and tried to get more involved in traders' struggles since the change of the Government in 2013. In spring of 2013 when the traders of Gori central bazaar protested moving the bazaar to the outskirts of the city to a new private bazaar, the Union tried to get itself involved in the conflict. However, only 80 out of 1500 bazaar traders joined the Union, with some new members leaving the Union quite soon after joining. Overall, the Union's engagement yielded limited results (StreetNet International, 2014), indicating the weakness of the Union's capacities to engage traders or negotiate with third parties.

In summary, since the process of marketization started affecting numerous petty traders in Tbilisi and elsewhere, the traders started mobilising collectively against frequent dislocations, and enclosures of the market places. While some of the self-employed persons also resisted paying taxes and using cashboxes, the primary reason of discontent was the process of privatization of previously state owned marketplaces and the restrictions on the usage of public space for commercial activities. It is not incidental that the unions mobilising self-employed and street vendors only emerged in 2007-2008, even if self-employment was the most prevalent form of employment in Georgia since the early 1990s. The process of privatization on the one hand created the situation where the traders needed to mobilise

and develop institutional channels to bargain with market owners to negotiate the working conditions and, most importantly, the rent prices for their pitches inside marketplaces. On the other hand, the rise in the rent prices made free access to public spaces, even more important, hence, the vendors mobilised against the state to secure this access. The culture of mobilising under trade unions was not strong in Georgia at any point since independence (Transparency International Georgia, 2010b). Moreover, the collective mobilisation was an entirely new form of interest articulation for self-employed persons. Hence, the failure of the newly established unions in achieving any substantial concessions from the side of the state or the private market owners can partially be explained by the overall weakness of the trade unions in Georgia. However, the aggressive suppression of any form of collective mobilisation by the state further undermined the possibilities of the emergence of this type of culture, and left individual traders sceptical toward the prospects of collective struggles. As Hirschman notes, “particularly with regard to voice, the effectiveness of the less familiar mode becomes not only more uncertain, but tends to be increasingly underestimated. The reason is that effective use of the less familiar mechanism requires that its power be discovered or rediscovered whereas the preferred mechanism is routinely familiar”(Hirschman, 1970, p. 125). This was precisely the case for the traders. A failed attempt at discovering the power of voice led them to re-discover the routinely familiar option of exit and resort to individual, invisible direct action.

6.1.2 Disobedience

The collective mobilisation efforts were failing, the government was tightening control over the public spaces, and many of the traders still could not afford to pay rent prices for a pitch inside privately owned market places. For these reasons, some of the traders,

more specifically illegally operating street vendors, started developing diverse creative tactics to avoid punishment and continue trading in public spaces.

By the end of the rule of the post-revolutionary government under president Saakashvili, it seemed that vending had largely vanished relative to pre-revolutionary period. However, a closer observation revealed that instead of having vanished, vending had changed form, it was still present but less visible. Let me recall the debate that occurred between young couple, concerning vending to illustrate the change. When I was just starting my fieldwork, I discussed my research with a young governmental official who told me that I should stop studying street vending, as there were no more street vendors in Georgia. I can walk around the city and see it myself. A wife of the official immediately got involved in the discussion contending that she can see even more street vendors on the streets than before; vendors are on each street in every corner with their small baskets, walking around or resting in shades.

The explanation for these contradictory perceptions lies in the change of the vendors' tactics that made them invisible relative to the pre-revolutionary period. While some of them moved to privately owned marketplaces after the government started exercising pressure, numerous vendors continued vending on the streets. They did not enter the privately owned market places despite high costs that was related to vending illegally. The illegal vendor had to pay 20 GEL when fined the first time, and the second time the fine rose to 100 GEL (approximately 50 Euro). As some of the vendors only earn 5-8 GEL a day the assigned fines were very hard to pay, hence often they would not dispose their identity cards to avoid the penalty. However, in this case, the supervisors had the right to confiscate vendor's goods without issuing an official fine. While the police officers, as well as city hall supervisors, did

not accept bribes or treat any of the vendors favourably, they often misused or overused their power and sometimes resorted to the type of behaviour that they were not entitled to by law. They often used violent means to confiscate the goods, insulted the vendors verbally and physically.

In order to escape the control of the police and the City Hall Supervisors assigned to control vendors in the years of 2010-2012, the vendors used five principle tactics. First, instead of concentrating around stable vending spots near metro stations and bazaars, many of the vendors turned into street peddlers and dispersed around the city. A shift in the location of vending was an extremely costly decision for the vendors. They lost access to their usual customers, became less capable of developing new stable customers as they had to constantly move around the city, but most importantly, they were detached from their safety nets. Therefore, many of the vendors who changed location, tried to stay close to their accustomed vending sites, found hidden spots and sheltered in narrow streets nearby their previous trading location. This way the vendors were able to hide from state agents, but still keep in touch with their social circles.

Second, the vendors increased their mobility and invisibility relying on creative solutions. To increase their chances of running away from the supervisors, some vendors turned into street-peddlers: built mobile stalls, tables on wheels or simply carried handbags and baskets and walked around the streets to escape the police and the supervisors. Others would find spaces that could not be clearly identified as public or private property. An old man trading in books started using a wall to store his books since his bookstalls were demolished. The building wall was designed so that it can be used instead of shelves, and the books can be nicely arranged along the wall. The old man explained that he was able to

convince the supervisors that he is not doing anything illegal as he is not using public land to put up stalls and the owners of the building do not mind that he places the books in the walls. In other cases, the vendors would simply sit on the sidewalks, hiding their goods, only disclosing them to the potential customers. Once, an elderly lady offered me peaches that she had literally hid under her large dress.

Third, those vendors that decided to stay close to shopping malls, metro stations and bazaars – the territories under biggest scrutiny – developed collective tactics to avoid the control. The group members gave the alarm to each other in the case the police officers or city hall supervisors came along, grabbed their goods, hid themselves, and returned back after the supervisors had left. While many of the vendors found allies that could inform them if the city hall supervisors or the police were approaching, the group of Roma vendors was the most successful in detecting state agents, as well as in relocating their goods to hide them from the supervisors. As the Roma vendors comprised of particularly cohesive and relatively large groups, they could afford to keep some of the younger group members permanently keeping an eye out for supervisors. In the case supervisors approached, the young ones would pack up the goods and run, while the elderly were trying to distract the supervisors. When supervisors left the sites, the vendors hiding in nearby shops or marketplaces would come back to the streets and start loudly advertising their goods again. Even if the traders inside bazaars or shops sometimes saw illegal vendors as competitors that traded without having to pay rent prices, they would still be willing to shelter and hide the vendors and secure their goods from being confiscated.

Fourth, the traders that were commonly using back streets, underpasses, or building entrances to hide from state agents would come out on visible vending sites in times when

they did not suspect the appearance of the police or the supervisors. This meant that in late evenings illegal vendors became much more visible, while some of the traders inside the bazaars also came out on the streets to sell their goods for a cheaper price to the passersby. In addition, the vendors would appear more openly on public holidays, festivities, and sometimes at large demonstrations. On these occasions, the traders could sell more goods without being afraid of control.

Fifth, as the law banned vending on publicly owned land, while privately owned land could be used for commercial activities, the vendors started negotiating with the owners or inhabitants of residential houses on an individual basis to allow them to vend on their property. In some cases, the owners and/or residents would allow vendors to use the building entrances and the yards for free out of compassion. In exceptional cases, the security guards of private shopping malls or grocery market places allowed particularly needy and aged vendors to stand inside the territory under their supervision without asking for rent.⁵²

In combination, these diverse tactics of disobedience were directed against the state regulations on the one hand, and against the marketization, primarily the commodification of urban land on the other. The vendors that continued vending illegally undermined the land commodification process in two ways. Firstly, they continued using public land for trade thus subverting the division between public and private property. The very act of using the land without owning it or paying for it, was a rejection of seeing land as a commodity. Besides, this action disrupted the self-regulation of demand and supply mechanism as real

⁵² For any of these tactics to have worked, the traders also needed that the street-level bureaucrats turned a blind eye to their eyes to the rule-bending practices of the traders. This aspect will be discussed in the next section of the current chapter.

demand for the private land was not fully realised in a market realm. Secondly, the illegal vendors resisted not only the commodification of public land, but also the commodification of privately owned land. When the vendors failed to rent a place inside a privately owned marketplace, they often successfully negotiated access to the private gardens and building entrances with the land and property owners. The vendors' access to private property in these cases, far from being defined according to market prices of rent, was defined by vendors' networks, skills of negotiation or the owner's compassion and solidarity with the vendors.

6.1.3 Traders' moral dilemmas and justification of disobedience

Disobedience was not easy for the illegal vendors not only because they constantly feared the appearance of the policemen and the city hall supervisors, but also because they felt stigmatised and were reminded of the illegitimacy of their behaviour. The police and the city hall supervisors often portrayed illegal vendors as cheaters and underlined that the vendors undermine the state authority and lie to their customers. In response, the illegal vendors often discussed the moral dilemmas they faced and tried to justify their disobedience, evoking their understandings of justice, citizenship, and state-society relations.

