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Between ideology and pragmatism: social democracy and the economic transition in Georgia 1918-21

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The Democratic Republic of Georgia (1918-21) was a novel experiment in social democracy in the most unexpected time and place. Georgia was rural and mostly illiterate, and its leaders faced the complex tasks of nation and state building in conditions of external threat, internal conflict, and global economic depression. The first democratically elected social democratic government in Europe, it confronted the inevitable tensions between market principles and socialist ideals. The new government's economic policies reflected the dilemmas and contradictions faced by all social democratic parties in a capitalist environment. The new leaders created a mixed economy, framed by social democratic goals, but driven by pragmatism. Economic pioneers, how successful were they in creating a sustainable economic system and a model for other European socialists to follow?

Keywords: Democratic Republic of Georgia, social democracy, Mensheviks, peasant economics.

The context

Since its demise in 1921, the Democratic Republic of Georgia (DRG) has been almost invisible. Its documented history after 1921 was buried in the Soviet archives, while memoirs or historical analysis of the Republic came mostly from partisan Georgian émigrés or from hostile Soviet historians. There has been a scattering of Western scholarly work on the DRG, but to date no comprehensive analysis of its domestic or international politics.[1] The situation has improved in the last decade; Georgian historians have written important monographs on the history of the republic, but the focus has mainly been on issues of internal conflict, institution building, and foreign policy (Sidamonidze 1970; Guruli 1999; Vadachkoria 2001; Bendianishvili 2001; Matsaberidze 1996). Yet it was the economy which was at the root of the young state's problems; the government's economic policies, shaped in part by its social democratic philosophy, are an early demonstration of the difficulties (and limits) of modeling successful economic transitions in post-revolutionary situations characterized by weak institutions, regional turmoil, and the absence of money and investment. But it was not Georgian socialism that sabotaged the economy; Georgia's socialism between 1918-21 was quite different from its Bolshevik neighbour. It was adaptive, reactive, pragmatic, and national. The new government's leaders were convinced that before they could introduce socialism, they had to follow a modified model of European capitalism.

In 1918, amidst revolution and military pressures from foreign armies, Georgian social democratic leaders ended the experiment in Transcaucasian federalism with Armenia and Azerbaijan. On 26 May 1918 Georgia's revolutionary leaders, backed by Germany (Georgia was part of Germany's Eastern policy of *Drang nach Osten*), declared independence. Georgia's new leaders faced the insuperable task of nation and state building without financial resources, experience, or support from abroad in what was an impoverished, and largely illiterate province; it was barely a recognizable country and had no established borders. Georgia faced hostile neighbours, internal rebellions, and international instability. One of the most intractable problems undermining the stability and security of the new state was the economy. Noe Khomeriki, Minister of Agriculture, in a report to the Second Congress of the Georgian Social Democratic Labour Party (GSDLP) in July 1920, told his audience that the economic crisis was putting Georgia's sovereign existence at risk. The economy is "the greatest problem of state," he declared. It would "determine everything" (Kandelaki 1960, 51). The Georgian government's failure to establish economic stability was no surprise. All European governments after 1918 were in financial crisis, facing economic calamities of their own from mass unemployment and strikes, to rebellion and revolution. This was not a Georgian catastrophe, but a

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European one. Few governments had any idea how to end the debacle, let alone a government like Georgia, which was trying to build a new economic system without any domestic resources at a time of global economic crisis.