A vast majority of the traders I have talked to, underlined that unrestricted trade in the city was certainly damaging the interests of the city inhabitants. Some of the vendors recalled the pre-revolutionary period when street vending was more concentrated and unregulated, the traders covered streets, it was impossible for the passers-by to use the sidewalks, and the residents of respective districts were bothered by noise, smell, and disorder. Underlining the downsides of the vending, the vendors asserted that they

continued vending not because they found it legitimate, but because they had no other choice.

While justifying their disobedience, the vendors relied on diverse perceptions of the role of the state. For some of the vendors, the state had to withdraw from regulating trade and allow people earn money in the only 'honest way' they knew. Emphasizing the honest nature of their work, the vendors portrayed what they saw as an alternative, 'dishonest' ways of earning money – stealing, begging, or prostitution. In this case, the vendors accepted the 'minimal state' model and asked for allowing 'do it yourself' tactics.

In other cases, the vendors had much higher demands over the state, underlining hypocrisy of state officials and contesting prevalent social and economic inequality. As one of my informants said "it is very hard when a stuffed/satisfied person talks with a hungry person", pointing out that the vendors and the governmental officials that set the rules do not face similar social and economic challenges. Therefore, the governmental officials have no right to set the rules for the people, whose concerns they cannot possibly grasp. Some vendors claimed they should have the same opportunities as the governmental officials have, referring to general human rights to have access to food and education: "if they want to eat, if they want to give their children education, they should understand that I and my children also want the same, are we not humans?". Others wished that the governmental officials were exposed to the suffering vendors experienced: "I would bring them [the government representatives, or whoever is the decision maker] here, put them in a cage, and not give them any food for a week. May be then, they understand what are they doing to us".

In addition, vendors directly blamed the state for negating away from any responsibility of providing social protection. As one of the vendors, a mother of 8 years old disabled child explained: “you [the state] do not give me social aid, you do not let me work, and you even take away my only means of survival”. She explained how hard and expensive is to take care of a disabled child, to buy medicine and take the child to the special school when the state provides no support. So that the mother could work, her 20 years old daughter stayed home and took care of the brother. In the context where renting a place inside the market places was unaffordable and social support was absent, the vendor found no justification for restricting her right to vend. Some others thought that street vending was not an entrepreneurship, but a consequence of deep social problems: “now they are fighting the consequences, but what caused street vending? They do not want to understand that they should fight the causes and not the results”. The vendors pointed out that the government directly abusing them and their work: “Government just wants to earn money from us, we have little profit, but we are many in numbers so overall this market place is giving a lot of money to the government, therefore they want us all to pay” said the women trading in the public underground where currently a market place is organised. Thus, some of the vendors thought that not only the government avoided its social responsibilities, but directly and intentionally attacked the vendors.

Since the peaceful change of the government in the autumn of 2012, the vendors acquired more evidence to legitimise their disobedience. Prior to the parliamentary elections the information about prison torture and rape leaked, resulting in a widespread discontent and popular mobilisation against Saakashvili government (Fairbanks, 2012). Once the Georgian Dream Coalition replaced the United National Movement (UNM), the legacy of UNM

was re-evaluated and the crimes of former governmental officials were disclosed. These events gave rise to a new type of justification of illegal street vending. The vendors started pointing out that high officials and even the president were implicated in serious crimes. Therefore, the vendors could not be judged for breaking the laws, and moreover, they could not be expected to obey the rules set by the criminals. Simultaneously the legitimacy of the state agents – police and city hall supervisors – was undermined, as they were seen as collaborators of the criminal government.

6.1.4 The setbacks of the traders' tactics

These diverse justifications of disobedience by illegal vendors illustrate the mistrust towards the government, and show that the vendors were well aware that the state withdrawal from social affairs played a crucial role in reproduction of street vending. The vendors were also well aware that the disobedience did not offer valid solutions. Even if the tactical moves of the vendors were creative and, at points, subversive, the same tactics considerably constrained vendor's income generating capacity. Their increased mobility, dispersion throughout the city, relocation towards smaller streets and undergrounds meant that: the vendors had less opportunity to access customers, they could only sell limited amount of goods (as much as they could carry, or allocate on mobile stalls/ in small baskets) and therefore their turnover was extremely low.

Thus, the disobedience of the vendors towards the new regulations can be seen as tactical in De Certeau's sense. For De Certeau a tactic is the weapon of the powerless: "A tactic is a calculated action determined by the absence of a proper locus... it is a manoeuvre "within the enemy's field of vision" (Certeau, 1984, p. 37). The vendor's disobedience cannot be seen as a strategic move, as the vendors were in no position to choose a form of their income

generating activity. Their disobedience hardly put them in an advantaged position relative to the traders that could afford renting places inside bazaars and shopping malls. Due to increased invisibility and high fines, their returns were marginal and working conditions were highly stressful. The illegal vendors, trading with a very limited amount of goods could hardly compete with virtually any other providers of similar goods. They could not offer the diversity of goods, nor cheaper prices. Nevertheless, they continued to manoeuvre in a delimited space, managing to rip off the benefits from the spaces of last resort. While the traders in the bazaars or shopping malls would wait for the customers that intentionally went to a marketplace to buy goods, the street vendors targeted the customers that often did not intend to buy offered goods, but bought them simply because those goods were displayed 'on their way'. As one of the customers put it, "the vendors appear in unexpected places, basically throw goods on to you, and sometimes out of convenience, sometimes out of compassion you buy the goods even if you didn't plan to". Those customers who choose to buy goods from illegal vendors often made it explicit that they never intended or planned to buy these goods, but they bought limited amount out of compassion. In case of petty trade, demand was created by oversupply, and it is not only consumerist, but also often charitable considerations of buyers that enabled the operation of numerous petty traders.⁵³ In other

⁵³ Another good example for observing charity-like motivations of consumers is related to 'staianshiki'. Staianshiki is a Russian word and in Georgian context denotes the persons that hang around the parking places, help out with parking and take small change (approximately 25-50 cents) in exchange of their help. The access to specific parking spaces or division of parking spaces under control of different staianshiki has always been managed informally. In 1990s, when the crime rates were high the service of staianshiki was more valuable as they were providing the guarantee that nobody would break or steal the car. In mid 2000s their services became largely irrelevant. First, because private companies started collecting parking fees and marking the locations where parking is legal. Second, because crime rates went down drastically so it is no longer necessary to have a staianshik providing security. Despite these changes staianshiki are still present in all main parking locations in the city. All the drivers are well aware that they have no obligation to pay tips to staianshiki as the drivers already pay official fees to the private companies and the service of staianshiki is not needed. However, almost a decade after the changes, the drivers continue paying tips voluntarily, and staianshiki continue working in Tbilisi. In other words, staianshiki continue working not because there is still some demand, but

words, tactical disobedience allowed illegal vendors to claim (or rip off) a marginal share of the demand.

6.2 THE INFORMAL COUNTERMOVEMENT: INTERVENTIONS BY THE STREET-LEVEL OFFICIALS

As described in the previous section the collective mobilization of the petty traders was discouraged, dismissed, and sometimes violently suppressed by the state. Thus, the attempts of institutionalizing countermovement had failed. In response, some of the traders continued resisting the process of urban land commodification, but their tactical disobedience only earned them very marginal benefits. However, it is not just this resistance that produced countermovement but informal exchange among vendors and state agents, as well as informal intervention from the side of the City Hall, which eased the challenges of petty traders, and enabled the reduction of illegal vending. Consequently, protective arrangements started emerging spontaneously in the form of informal interventions executed by Tbilisi City Hall supervisors and the police. On the one hand, the police and the supervisors unintentionally became part of illegal vendors' resistance as they started tolerating some forms of disobedience. On the other hand, the city hall supervisor's unit started taking pro-active steps informally; tried to facilitate accommodation of the traders' needs, and got involved in negotiations between the traders and the private market owners.

I was about two weeks in the fieldwork when a young city hall supervisor, Lado, told me that they, the supervisors, are too mild on the street vendors. From Lado's perspective, the supervisors often turned a blind eye on the illegal actions of the vendors, allowed them

because their work is not dependent on customer's demand for the service, but is rather dependent on socially embedded norm of paying for the effort of providing the service.

escape control, and avoid high fines. At that point, his claim seemed incomprehensible to me. All I had heard from the traders and illegal vendors in the first weeks of the fieldwork was that the supervisors are unspeakably harsh on the vendors. Similarly, all I had seen so far was that the vendors, very much literally, ran away from vending sites as they sensed or heard that a supervisor approached. In case vendors failed to escape, I was told and I witnessed myself only once, supervisors grabbed some of the vendor's goods, kicked their small boxes or baskets, thus ruining products. In a worse case, they issued fines. In other words, the relationship between vendors and supervisors seemed far from being cooperative and supervisors were hardly perceived as 'mild' or 'friendly' by the vendors. It is certainly not a surprise that vendors and supervisors proposed conflicting narratives. More surprising was to discover overtime, that despite seeming harshness of the supervisors, they indeed tended to be mild on vendors.