Georgia, like other post-imperial states such as Romania, Bulgaria and Czechoslovakia, faced exceptionally challenging tasks.[2] Its economic resources for building a modern (and democratic) state were practically non-existent. Like other small states in Eastern Europe, Georgia struggled with avaricious imperial powers, uncertain borders, and a history of backwardness and ethno-social antagonisms. Beset by the constant threat of political and economic collapse, the government was institutionally destitute and unable to regulate the functioning of an independent economy. Normal assumptions about state capacity to define and protect its territory, enforce its decisions, collect taxes, provide basic services, and stimulate indigenous production, could not be made. Noe Jordania, head of the Georgian government, in an October 1920 conference dedicated to economic strategy, confessed that in 1918 "we had to begin building the state with nothing in the treasury; we had just a few million rubles worth of goods left after our separation from Russia." He lamented: "We were new. We had no state apparatus, nor our own traditional system, and no funds. Our legacy was a war economy…"[3] At the same time, Georgian social democrats were intent on restructuring the system, which required extraordinary resources. They wanted to convert an agrarian based economy into an industrial one, a religious-traditional society into a secular one, and an authoritarian system into a democratic one.

A functioning state was key to economic growth and stability. In Georgia, there were no resources for emergencies, and no possibility of planning and executing real budgets. There was little experience to draw upon in the local or international community on how to build an independent economic system from scratch, with all its fiscal complexity, from tax and budgetary systems, to monetary and banking controls. The new authorities had none of the macroeconomic levers states take for granted today, nor the support of international financial institutions like the International Monetary Fund (IMF) and World Bank, with their well-financed anti-crisis programs; there were no foreign experts, and no friendly neighbours like the EU. The League of Nations offered technical assistance and important reconstruction loans to its member states, but only after 1922, and Georgia had in any case been denied entry in December 1920.

The imperial legacy powerfully shaped the new regime and its citizenry. Russia had brought Georgia to the edge of modernity by 1917. It had promoted Georgia's extractive industries; manganese in Chiatura, coal in Tkvibuli, cement in Kaspi, and copper in Alaverdi. Chiatura had become a major mining centre of the "black rock," which in the early twentieth century produced almost half of the world's supply. In 1913, 43 percent of Chiatura's manganese went to Germany, and 2 percent to the UK.[4] Batumi was a booming industrial port, by 1902 exporting three quarters of the Russian Empire's entire oil output and employing 12,000 workers in oil-related industries. Railway construction, which began in the 1860s, funded by British capital and supervised by British engineers, had by 1917 become the largest state employer in the Caucasus.[5] Railways linked major towns like Tiflis, Poti, Batumi, Telavi, Kutaisi and Sukhumi, opened up international markets, transited oil from Baku to Batumi (alongside a pipeline that in 1904 carried 64 million *puds*[6] a year), and allowed peasants from formerly isolated rural regions like Guria or Kakheti to send their products abroad and earn enough money to purchase land.[7] The first freezer train, introduced in 1913, allowed the export of fruit to Moscow (*Sel'sko-khozyaystvennaya perspektiva Gruzii*). Occasionally, visionary Russian viceroys (*namestniki*), such as Michael Vorontsov (1844-1853), who understood empire as a civilizational gift to less developed peoples, promoted local trade, education, and the infrastructure of civil society. In this sense, through what Benedict Anderson called the "grammar of nationalism," the Russian Empire provided Georgia with the infrastructural mechanisms and mental seeds of a modern nation.[8]

But all this activity was designed to serve metropolitan needs, Russian markets, and imperial integration; the Caucasian Viceroyalty was characterized by hierarchical practices, dependence on a foreign centre, and a stunted indigenous market. Transport was still rudimentary and Georgia's regions were fractured by linguistic and cultural differences. State institutions under tsarism were poorly designed to extract local resources. The state was not what Margaret Levi calls a "revenue maximizer," but a disinterested and minimal revenue spender.[9] There was no strategy of economic development beyond state production of raw materials, the development of transport, military supplies and specialized crops such as tea, tobacco, and cotton. In 1911, expenditure in the entire Caucasian Viceroyalty was just over 82.5 million rubles, with 30 million of this spent by the Ministry of War. Of the total 33 million rubles spent in Georgian territories (usually considered to be Kutaisi and Tiflis *guberniyas,* Sukhumi *okrug,* and Batumi *oblast'*), one third (11.6 million), was spent by the Ministry of War; in contrast 1.65 million was spent on public instruction, and 1.15 million on agriculture (*Aperçu sur les recettes et depénses du trésor Russe*). Georgia remained overwhelmingly rural, and village life, though indirectly connected to twentieth century markets, had barely changed its modes of production since the Middle Ages.