Neither the city hall supervisors nor the police officers had much to gain from a softer treatment of the vendors. On the one hand, majority of illegal street vendors had very little to offer in terms of rents or favours. As Lasha Ckhartishvili, a member of conservative party usually supporting vendor's mobilisation efforts argued, the vendors that remained on the streets since 2010 comprised the most socially vulnerable group besides beggars (2012). Indeed, because of tightened control, illegal vendors had to remain mobile and traded only limited amount and variety of goods. Many of my informants reported that they considered themselves lucky if they managed to earn 7-8 GEL (3, 3.5 Euro) a day. On the other hand, the city hall supervisors as well as the police officers had a lot to lose in case they were caught for bureaucratic corruption. The government had introduced severe penalties, including discharge, for even minor bureaucratic corruption. The discharge was a considerable threat,

given that the civil servant's salaries were substantially increased since the rose revolution (Kupatadze, 2012; Pomerantsev et al., 2014). More importantly, throughout the fieldwork I never came upon a single case of the street level official engaging in petty corruption. Illegal vendors as well as bazaar traders expressed numerous complaints against police and supervisors, but at no point did they report the instances of bribery.⁵⁴ What I did observe though, was the street-level officials devising informal practices that compromised their ability to stay impartial. To illustrate the tension between officials' responsibility and their inability to treat citizens in an impartial, undifferentiated manner let me recall an extract from the interview with the head of supervisory service:

Supervisor: We tried to find pitches and accommodate many street vendors inside marketplaces. We did this because these people, the traders that you meet on the streets are socially insecure. In contrast, people that trade with garments such as winter jackets or trousers, belong to a very different social category than most of the street vendors. We cannot help everyone that trades with garments. It is their individual responsibility to find a pitch and expand their business.

Me: Does this mean that the city hall intervenes more in case the traders are socially vulnerable, compared to other cases?

Supervisor: No, you cannot write it down that way. Your name?

Me: Lela.

Supervisor: Mrs. Lela, we cannot say that, because the city hall has no obligation to intervene. However, if you were present at vending sites you would observe that those that sell garments and textiles are very different from the traders selling sunflower seeds and bananas. You agree with me, don't you? [Pauses] But, my answer to your question is that for us (city hall supervisors), this kind of differentiation is not necessary.

Me: So you are not obliged but it is your good will to help?

It is our good will to help those that are particularly poor and face social problems. We try to accommodate them at marketplaces. Once they enter a marketplace, the relationships between marketplace owners and traders is no longer our business.

⁵⁴ To make sure, the traders (legal and illegal) were often concerned with the corruption prevailing at the higher levels of the decision making chain. For example, the question of vending licenses was discussed frequently by the traders. They commonly argued that the government distributed vending licenses to 'own people' (meaning the businesses that were close to political elites), while removing everybody else's kiosks.

The city hall supervisors' official mandate was limited to punitive measures. They had no official guidelines to differentiate between illegal vendors with different social status or trade turnover. This is why the supervisor hesitates to admit that he and his colleagues tended to support some traders more than the rest. He also makes it clear that the supervisors could not intervene in the relations between marketplace owners and traders. However, the need for intervention was too visible for the street-level bureaucrats to blind their eyes to it. In the following sections I discuss three types of informal practices that the city hall supervisors and, to a lesser extent, the police developed in search of accommodating traders' inside the private marketplaces.

6.2.1 Solving supply side problems

The ultimate goal of the city hall supervisors was to remove all the traders from the streets. Both police officers and supervisors often underlined that officially, they were not responsible for offering the traders alternative solutions. For example, one of the supervisors, Lado, once told that in his eyes illegal vendors are losing out in competition with others. This is why they are cheating and standing on the streets. If the vendors cannot find a pitch inside a marketplace or cannot rent any privately owned property to trade, they would rather go home and stop breaking the rules, he said. This was easier said, than done. According the head of supervisory unit, in the cases when marketplaces were under construction, or there were no marketplaces in the district that could host the vendors, it was very difficult for the supervisors to remove the vendors from public space, as they could not refer them to nearby marketplaces. Formally, the supervisory service had limited options to solve this shortage. The marketplaces were being privatised, so the state could not take care of the shortage of marketplace pitches.

As market did not seem to solve supply side problems and the state policies did not allow for formal non-market solutions, the supervisory service opted for semi-informal extra-legal interventions. The challenge was that officially, Tbilisi City Hall could only announce tender on lease or privatization of land, but then it was up to the investor to decide if the land was used for establishing a bazaar or something else. Therefore, it was only possible to ask the investor to open a bazaar informally. It is hard to verify how far and in how many cases did the city hall facilitate creation of marketplaces, but Zviad Kervlaishvili confirms that in cases there was no other alternative, his unit negotiated with landowners to open bazaars:

We decided that in cases where the district had a few large vending sites and no bazaars, or there were not enough amount of pitches in existing bazaars, we offered local landowners to open bazaars. For example, we facilitated creation of Saburtalos Bazaar. There was a restaurant on that land before. Later it was not used for anything. We offered the owner to open a bazaar. As the bazaar was convenient and well located, majority of traders working at nearby vending site (metro Delisi) were glad to enter new bazaar. We did not even need any work force to control that territory because of high level of vendor's complicity.

While in some cases, informal strategies succeeded in other cases they failed, as the city government had no formal means to intervene in investor's decisions or to punish the investor in case the latter defied informal agreement. Above mentioned Saburtalo bazaar provides an illustrative case for both, success and failure of the informal interventions. As Zviad explained, this bazaar was opened to allocate vendors trading at Delisi metro station. Initially the vendors were happy to move to the bazaar. However, when I revisited Saburtalos Bazaar in spring 2013, it was getting empty and traders were returning to territories nearby Delisi Metro station. This was because, the owner decided to use a larger share of bazaar territory for constructing a multi-storey residential building. This case also illustrates why it

was so hard to rely entirely on market forces while offering supply of rental places to the petty traders. The rent that a private owner earns from petty traders is rather limited while the property they own (especially in central districts) can to be used for purposes that are more profitable.

6.2.2 Negotiating on behalf of traders

The city hall supervisory unit was informally pushing investors to open bazaars to accommodate illegal vendors, however, the marketplace owners and the vendors found it hard to negotiate the pitch prices. Therefore, the next set of supervisor's informal practices involved negotiating between the vendors and private marketplace owners over rent prices. Not only the supervisors informed the vendors concerning the possible alternatives, the conditions and locations of newly opening marketplaces, but they also asked the owners to offer decreased rent price for new entrants. In case of disagreement with the owner, or in case the owners changed the terms of agreement, the traders would call the city hall supervisors to resolve conflicts. To illustrate extent and form of supervisor's involvement let me recall an extract from my discussion with Vano, a supervisor responsible for the territory around Deserter's bazaar. I asked him if supervisors really helped vendors find alternative solutions. Vano got a bit offended:

Do you think those thousands of people that already entered bazaars did so by their good will? We drove them into the markets by hand. When I say 'by hand', I mean that we pointed out where to find free pitches. One of our colleagues would stay at the office of each bazaar administration all day long. Other colleagues were staying nearby the important ('hot') vending sites. The police officers directed the illegal vendors to our colleagues, and then they explained to the vendors exactly which bazaars they could enter. We still faced many complications at the point vendors arrived at marketplaces. Some of the marketplace owners said that they did not trade with the type of products that a certain vendor sold. In other cases, market owners were not convinced that a certain vendor would be capable of paying the rent. We convinced them to give a chance to each vendor and allow her take a pitch for four

months. There were so many other cases when we intervened more than we were obliged to. So many times, we were personally solving conflicts between market administration and vendors (2012).

At a first glance, it does not seem crucial that the supervisors had no official mandate while accomplishing these tasks. After all, they did not directly break any formal rules, but took few additional steps that appeared necessary to solve their primary task of removing vendors from public spaces. However, the fact that the negotiations with the marketplace owners were informal in character, were not backed up with formal contracts and the supervisory service or the police had no power to penalise the involved sides in case they defy informal agreement, often led to complications. The vendors agreed to enter bazaars on terms negotiated by the supervisors. In many instances however, the market administration raised a rent price sooner than agreed. In other cases, the market administration decided to close part of the market, or to restrict trade with certain types of products. These instances not only imposed important financial costs on the traders, but more importantly, undermined trust between traders and street-level officials.

By 2012, I was discussing the situation of Roma traders, staying near Borjomis bazroba with Dato, one of the supervisors who, at the point served to control the territory around Borjomis bazroba. I knew that few months ago Roma vendors were trading inside Bazroba. I asked Dato if he knew why the Borjomis bazroba administration evicted the traders that traded with garments, among them the Roma traders. Dato did not know the motivation of the administration. Instead, he tried to change the subject of our discussion by focusing on Roma traders' cultural traits. According to him, selling cheap goods is a habit of ethnic Roma traders. The Roma are apparently the least obedient traders. That is why, he supposed, the administration could not accommodate them. I confronted Dato telling him I

was aware that Roma vendors had no conflict with the administration. In addition, all persons trading with garments were expelled, not just Roma. At this point Dato changed the discourse and confessed that he was thankful, and as he said 'indebted' to Roma traders. He was the person who convinced the traders to enter Borjomis bazroba few months ago and they kindly agreed. Thus, he was quite concerned that it did not work out for the Roma traders, but was in no position to alter the choices of bazroba owners⁵⁵. Dato and other supervisors were aware that many of the traders often tried, but failed to secure places inside the marketplace for the reasons beyond their control. This awareness of the context, and partially also feeling of guilt, sometimes hindered their ability to penalise vendors for pursuing illegal vending.

In other instances, the efforts of the city hall supervisors led to better outcomes. For example, the group of vendors that were relocated to public underground near central train station was expressing their discontent by 2012. Traders said they would happily pay the same rent price if they were allowed to trade on the street instead of the underground. After a year, in summer of 2013 the same traders seemed content with their arrangement. They reported that the price of the pitch was quite stable (approximately 4 Euro per day), they had good relations with market owner, and the customers had learnt their way to the underground. Even if their working conditions were not the best, at least they were not standing on the streets in cold winters.

⁵⁵ I discussed the same incident with the administration of Borjomis' bazroba as well. The administration did not have definite answer for their decision either. They said they couldn't comply with some regulations, and that it was easier to trade with agricultural goods. Similar to Dato, the administration also underlined that they understood their decision imposed high costs on the traders they expelled.

6.2.3 Tolerating disobedience

Despite supervisor's efforts, a share of traders could not secure a pitch inside marketplace and continued vending illegally. The supervisors as well as the police officers were tasked to either issue fines or confiscate traders' goods. Even if they seemed very harsh, it was noticeable that they often tolerated disobedience⁵⁶. Not all the supervisors were harsh, they were not always harsh, and they were not similarly harsh on each trader. As vendors and the officials interacted on daily bases, the relationships become more and more personalised, which also meant that some, less visible forms of illegal vending, became normalised. The vendors knew the names and car numbers of the supervisors; they could characterize each of them, distinguish between harsh and tolerant supervisors. In their turn, the longer time the supervisors spent at the vending sites, the more they got aware of vendor's challenges. They became less and less capable of remaining impartial and impersonal. In the occasions when the vendors and the supervisors interacted, the vendors on the one hand tried to communicate their problems, on the other hand directly shamed the supervisors in betraying moral values. As vendors asserted, a person should firstly be a human and only after he is an employee. They evoked socially respected norms, like respect towards women and respect towards elderly, to challenge the supervisors' harsh treatment of the vendors. Even those supervisors that were known for being strict often expressed concern with the vendor's health conditions. I have witnessed the supervisors bringing medicine for elderly vendors, engaging in small talks to calm them down and showing support in diverse ways. Moreover, the more I observed the dynamics at the vending sites,

⁵⁶ As the supervisors were given much more punitive power than the policemen, in this section I concentrate primarily on the relationships between the supervisors and vendors.

the more I realized that the supervisors often faked strict treatment of the vendors. Overtime, appearance of the supervisors at the vending sites turned in to a type of a role-play and performance. Both sides, the vendors and the supervisors, were used to the supervisor's so called 'raids' or visits. The supervisors signalled that they approached the vendors, made sure they gave enough time to the vendors to pack the goods and disappear from the supervisor's sight.

At the time when the police officers were the primary enforcing agents, a similar scenario played out. In the period when the police was freed from the responsibility to control street vending (2010-2012) the relationships between police officers and vendors could be characterized as friendly. The police officers came around the vending sites, shared small talks with the vendors and sometimes even warned them if the supervisors were around. Many of the vendors knew district police officers personally, primarily from the period that police exercised control over the vendors. The vendors usually underlined that the police officers were treating them much nicer compared to the supervisors. Two years after, when the supervisors left the vending sites and the police officers were tasked with controlling illegal vending the process started all over. The vendors started learning which police officers were harsher or tolerant ones to adjust their relationships and approaches accordingly. On the other hand, the police officers started learning of the context and conditions of the vendors, turning softer on the vendors they considered needier.

There are two important aspect related to toleration of vendor's disobedience. Firstly, the supervisors as well as police officers usually made exceptions based on their personal judgements over the neediness of the vendors. As a tendency, elderly vendors or women above their 40s were the ones that the enforcing agents treated mildly. They tried to retain

enough pressure to exclude the cases when relatively well-off traders have access to public spaces. As the supervisors explained, not everyone is poor. Those people that do not absolutely need to keep vending illegally either find their way to markets or just drop vending. Secondly, personal differences between the officials made a difference for the ways they treated the vendors, but were not primarily important. As Morris and Polese remind: “in the ‘frontarea’ of social interaction where interactants’ roles are prepared for them by dramaturgical context, individual psychology need not come into play. The individual ethics of the bureaucrat may be far from charitable, or grounded in a sense of social justice; nonetheless, given the overarching reality of the expectation of differentiated treatment and, even more importantly, the possibility of professional expert discretion on the part of the payment recipient, the bureaucrat acts within a field already set up to allow his or her decisions to reflect a moral economy of means and need” (2014b, 5). Even when the street-level officials judged or morally condemned the behaviour of the illegal vendors, as a tendency they also had own ways of comprehending and justifying vendor’s decisions. Moreover, they had a complex understanding of vendor’s personal challenges as well as of structural reasons that prevented vendors from entering marketplaces. The head of supervisor’s unit articulated remaining challenges well: “It is of outmost importance that the marketplaces offer low rent prices. These prices have to be acceptable for people and should be, somehow regulated. If you (as a state official) are fair, and offer a person (a vendor) an acceptable price and conditions, only then you can demand compliance from her” (2013).

The interventions by the city hall supervisors had limited outcomes, primarily because instead of being institutionalised they remained informal. Nevertheless, the same interventions made the costs of marketization a little more tolerable. It is important to

underline that without these interventions; even more traders would be unable to find formal/legal solutions. If the developments were entirely left to the market mechanism, there would be a very limited space for the petty traders establish themselves in retail business. As new shopping malls and supermarkets are opening in the city, the relevance of open-air trade is decreasing. The social group that depends on petty trade can hardly find employment opportunities in these malls and supermarkets. Unlike 1990s, when shopping centres were comprised of tiny stores habituated by small traders, currently the malls are populated by branded shops. While young people are employed at these malls, the petty traders, commonly women above forty will neither be able to rent a pitch in these malls nor be employed as sellers. In case real competition is allowed between bigger retailers and petty traders, the latter will inevitably lose out. It is only by reliance on non-market forces that petty traders can continue trading. Informal interventions of the state agents have served as protective solutions for the vendors. Even though they were enforcing the regulations that enabled marketization, they also were the ones attempting to accommodate traders' needs through informal means.

CONCLUDING COMMENTS: IS INFORMAL COUNTERMOVEMENT A SOLUTION?

In the absence of formal, institutionalised mechanisms for protecting the traders, informal interventions ensured that: [1] more market places opened to shelter the illegal vendors that were forced off the streets; [2] at least some of the vendors managed to formalise their trade and successfully negotiate the rental price with market owners; [3] those that did not manage to formalise trade, also retained limited opportunity to vend because the policemen and the supervisors alike would tolerate less visible forms of vending.

Informalization of protective measures had three major shortcomings. First, the enforcement of the rules, even in the absence of corrupt practices like bribery, became arbitrary and dependent on the moral judgements of the enforcing agents. Second, supervisors attempted to negotiate rent prices with the owners, but had no legal tools to enforce informal agreements, which resulted in the continuous instability of rent prices, the dissatisfaction of vendors, and further disappointment with state institutions. Third, the private marketplaces that opened due to the governmental efforts were not always efficient or sustainable. Since the change of the government in the autumn of 2012, small traders started slowly returning to illegal vending, while some of the private marketplaces remained empty. Last, and most important, the absence of institutionalised compensation for the losses of the traders, and the shortcomings of informal interventions deepened vulnerability of legal traders and illegal vendors. Overall, informalization of the countermovement, at least partially undermined the state building efforts as well as efforts to establish a market economy in Georgia. While it is hard even for more affluent and capable states to find a balance between marketization and countermovement, in the Georgian case the government's disregard of the need for the protective measures resulted in suboptimal outcomes – informally subverted marketization and further marginalisation of an already vulnerable segment of the population.