This imperial legacy impacted the new government's forms of authority, as well as public attitudes toward state institutions. Corruption was endemic and authoritarian methods of economic management were the norm. The imperial state played a dominant role in the region's economic life; control over foreign trade was the rule. These habits became even starker during 1914-18 under the pressures of a war economy. The post-war Georgian republic inherited these command structures and mentalities; added to this legacy were industries and government bodies, which after years of war and revolution, no longer worked. Such an environment made it almost impossible to implement and monitor economic reforms legislated by the new Georgian parliament. The government was incapable of shaking hostile attitudes toward the state, yet was obliged to use its structures; civil servants were imbued with imperial habits of economic supervision. The state remained ineffective at collecting revenue, and could not finance its institutions or establish the "mental revolution" required for a dynamic economy.

Tsarist habits were complicated by a hierarchy of ethno-class divisions. The bourgeoisie, in the feeble form it existed in Georgia, was dominated by local Armenians. The majority of administrators were Russian. Georgians in the city were small traders, teachers, journalists, unskilled workers, poets, intellectuals and army officers. With few exceptions, there were no Georgian bankers, businessmen, factory owners, or financiers. The first major Georgian owned bank – the Transcaucasian Bank – was opened one year before the revolution erupted.[10] These ethno-economic divisions worked against the creation of a productive relationship between indigenous capital and the state. Many local Armenian industrialists, after the disastrous Armeno-Georgian war of December 1918, faced anti-Armenian rhetoric in parliament, raids, threats of expropriation, and prison.[11] A law passed on 24 December 1918, during the war, permitted the confiscation of the property of any citizen who aided a foreign enemy "by arms, money, or by the passing of information" (*sakartvelos demokratiuli respublikis samartlebrivi aktebis krebuli* 1990, 177). Directed at Armenians, it alienated Georgia's major business community, and a crucial seed of local economic investment was lost. Absent a class of national entrepreneurs to generate economic growth, the state would have to compensate.

The Republic's prospects

Georgia had some advantages compared to its Caucasian neighbours, Armenia and Azerbaijan. Its new leaders were known internationally, especially among the sophisticated European socialists with whom Georgians in exile had been fraternizing for years; they had a vision that drew upon the moderate ideas of Europe's successful social democratic parliamentary parties. The vision was often ignored in desperate circumstances, but the concept of a mixed economy based on state and private ownership was a reassuring guide amidst the economic anarchy that dominated in the country. Given the post-war financial crash in Europe, liberal capitalism was in disgrace, and the state's economic involvement was seen as a rational solution to market chaos.

Second, there was Marxist justification for state activism, reinforced by a popular call for the defence of "the people" against powerful economic forces and speculators. Socialism in the early twentieth century was not conceived of as a "failed" system, but as a path to modernization. More importantly, as Georgian social democrats saw it, socialism was a nation builder, a mechanism for economic liberation from colonialism. Socialism would give Georgians a chance to end the domination of the economy by local Armenian industrialists, and political control by Russian civil servants. The Georgian government was trying to create something novel, egalitarian, and democratic, but above all else national. The Georgian government's policies of nationalization and state monopolies between 1918-21 were not driven by Marxist economic theory, but by nationalism and necessity. The government was more anti-imperialist than it was anti-capitalist, and more pragmatic than ideological. Taking over factories, nationalizing ports, or introducing monopolies on manganese, were "patriotic" policies. They were designed, in the Georgian government's eyes, to strengthen the state, to protect the people, and to ensure the nation's survival. Given the destruction of war, the weakness of Georgian capitalism, and the need for capital accumulation, such nominally left wing policies were common in post-war Europe, particularly among the undeveloped economies in the East. In economies characterized by monetary depreciation, collapse in production and stagnant agriculture, *laissez faire* economics was impractical, and would lead to political defeat for the ruling party. Noe Ramishvili, Georgia's Interior Minister, justified state intervention by pointing to other European governments and their economic policies after the war; in instituting protective tariffs, licenses for exports and imports, industrial syndicates and domestic monopolies, the Georgian government was only following their example. This was driven not by socialism, but by national survival.[12]