Polanyi already suggests a preferable solution on a general level. From Polanyian perspective, while facilitating the process of marketization, the state should also institutionalise protective measures. It is harder and perhaps impossible to suggest the specific ways the social protection can be or should be institutionalised. While this research was never intended to offer policy solutions, the data speaks for itself, and allows making a

few inferences concerning the alternative ways the Georgian government could have approached the prevalence of informal economic practices. The strongest case can be made in favour of formalising and supporting the forms of countermovement that anyways emerged spontaneously. Instead of suppressing the collective mobilisation of the self-employed persons and illegal street vendors, the state could support creation of the representative institutions for the traders and serve as a mediator between the traders and the private investors. To accomplish this goal, the state could [1] recognise and engage with the emerging unions and [2] create legal bases for the intervention of the city hall supervisors in the negotiations. The supervisors got involved in negotiating agreements and rent prices between the traders and the market owners de facto. In the case their involvement were institutionalised, they would have greater power to enforce the agreements. This would possibly facilitate the emergence of longer-term solutions for the traders and protect them from instability and price fluctuations.

A more important challenge was that while public bazaars were being privatized, the new owners did not find opening a bazaar to be the most profitable usage of their property. Even if the new owners decided to open some type of trading centres in the places of former public bazaars, they preferred to host stronger traders or (in the case of shopping malls) branded shops rather than numerous petty traders. Again, in search of accommodating numerous petty traders inside privately owned marketplaces, the public officials informally leveraged investors to open bazaars rather than shopping malls. Because these were improvised, informally negotiated solutions, the marketplaces were often closed down. If a marketplace proved unprofitable, the owners easily found a new function for the property, betraying informal negotiations. Thus, informal interventions in the decisions of private

owners often proved unsustainable; they hurt the owners as well as the vendors. Instead, the state could either formalize negotiations with the new owners of the marketplaces, could restrain from privatising at least some of the public bazaars, or allow street vending on public land in designated areas.

In any case, a viable and sustainable solution could only be reached on the expense of greater intervention of the state, more regulation, and gradual privatization. In other words, the solutions to the problems of the petty traders had to also rely on market constraining, rather than only market-enabling forces. As described earlier, because of the disregard of the need for protective measures, the marketization policies backfired. From 2012, the illegal petty trade became more and more prevalent in the city. In this chapter, I have argued that vendor's disobedience by 2012-2013 was tactical; it did not give the illegal vendors advantages over those traders that paid rents and taxes. If the encroachment of the vendors continues, the disobedience might well grow into a strategic advantage. The new government of the Georgian Dream Coalition prefers tolerating this encroachment to intervening or changing legal/institutional bases for street vending.

This, I suggest is a controversial development. On the one hand, it could be argued that the losers of the marketization process at this point had the opportunity to reclaim their right to income generating activities that were illegal but crucial for their livelihoods. On the other hand, the new Georgian Dream government showed unwillingness to step up and regulate such practices, designate special zones for street vending, legalize some forms of vending and restrict others. In a final balance sheet then, the government retained the illegal status of vending institutionally, and tolerated such practice on the ground. This is not only undermining the state capacity and legitimacy, but also, limits the state's ability to control

the expansion of informality, and the adverse consequences such expansion can have for the market efficiency. In addition, such an approach is once more undermining the petty trader's (and of self-employed in general) incentives to mobilise collectively, articulate their interests and become part of the democratic political processes.

The ethnographers studying post-socialist informality often underline that informal practices and institutions subvert, but also sustain a market economy (Ledeneva, 2006; Pasyukova, 2013). Informality helps sustain the advancement of a market economy, because in the absence of state support, small scale informal practices of self-employed individuals ensure minimal social protection, hence prevent major social unrest and political stalemate. On the other hand, because these practices intervene with the workings of self-regulating markets, they also undermine the success of formally institutionalised market economies. From the Polanyian perspective, balancing market enabling and market constraining forces is an extremely hard task even when it is institutionalised at the state level. What I have suggested here is that it is even harder to balance between the informalized countermovement and institutionalised marketization process. It is yet another question if governments are capable of institutionalising social protection, but unless they are, we cannot expect a substantial decrease in the importance of informality.

CONCLUSIONS

The central contention of this dissertation is that social inclusion and wellbeing of marginalised, informally operating persons and groups cannot be achieved through establishment of market-enhancing institutions, unless institutions for social protection are also established. The prevalence of informality in an aspiring capitalist society is as much related to lack of institutionalisation of protective measures as it is related to lack of institutionalisation of the markets. In the context where 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, trigger *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.

To visualise the argument in an easy and comprehensible manner the figure 7.1 and 7.2 present the best and the worst-case scenarios that can emerge as a consequence of introducing market-enhancing institutions in a society experiencing high prevalence of informality. In the first scenario, marketization is followed by institutionalisation of the protective measures and ultimately, by reduction of the role of informality.

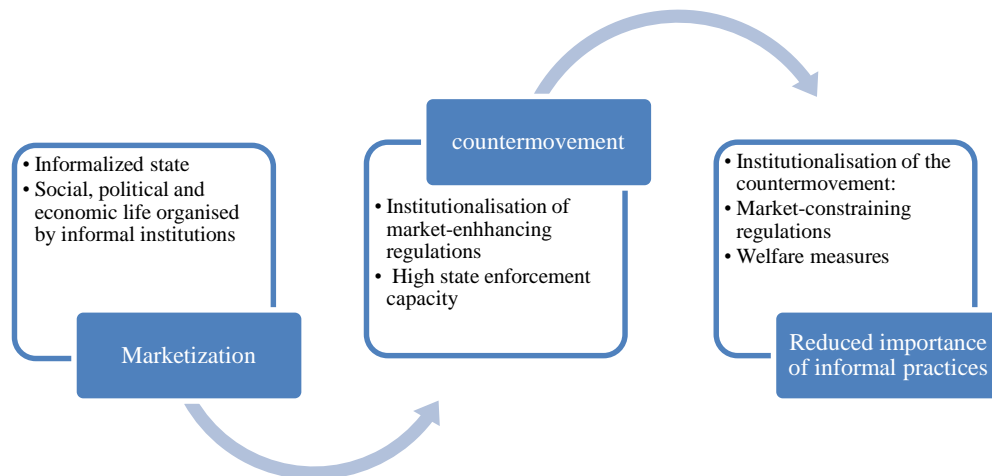


Figure 6.1 Marketization combined with the institutionalised countermovement

In the second scenario, however, the countermovement is ignored and/or repressed. This triggers informalization of the countermovement, subversion of market-enhancing reforms and ensuing reproduction of the role of informal economic practices for social and economic life of a respective society. Needless, to say that neither a linear progress (figure 1) nor a vicious circle (figure 2) can perfectly describe the messy and inconsistent trajectories that different societies go through. They only reflect how far polarised these trajectories can become, depending on the will and capacity of the political power holders to incorporate or repress the countermovement against marketization.

The argument proposed in this dissertation is based on [1] a theoretical innovation, namely introduction of a Polanyian institutionalist perspective to the literature on informal

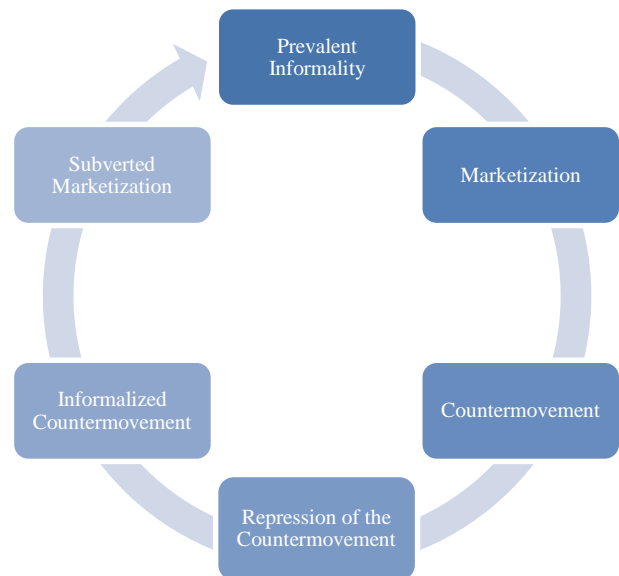


Figure 6.2 Marketization combined with the informalized countermovement

economic practices, and [2] the diverse empirical material examining the critical case of Georgian institutional reformation.

On a theoretical level, the dissertation has argued that relying on the Polanyian institutionalist perspective we can identify the shortcomings of the new-institutionalist *problem analysis* as well as the offered *remedies*. From the new-institutionalist perspective the difference between the institutionalised market economy and the informal economy is a matter of [1] the nature of the institutional environment (formal versus informal) and [2] the economic or transaction costs that are associated with each institutional context. When formal institutional framework imposes high costs on economic actors they opt out to rely on informal economic institutions and pursue economic exchange informally. Therefore, informal institutions are seen as an instrumental substitute to formal ones, and the economic exchanges are seen as similar to (but costlier than) the ones found in market economies. In this perspective, institutions designed for social protection, and the broadly conceived welfare state, does not play a critical role in regard to informal economic practices. If informal economic practices are simply another, inferior form of market-based entrepreneurship, then solutions designed to reduce informality must also focus on enabling individual's entrepreneurial activities.