Third, central to the acceptance of such economic policies was the GSDLP's popular base and the moral authority of its leader, Noe Jordania, a Georgian version of the venerated Czechoslovakian leader, Thomas Masaryk. Founders are crucial to the success of political transition, or the building phase of post-revolutionary change, but they also play a vital role in the economic transition. In Georgia's case, the reputation of party leaders gave them the majority they needed to pass laws, the moral authority required for tough economic decisions, and the respect required for mobilizing coalitions and moderating conflicting economic interests. The social democrats' credibility was in the end tarnished by poor outcomes, but external threats subdued the opposition and maintained national support. There were no major opposition groups, as there were in Poland, who could challenge the GSDLP's economic policies from the right. Such groups in Poland had by the mid-1920s torn the new Polish state apart.

A fourth advantage was Georgia's geography. The new state straddled the strategic Caucasian isthmus, contested for centuries among empires seeking economic and political control. On a tributary of the silk roads (in 1900, there were at least 14 caravanserais in Tiflis), Georgia was a commercial link between the markets of the Middle East and Europe. Its transit function – whether for oil or goods carried by rail – was a vital selling point for potential investors and Western governments, and a lever for economic bargaining with Armenia and Azerbaijan, dependent on Georgia for access to the Black Sea. Without this geography, it is doubtful Georgia would have become a sustainable independent state in 1918; "selling" Georgia's transit function to Germany in May 1918 (along with an exclusive monopoly of Georgia's manganese) would, it was believed, secure the new state's independence from Turkish and Russian threats. Germany's interest in Georgia combined both strategic and economic motives.[13] On the other hand, Georgia's distance from European markets, its proximity to international conflicts in Turkey to the south and Russia to the north – and a *de facto* economic blockade of the Black Sea until the summer of 1920 – made economic recovery difficult. After the Soviet invasion of Azerbaijan and Armenia, the transit route through the South Caucasus to the Middle East was blocked, and the Allied powers lost interest in the geographical benefits of the Caucasus, especially after the collapse of Turko-German ambitions in the region in 1918, the end of Denikin's offensive against the Bolsheviks, and the securing of important oil concessions in the new state of Iraq and in Iran.

Fifth, Georgia had strategic resources – manganese, coal and copper. These raw materials were Georgia's potential foreign currency earners, the prospective source of a healthy balance of trade, and most importantly, the base upon which Georgia could establish alliances with European powers. Roving Georgian diplomat, Zurab Avalishvili, later wrote: "We thought – with no small reason – that the edifice of Germano-Georgian relations would be erected on that 'black stone...'" (Avalishvili 1940, 93). Disastrously, the *de facto* blockade and Russia's civil war precluded the use of such mining sectors for stabilizing Georgia's economy, although major concessions were promised to the interested Germans (and later the to the French, Italians, and any other Europeans). Georgia did not have the domestic manufacturing base (like Czechoslovakia), which could have stimulated economic growth and with it, political stability. But the revolution was not all bad for the economy. It shook up imperial controls over entrepreneurship and social mobility. Revolutionary chaos killed many industries and engendered corruption, but weakened patterns of authority brought entrepreneurial possibilities. Tbilisi was the commercial, transit and political hub for the three new Caucasian republics. Newspapers in multiple languages exploded (as every party had to have one), educational opportunities multiplied (Georgia's first national university was created in 1918), Georgian language structures replaced tsarist institutions, and new local government bodies were created.