From the Polanyian perspective, informal economic practices cannot be classified as market-like, unless proven so. In contrast, they might exhibit different integrative modes, such as household, redistribution, and reciprocity. Informal economic practices can also involve market-based exchanges but these exchanges can hardly be self-regulatory, precisely because of the absence of the state while safeguarding market-enhancing institutions. By

relying on informal economic practices the actors also avoid *market related risks and competition*. Informal economic practices are widespread and affordable primarily because they rely on non-commodified resources, informal networks and connections. From this perspective then, the marketization process will not offer smooth and harmonious transition, because by disembedding productive resources such as land, labour, and money, from different forms of societal control, marketization rather squeezes out other integrative modes and triggers resistance. The introduction of market-enabling institutions focusing on lowering transaction costs cannot easily accommodate informal economic practices that are shaped by informal institutions and carry a diversity of social and cultural meanings and functions. Therefore, while Polanyian perspective would agree that strong state capacity is needed to enable marketization process and subsequent economic growth, it also warns of the social costs of such a transition and of the conflicts arising in response.

Then the Polanyian analysis carry significant *policy implications* that go against the prevailing wisdom. The remedies offered by the Polanyian institutionalist perspective contrast with the new-institutionalist remedies suggesting that: [1] marketization should be pursued with care and gradually, [2] institutions designed for social protection should be established to compensate for social costs of marketization and to ease the conflicts arising in response to marketization process. Decrease in state imposed costs is insufficient to decrease actor's reliance on informality. Instead, reduction of informality will take elaboration of the mechanisms that could secure the actors from market related risks and costs. Thus, if the establishment of market-enhancing institutions is a necessary condition to reduce reliance on informal economic practices, it is an insufficient condition that needs to

be complemented relying on market-constraining regulations and institutions that ease social costs of marketization.

The empirical findings of this substantiate the theoretical argument and demonstrate to need to take seriously the Polanyian distinction between [1] embedded versus disembodied economies, and [1] market-enhancing versus market-constraining institutions. First, the overview of the research on informal economic practices in precisely Post-Socialist region (see chapter 2) indicates that informal economic practices are not reducible to market-like exchanges that are regulated by informal institutions because of the weakness of the formal institutions. This is not to say that weakness of formal institutions is not a challenge, or part of the explanation of the prevalence of informality. However, this explanation comes short of comprehending and mapping the diverse functions and the socially and culturally embedded character of informal economic practices in the region. Existing literature stresses the embeddedness of informal practices, (Morris, 2011, 2014; Morris & Polese, 2015; Polese et al., 2014; Williams, 2005) even portrays the small scale informal economic practices of households and individuals as essentially non-capitalist in the post-socialist region (Smith & Rochovská, 2007; Stenning et al., 2010) and elsewhere (Gibson-Graham, 2006). This growing evidence challenges the *problem analysis* offered by the new-institutionalist perspective and calls for incorporating Polanyian analysis of different integrative modes in account while interpreting the role of informal economic practices.

Second, the findings from the case of Georgia challenge the validity of new-institutionalist *remedies*. The ethnographic fieldwork (chapter 5 and 6) has revealed that not

all the informally operating actors can be seen as aspiring entrepreneurs. Many of the actors have dependants; they rather redistribute the income and divide the labour according to the gender, inter-generational and communal norms, instead of saving and re-investing. More importantly, informally operating actors do not only avoid taxes and regulations, they avoid market competition and market-related risks. A large share of such actors possesses neither property and capital nor marketable skills. Therefore, they operate in groups and extensively rely on non-commodified resources, rule bending and informal networks to [1] capitalize on the resources they do not and cannot possess (such as public space), [2] to socialise unexpected costs and risks. In other words, the work of informally operating actors is only possible as long as: [1] their market-related activities rely on non-commodified resources, [2] are embedded in non-market based social relationships and hence [3] are only exposed to limited, socially mediated forms of competition. This is why, the new-institutionalist solutions that enabled resource commodification, exposed the traders to competition, and imposed social costs and economic risks on them.

In chapter 6, I demonstrated that the resistance of the small traders was primarily directed against the marketization process. Instead of conflicts arising around the state-imposed costs, such as taxes or regulations as the new-institutionalists would envision, most of the petty traders concerns revolved around the commodification of urban land and property, subsequent rise and instability of rent-prices, and the new-economic relations that started emerging between property owners and rentiers. To accomplish these and related goals petty traders attempted to mount a Polanyian type countermovement through collective mobilisation and Unionisation. However, as the government dismissed or actively suppressed collective mobilisation efforts and refused to intervene formally, the resistance

against marketization was then constrained to informal realm. On the one hand, share of the traders that experienced social and economic losses due to commodification of urban land and property, continued relying on non-commodified public space. On the other hand, the street-level officials faced the need to intervene in emerging, formally unregulated economic relations between new property owners and traders. In order to solve the conflicts, the street-level bureaucrats started informally intervening in the negotiations of market owners and traders over rent prices. In order to compensate for a lacking supply of the vending pitches inside private market places, local government representatives informally persuaded private investors to open market places.

Examination of the changing role of informal economic practices in Georgia overtime (Chapter 4) reveals that informal economic practices have not been confined to narrowly income generating purposes in pre-Soviet, Soviet and post-soviet contexts. Instead, economic exchanges have been embedded in broader informal institutional settings, reinforcing family and friendship bonds, providing social safety nets, often shaped by redistributive considerations. Even ten years after the institutional reformation started informal economic practices and informal networks retained the role of social safety provision (Aliyev, 2014), not just for socially vulnerable but also for relatively well-off citizens. These findings indicate that if the state avoids providing social welfare, informal economic exchanges persist, and transform to serve social safety providing purposes.

The finding concerning the macro level developments also indicate social dissatisfaction and the resistance of numerous civil society actors, including labour unions, against the market-enhancing reforms pursued by the post-revolutionary Georgian

government (Chapter 3). Much like in the case of the petty traders, the government avoided negotiating decisions through formal political channels and opted for suppressing social discontent. The government responded to the dissatisfaction in a top-down and inconsistent manner. On the one hand, since 2008 the governmental rhetoric on social and economic development changed drastically compared to the period of 2004-2007, focusing much more intensely on questions of poverty, unemployment and distribution of the fruits of economic growth (Rekhviashvili, 2013). On the other hand the government started: [1] introducing short-term, ad-hoc socially oriented programs; [2] enhancing state investments in different economic sectors; [3] intervening in economic matters relying on informal and extra-legal means. According to some analysis, while the government committed to liberal reforms formally, it started acting as a developmental state informally (Timm, 2013a, 2014).

The findings on all three levels reinforce and clarify each other (please see figure the figure 7.3) illustrating that the marketization process faced diverse forms of contestation. In all cases, the government repressed the countermovement and denounced the need of introducing welfare measures of market-constraining regulations. Redesigning the reforms seemed costly for the Georgian reformers, because their perceived (and perhaps also actual) capacity to attract FDI as well as developmental aid, depended on their devotedness to the transnationally supported type of liberal institutional design. In response, existing informal practices reconfigured and new informal practices emerged to counterbalance the social costs of marketization.

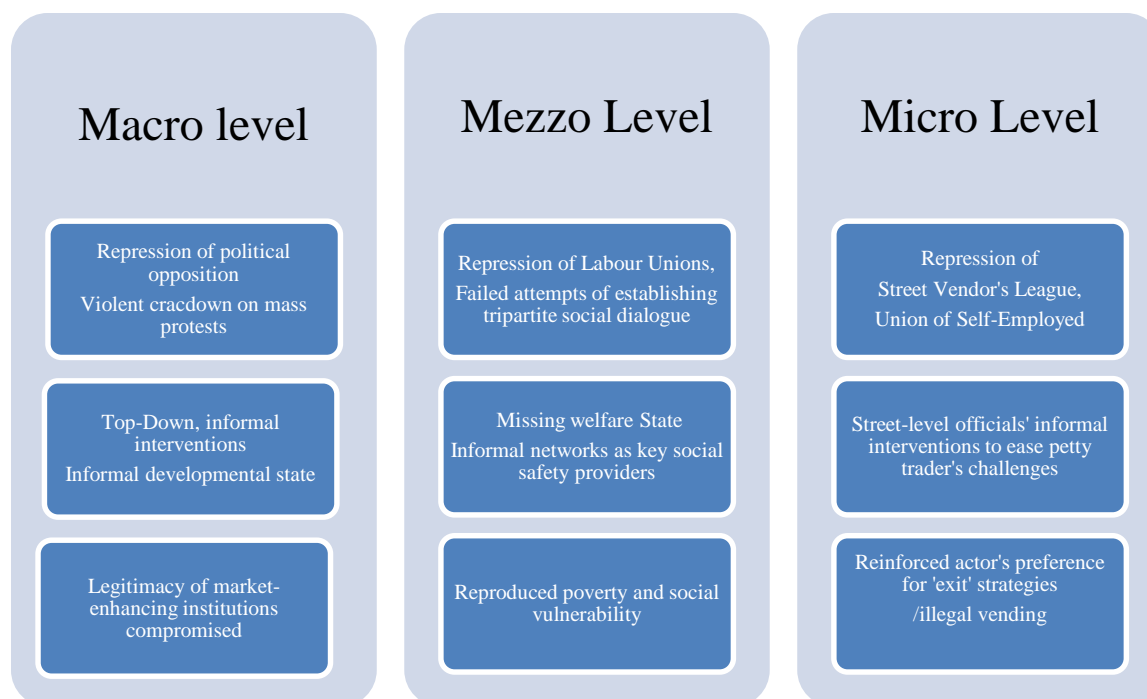


Figure 6.3. Consequences of the Informalized Countermovement in Georgia

The lack of institutionalised state support compromised the effectiveness of the countermovement. In the case of the traders, the street level officials' interventions were compromised by their incapacity to enforce the informally negotiated agreements between traders and market-place owners. In parallel, the missing state provided welfare reinforced the citizen's reliance on informal networks for social safety. Given the spread and depth of poverty and malnutrition, the widespread reliance on informality did not seem to effectively ensure against social vulnerability. The government's ad-hoc, informal socially oriented projects and interventions, without an institutionalised social protection system, proved counterproductive, and in addition undermined the legitimacy of the market-enhancing reforms.

In summary then, the theoretical arguments and the empirical findings of this dissertation make three important contributions to the academic literature. First, the dissertation has challenged the still prevailing image of Georgia's institutional reforms as a developmental role model, and has offered an explanation for the sub-optimal outcomes of Georgia's institutional reforms. Second, applying Polanyian framework to the study of informal economic practices, the dissertation has introduced a new theoretical perspective to the interdisciplinary literature on informality. Relying on the Polanyian perspective, I have articulated a constructive criticism of the new-institutionalist perspective. Moreover, I have elaborated a Polanyian understanding of the embeddedness of informal economic practices that is of benefit for diverse strands (particularly post-structuralist writings) of the literature on informality.

Finally, this dissertation has challenged the most pervasive orthodoxies in development theory and practice. It challenges 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 regulations is not only insufficient but also counterproductive. The transnational development actors' failure to support the governments in improving institutional quality, despite their immense investments into financial and human resources (Mungiu-Pippidi, 2006), can in this light be understood as a result of their dismissal of the social costs of installing market-enhancing institutions.

This tendency of finding market-based solutions to social problems is not constrained to informal economic practices. The transnationally promoted policy instruments for overcoming poverty, exclusion and marginalization of the poor, women, migrants, minorities or Roma, tend to overwhelmingly rely on market-based forms of empowering (Selwyn, 2014). Disguised as strategies for emancipation and delivered in the name of the developmental aid, these policies condition social inclusion and wellbeing on an individual's capacity to act as a rational investor and an innovative entrepreneur. The recent proliferation of so called, 'financial inclusion' tools – defined as use of formal accounts (Demirguc-Kunt et al., 2012) – serves as a good example to illustrate the point. By provisioning the micro-credit to those poor persons and households that would not otherwise be eligible to receive credit from relatively more regulated financial institutions, these policies expose the borrowers to market-related risks they are incapable of coping with. More often than not, these policies are not accompanied by social-security provisions that would socialise the risks. Without such precautions, the micro-credits can be disastrous for those individuals, whose investments or enterprises lose out (Mader, 2012). By demonstrating social costs and economic risks of treating poor and marginalised populations as entrepreneurs, this dissertation on the one hand has questioned the validity of the discussed policies, and on the other hand, has advocated for introducing compensatory institutions based on non-market logic that could absorb and ease such costs and risks.

APPENDIX 1. METHODOLOGICAL NOTES ON ETHNOGRAPHIC FIELDWORK

An overview of methodological choices made in this dissertation is described in the introduction. This appendix is devoted to further specifying the choices made throughout the most sensitive part of the study, the ethnographic fieldwork. The introductory chapter of the dissertation discusses which were the main sites of participant observation, and who were the key informants of my study. Here I clarify ethical choices made throughout the fieldwork, while analysing the data and exposing or disclosing certain types of information regarding the informants. I also explain the contextual factors influencing my methodological choices and approaches to accessing and documenting the data.

Georgian Political Context and Ethical Considerations

There were two conditions that greatly influenced my fieldwork experience and shaped my interaction with informants by June 2012, the time of my entry in the fieldwork. First, enforcement of the regulations concerning the illegal trade was the harshest and the most persistent throughout 2010-2012. This was the period when the city government assigned a special force, the city hall supervisors, to ensure traders' compliance. The city hall supervisors replaced policemen as enforcing agents and, unlike the policemen that have numerous daily duties besides ensuring that public spaces are not occupied by vendors, the supervisors' sole task was to take care of illegal vending. Moreover, while the policemen were only allowed to ask the illegal vendors to leave public spaces, the supervisors were obliged to either issue a fine or confiscate the goods of an illegal vendor. This context not only made illegal vending more dangerous and financially costly, but also further stigmatised illegal vendors. Second, this was also the period when the parliamentary elections of autumn 2012 were upcoming and an opposition coalition named Georgian Dream (GD) was challenging the post-revolutionary government of the United National Movement (UNM) party. Since the Rose Revolution in 2003, the UNM government was facing a strong and popularly supported opposition for the first time. Therefore, the political situation was quite tense and the electorate was polarised. The UNM government was feeling threatened and was turning more repressive.

These two conditions, among others, made my informants overly cautious about trusting and giving an information to a stranger like myself. By the time of the repeated fieldworks in 2013 (May-August) and 2014 (May), the political situation had relaxed and the city hall supervisors were replaced by the policemen. This also marked relative relaxation of control over the illegal vendors. However, the first fieldwork set in 2012 was formative for my methodological choices as the norms of interaction with my main informants was mostly negotiated in that period.

Commonly the trades, and especially the illegal vendors, were afraid to speak their mind against the government. The majority of the traders I have talked to at the vending sites were supporters of the opposition Georgian Dream coalition. But this I learned over time, because they were initially scared to disclose their political preferences. Even if the trader's political affiliations was very marginal to my research and I constantly tried to underline that fact, it took time to assure the traders that I was not associated with any political power. I also had to assure the traders that I was not collecting the information on behalf of the city hall. Once I gained the trader's trust, I faced yet another kind of challenge. The traders knew that the public officials would not like to be covered in a negative light by media representatives. Even if I always insisted that I am not a journalist, the traders knew I could easily be perceived as a journalist by the officials. Thus, they would sometimes expect me to stand up for them against the supervisors. They also asked me to carry a photo camera, which, in traders' perception scared off the supervisors. This was true, even if the traders were not comfortable being pictured and knew that I only used the camera to take picture of the places from afar, so that no trader, consumer or official could be identified in the picture.

The positionality of the city hall supervisors was also complicated. The official state policy encouraged that the public official are transparent and communicate with journalists or researchers. Despite, the tensions related to the upcoming elections made them fear expression of disloyalty towards the government. Motivated to represent the public services in a positive light, the supervisors and policemen were being very careful about disclosing information to an 'external' observer like myself. For these reasons, both the public officials and the traders, not only were reserved throughout informal interviews but were also

altering their behaviour in my presence. Moreover, traders and public officials at the sites were not used to being exposed to any kind of an observer. Unlike other social groups I have studied or interviewed, such as internally displaced persons, LGBT community members⁵⁷ or representatives of the government or NGOs, that have the experience of being interviewed, the group of small traders is exposed neither to journalists' nor researchers' attention. So my interest in the topic as well as persistent presence at trading sites was an unusual occurrence for my informants. On the one hand, this made them more suspicious of me and the purposes of my study. On the other hand, the traders and particularly illegal vendors were sometimes showing gratefulness that there are people, like myself, that care to hear of their stories, perspectives and concerns.

These and other contextual conditions shaped my access to the field in a few regards. First, I had to constantly assure the informants that I was trustworthy, and had to be very careful about the medium I used to record the data. Second, I had to explicate that while I was not a threat, I could not provide much help either. Lastly, my presence inevitably altered 'usual' social order at the vending sites, which concealed some types of information from me, but also revealed intricate, hidden sides of the same social order.

Because most of my informants felt insecure and threatened, I could not record most of the interviews with the informants, or the discussions at the vending sites on a voice recorder. In the first days of my entry in the field I even refrained from proposing that I record our talks. In a while I made such a suggestion, but seeing that the traders felt uncomfortable, I gave up on it. Instead, after I got myself introduced with the traders and identified a few groups that I would visit on regular bases, I started carrying a notebook. I explained to the traders that taking notes would help me recall and remember our conversations and I noticed that they got used to the notebook fairly fast and easy. Each afternoon, writing up my ethnographic notes and observations was the first thing after a dinner. This way I tried to ensure that I documented most of the observations I had made

⁵⁷ To be precise, not all the LGBT community members are often interviewed. However that small minority of gay, lesbian, bisexual or transgender persons that are either open about their sexual identity or are open to a limited degree but still reach out to local LGBT NGOs, are used to being interviewed.

throughout the day, especially given that I had no voice recordings. While writing up the thesis, therefore, I usually tried to paraphrase the talks and discussions with my informants, instead of citing them directly. I have cited however, some parts of interviews that I had made reliable notes about. For the same reasons, I have not offered my informants a formal informant contract. I figured, that asking them to sign a document for me would be an unusual and cumbersome commitment from their side. Instead, I verbally communicated the purposes of my study, asked informally for traders' consent that I stay around and talk with them, and asked them to tell me in case parts of their discussion should not be recorded in my notes or mentioned in my study. The traders easily picked on this suggestion in cases when they wanted to share some types of information (usually more personal stories) with me, but didn't feel at ease with exposing it publicly, they suggested this information is off the records.