Economic challenges

Inflation

The new state's economic problems were profound and multiple. The government inherited an economy devastated by war. Georgian industry never recovered. The *de facto* blockade in the Black Sea ended profits from Georgia's raw materials, which could have provided revenues for social and economic reconstruction. From 1913-19, the number of workers employed in the Chiatura manganese industry declined from 3,500 to 250 (Georgian Archive, Box 13, Book 71). Manganese production slumped from a low 12,488,000 *puds* in 1917 (it was over 40 million *puds* in 1914) to 1,583,000 in 1918; by 1920 almost nothing was being mined and only in August of that year, following the easing of the blockade, was there hope of recovery. Seven million of the 60 million *puds* stockpiled was finally exported, leading to a total of 11.2 million *puds* for export.[14] But not everything could be blamed on the war: exports of manganese had been declining for years due to competition from Brazil and India. The switch to sea-going oil tankers from oil drums for the delivery of oil was also a serious blow to Georgia's port industries before the war.

The republic's dwindling production was reinforced by a collapse of transport. The Transcaucasian Railway (TCR), nationalised by the tsarist government in 1899, was described by Winston Churchill as "[one] of the greatest strategic lines in the world" (Hennessey 2004, 52). The war stretched the TCR to its limits delivering troops and supplies to the southern front. As the war wound down rolling stock disappeared, clashes between Armenian and Muslim communities brought trains to a halt, and starving villagers living alongside the railway routes thieved whatever they could. Looting by deserters (the leather seats and axle oil for softening soldiers' boots were particularly popular), and sabotage by Bolsheviks added to the problem. By the second half of 1918, the railway network was in chaos. The majority of Russian personnel had left, and there was not enough fuel to power the engines. Goods transported by railway fell 30 percent in June-December 1918, compared to the first six months of that year; 40 percent less carriages were used (the equivalent figure for food wagons was 80 percent).[15] The sudden fall in the transit of oil to Batumi deprived Georgia of one of its most reliable sources of income, which amounted to 13 million rubles in 1913. There was, however, considerable improvement in 1920 under the supervision of a British set-up called the Board of Railway Control; trains that formerly ran a day late, now ran a respectable two hours late.

Leaders in post-Soviet states in the early 1990s would have understood the economic and political trials faced by the new government in 1918. It was impossible to organize the economy and introduce effective fiscal levers before state institutions were in place. Until February 1921, just weeks before the Red Army invasion, the Georgian government still had no constitution. There was no clear definition of the different branches of government and their powers, and decision-making was consequently delayed and contested by numerous administrative departments. Economic decisions were not coordinated, implemented or monitored. This left room for massive misspending through non-budgetary allocations and endless credits to industries and other constituencies in need, such as labour, agriculture, the police, and the greatest drain of all, the National Guard.

The most serious problem, which undermined every attempt to restore economic predictability, was inflation. This was not only a threat to the economy, but to the republic itself. Its destructive effect on trade and industry demoralized the populace, and undermined support among ordinary working Georgians for the new government. Jordania described inflation as an "economic war" on the population, but it was a war on the Georgian government too, undermining its credibility at home. Georgia's monetary system was perplexing – by 1919 there were four "currencies" working simultaneously – "Nicholas" rubles, "Kerensky" rubles, Transcauscasian Bonds, and Georgian Bonds. In December 1918, there were forty "Nicholas" rubles to £1.00, in November 1919, it was 700; by February 1920, it topped 1,000. That December it suddenly accelerated to 18,000 (Kandelaki 1960, 72). If meat was 45 kopeks per kilo in January 1917, in September 1919, it was 11.79 rubles. The price of bread over the same period rose from eight kopeks to five rubles, and a bottle of wine – an important solace for Georgians – between May 1918 and February 1920 rose ten times from an average of three rubles to thirty.