This was a continuous process of negotiation, as even my stable informants often called me a 'journalist' and the traders that I only talked with briefly, found it hard to grasp the purposes of my stay at vending sites. I tried my best to clarify my intentions with each trader I have talked to. Besides, as I was spending a few hours a day with my regular informants, we also talked of my personal background, studies and interests. These informal discussions were more successful at explaining the reasons behind my stay at vending sites than the more structured descriptions of my role and purpose I provided when first introducing myself.

While interviewing the public officials such as street level bureaucrats, and (to a lesser extent) policemen, I was guided by different considerations than the ones I followed in case of traders. Knowing that the public officials are obliged to disclose the information that relates to their formal duties, I felt freer to ask their consent for recording the interviews. I recorded an entire semi-structured interview with the head of the city hall supervisor's unit and, in some cases also the managers or shareholders of privately owned bazaars gave consent to voice recording. However, I have had much more interactions with public officials in which I didn't even mention a voice recorder than the ones where I proposed to record. Somewhat like in traders' case, the supervisors that were working on field on daily bases had

fairly good understanding of my purposes and my daily routine in fieldwork months. Because I was mostly sitting or walking together with traders, I felt that the supervisors sometimes thought, or to be precise, they rightfully recognised that I was rather sympathetic towards the traders. This fact sometimes encouraged the supervisors to approach me and discuss their perspectives and concerns with me, making sure that I am aware of the supervisor's narratives as well, instead of only relying on the trader's version of the story. On my end, I did my best to assure the supervisors that I considered their perspectives and heard them out. However, I never pretended to be entirely neutral or tried to comfort the supervisors. I confronted them in case their information contradicted with what traders' have told me, or what I have observed. In my perspective, such a strategy was paid off well. Instead of scaring off the supervisors, my openness encouraged them to engage with me in lengthier discussions and explain sincerely the complexity of their task.

The city hall supervisors more often than not introduced themselves with a full name and surname. When I told their names would not be exposed in my dissertation (or elsewhere) they responded there was no need to disguise their names. While I consider this to be a responsible gesture from the side of the public officials, the names of the supervisors or policemen are not revealed in this dissertation. Moreover, because the supervisors were often dislocated from one vending site to the other, and as in the text I do not specify exact time and place of interacting with a supervisor, it is close to impossible to associate the quotes I cite from the supervisors' interviews with the name of a specific supervisor. Obviously, all the names of traders used in this dissertation are also fictional. While I do specify which vending sites I visited, and that most of my regular informants were trading in the surroundings of Deserters' Bazaar, I suggest that this does not allow for identification of my informants. For one, it is obvious for any and every Tbilisian which are the main vending sites. Primarily the city hall already has a very good information about these sites, thus I would not conceal anything by avoiding mentioning these sites. Secondly, these sites are usually quite large and host numerous illegal vendor and traders. For example, the surroundings of Deserter's Bazaar host hundreds of illegal vendors and also hundreds (if not thousands) of petty traders located in different bazaars, bazrobas, smaller and larger shopping malls. Thirdly, the traders, and especially illegal vendors often dislocate from one

corner to the other. In the text I only refer to larger territories, such as places near Deserter's Bazaar, Bordjomis Bazroba or Didube metro station, and I never specify exact streets or squares where my informants resided in specific month or year. Finally, after the UNM government was replaced by Georgian Dream Coalition government, the pressure on illegal vendors relaxed. By my last fieldwork visit in 2014, illegal vendors were no longer hiding from the policemen. Numerous new colleagues had joined them and they had doubled (if not tripled) in numbers per each specific vending site I have visited. For these reasons, identifying my exact informants is an impossible task⁵⁸. There are only two respondents of my study whose identity I cannot reasonably disclose and who agreed to nevertheless give me a lengthy and informative interviews (both recorded). These are Lasha Chkratsihvili, the only politician that supported the traders' mobilisation in 2010-2012 and Zviad Kervalishvili, the head of the Tbilisi City Hall Supervisors' unit by 2013. Both Lasha and Zviad are public figures; it is hard to mention their role in relation to trading sites without identifying them; they both have numerously spoken publicly about the similar topics as recorded in my interviews. Even if both of these respondents gave consent to interview and to mentioning their names, I tried to make sure that this dissertation does not unintentionally reveal any information that could compromise their safety.

Incidents as Insights

As it must be visible by now, my presence at the field was in some cases altering the informants' behaviour in the ways I couldn't possibly predict or control for. To a degree this could be seen as a challenge. For example, because the supervisors avoided being harsh on traders in my presence, I had to trust the traders that in my absence they were treated more unfavourably. But more often than not, the interventions created by my presence opened up the opportunities to observe "the hidden secrets of the participant's world" (Burawoy, 1998,

⁵⁸ To make sure, sometimes even I found it hard to find my informants. As I tell in the chapters, illegal vendors or bazaar traders did not like changing locations as displacement was disrupting their social safety networks, but they often had to. They not only changed a location by my second and third fieldwork periods, but even within the same fieldwork period I would visit the illegal vendors in one corner during a day, and the second day they already had changed the location. So I would need to walk around a few blocks in their search. This is why at one point the vendors offered me their personal cellphone numbers. Moreover, they also had my number and sometimes called me if they thought at a specific location I could observe something informative for my research, or to introduce me with their colleagues, etc.

p. 14). I believe one of the incidents, is worth sharing to illustrate that the disorder and disruption created by my stay was revealing of the complexity of my informants' reasoning and behaviour.

As told in chapter 5 and chapter 6, the supervisors patrolled the street vending sites on daily bases and appeared at a same site a few times a day. On such occasions, the street vendors grabbed the goods and hid either in shops, bazaars or narrow streets. As soon as the supervisors left, the vendors returned back to the vending site. In these cases I sometimes helped the vendors carry and hide the goods, while in other cases, I stayed at the vending sites and used the opportunity to talk to the supervisors. On one of such instances I was chatting with the two supervisors for a while. The Roma traders were standing nearby, listening to our talk. The younger members of the group had taken away the goods. It was of course obvious for the supervisors that the older Roma persons standing there were the illegal vendors, but could not punish them without any evidence that they have goods to sell. In a bit, and while I was still talking with the supervisors, one of the Roma traders approached me and told me I should stop talking with the supervisors. Instead, she suggested I go talk to her and her colleagues that are being harassed by the supervisors. She said the supervisors have beaten her up and she can show her swollen leg. Before taking any of my questions, she turned back and joined the group of Roma traders standing nearby. When I moved towards the group, the supervisors also came along. Before I managed to say anything, the supervisors started asking the Roma trader why she tried to lie to me. They said the traders know all the supervisors quite well and know they have never beaten up or mistreated any of the traders. The trader and her friends replied that it is true that the supervisors don't beat them up, and they are kind of nice, but they do make traders' lives very hard. They also said that they know of the supervisors at other vending sites, such as Akhmeteli metro station, that don't spare traders from physical insult. The supervisors replied they can only be responsible on their own, and their immediate colleagues' actions. To my surprise, the supervisors did not seem either outraged or hurt. They talked with Roma traders for a while, shared few jokes and left.

I was already pretty confused and disoriented with the developments so far, but what I heard from the Roma traders after the supervisors left was even more surprising. My first intuition was to assume that the Roma trader was initially telling the truth, but was unwilling to really confront the supervisors, that is why she, and the rest of the Roma traders eased the accusations in discussion with the supervisors. Instead, the Roma trader told me the supervisors have never beaten her up indeed, and that she was pretending as if her leg was hurting. It appears she staged the entire thing because I was keeping the supervisors at the vending site too long. She just wanted to somehow get rid of them, so that the group members can bring back the goods and continue trading. This incident was revealing not only in illustrating just how creative, spontaneous and arguably desperate, the vendors' tactics could be, but also in allowing me to understand the complexity of interactions between traders and supervisors. The traders tended to exaggerate the victimhood and the supervisors tended to exaggerate their consistency in rule enforcement. In fact, they were in much more friendly terms with each other than I could ever imagine before this accident. It was clear the both sides were well used and adjusted to each other's roles and strategies. Such performances neither confused nor intimidated anyone, but rather created one more occasion for traders and supervisor to chit-chat a bit. Countless irregularities or surprising turns at the vending sites of a similar kind thus, often provided me with the insights that were hardly visible in regular times.

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