The reason for the precipitous climb was simple: the government's expenses exceeded its ability to pay. The Ministry of Finance was inundated daily with demands for salaries, military operations, the support of refugees, the dispatch of Russian troops back home, the creation of new institutions or the liquidation of old ones (an expensive business which involved handouts and travel expenses to former Russian officials). The government solved its insolvency by printing money. From July 1919 to January 1920, despite fierce resistance from local banks and the absence of a coherent budget or any state collateral, there were four emissions of Georgian Bonds amounting to 8.4 billion (*milliard*) rubles. Printing money was easy – it was a temporary internal loan or tax – but there would come a time, as it did in Weimar Germany, when the cost of printing would exceed the value of the money. The government would then lose its last resource. Karl Kautsky commented after his visit to Georgia in late 1920:

> "The system of paper money not only threatens the state with complete bankruptcy and with the absolute worthlessness of the money it issues, but it has brought growing confusion and paralysis into the whole economic machinery..." (Kautsky 1921, 62).

Georgia's ministers understood the issue. The annual balance sheets were in permanent deficit. In 1918-19, revenue was 174.2 million rubles (approximately 12 million dollars in 1918), mainly income from state property, customs duties, and indirect taxes.[16] Expenditures, on the other hand, were 663.5 million rubles (44 million dollars). Defence took 30 percent, communications and roads 21 percent, and trade and industry 30 percent. The imbalance could not be covered by reserves, and no one at this stage was willing to give Georgia a loan. At its Declaration of Independence, Georgia had no more than 394 million rubles in the Treasury, State Bank, Savings Banks and all credit institutions combined. This money rapidly disappeared in compensation to officials dismissed during the liquidation of old tsarist institutions, and was spent on immediate needs like pensions, the upkeep of the army, and on medical costs (Kandelaki 1960, 168).

The budget the following year (1919-20) aimed at producing a balance of revenue and expenditure at approximately 795 million rubles. Of this, 574,208,000 rubles of the revenue stream were expected as income and interest from state property. The actual budget turned out very differently. Expenditures shot up to 3,252 million rubles (over four times the estimate) and revenue remained at 771 million. Revenue covered just 23.6 percent of expenditure. Every year, the biggest spenders were the Ministries of Supply, War, and Communication. The military budget took the lion's share. If in 1918-19, the military took 30 percent of total expenditure, in 1919-20, it was 36 percent, and in 1920-21, it soared to 60 percent (Abkhazi 1921). The enormous sums Georgia spent on defence were impossible to maintain; other state institutions were starved of revenue. In 1919-20, the Ministry of Justice was given 3.0 percent of budget expenditures, education 4.7 percent, and Labour, the source of Georgian social democracy's strength, just 0.06 percent (Kandelaki 1960, 172). In reality, as the Finance Ministry noted, "all planning and accounting lost its basis"; significant revenues and expenditures were not even in the budget, and parliament, the government and the military continued to demand funds regardless of the financial reality the state faced (171-172).

One solution was to restructure the tax system (Czechoslovakia had done this successfully in 1919 as part of a larger monetary reform). In a review of the Georgian economy in March 1920, Elisey Kozlovskiy, an expert in the Ministry of Finance, pointed to four revenue problems: lost tax revenue from oil duties (formerly, they made up 80 percent of indirect tax revenue in Transcaucasia); a decline in real returns on direct and indirect taxes due to inflation (in real terms between 1918-1920, the vodka tax fell 950 percent and the sugar tax over 8,000 percent); an inadequate system of tax collection; and overspending by government departments. Overall, 45 percent of expenditures went on securing food supplies. Kozlovskiy called for a system of proportional taxes, with 10 percent on necessities, more on luxuries, and all indexed to inflation. He commended the raising of the stamp tax and the introduction of new land and inheritance taxes, an attempt to reduce dependence on indirect taxes. But these taxes had been eaten away by inflation, as had indirect taxes on wine and tobacco. Tax laws were flawed; the wine tax only levied wines for export, or in urban areas. In his view, the government had to raise both direct and indirect taxes. *Per capita*, citizens were paying just 60 rubles per annum, which left room for a significant increase. Things had to be speedier; the tobacco tax took five months to get through the Constituent Assembly (CA), by which time inflation had rendered it worthless (Kozlovskiy 1920).

These were important recommendations, but in three years Georgia experienced five wars – with Turkey, the Volunteer Army, Armenia, Soviet Azerbaijan, and Soviet Russia. Emergencies exploded every month – whether it was an influx of refugees, poor harvests (in 1919, the maize harvest was poor), the purchase of emergency grain supplies (in the 1920-21 budget, the Ministry of Supply accounted for 30 percent), internal rebellions, and natural disasters such as an earthquake in Gori in February 1920, as well as cholera outbreaks. These were extraordinary times, which required extraordinary measures. The Ministries lacked personnel and resources (most of the Russian civil servants had gone home by 1919-20), and there was no effective revenue collection service. The tax base was inadequate (as in most rural economies), and there was no tradition of direct taxes, an expensive form of revenue collection. Raising indirect taxes as a form of revenue, in many ways, only accelerated inflation. Corruption, which infested the lower ranks of officialdom, especially in the provinces, meant government programs were poorly implemented. In the second half of 1920, tax receipts slumped from 96.4 million rubles to 42.8 million (Abkhazi 1921).

Corruption

One of the most significant problems for the government was loss of revenue through the black market. The vast majority of business transactions were conducted outside the state's legal framework. "Speculators," flaunting their wealth in the city's most popular restaurants, along with businessmen earning illicit riches, gave the opposition ample ammunition. *Sakartvelo*, a National Democratic newspaper, wrote in November 1920: "together with inflation, speculation is growing, and while they (the speculators) grab millions, the working masses go hungry."[17] But the problem was not just graft or nepotistic connections. It was a structural problem generated by mentalities of the past, including the dominance of informal rules, the use of favours, reciprocity and gifts, all reinforced by the realities of 1918-21. Inflation, shortages, and opportunities to extract resources from the state, combined with the lack of proper institutions, legal accountability, and enforcement of laws, meant corruption remained embedded in the fabric of the new state. As in Georgia in the 1990s, revolution produced what Rasma Karklins calls "transition profiteers" (Karklins 2005, 15). This, of course, was not just a financial problem: it threatened a loss of public trust and belief in the political system the social democrats were trying to create. Its improvement (solution would be too strong a word) required a stable economic environment, the reduction of incentives for corrupt behaviour, and the division and decentralization of power (accountability).

The Georgian government lashed out at the symptoms because the state was too feeble to solve the problem. Nettement, the French Consul in Tiflis, wrote in his report to the French Ministry of Foreign Affairs in September 1920, that the government was "warring against the symptoms without thinking on how to combat the malady" (Nettement 1920, 35). Weak states, as the post-communist transitions demonstrated, are susceptible to extensive corruption. A frustrated Jordania attacked "state workers and officials" who had no sense of responsibility, and "... embezzle state property every day..." (Chubinidze 1953, 153). The Georgian National Council introduced severe punishments (up to two years in prison) for speculation as early as September 1918, but the law was poorly conceived and open to abuse. After struggling with the legal definition of speculation, the 1918 law required citizens to inform on anyone who was selling at "clearly exaggerated prices," and for house owners to inform local authorities about any stores (*satsqobta)* they had in the house (*sakartvelos demokratiuli respublikis samartlebrivi aktebis krebuli* 1990, 65). This was a strike in the dark, and would increase social distrust toward executive authorities implementing the law. A Ministry of Labour report revealed just how central to economic life the black market had become. In October 1919, it declared that "the town population, apart from the workers, nearly all indulges in speculation; it is enough to look at the quantity of retailers and buyers despite the paucity of provisions..." (Beridze *et al* 1958, 489). In other words, Georgia's new citizens were as much accomplices as victims, and they could not survive otherwise.[18]

The government, often in desperate straits, used requisition in grain, property or land to extract resources. The countryside represented the most serious problem, and the National Guard was often called in to ensure local tax-collecting organs could garner taxes "in kind," a measure resembling the traditional feudal quitrent (*gali*). In Tiflis, the housing situation verged on the catastrophic, with refugees, seasonal labour from the countryside, and demobilized soldiers stretching the city's resources. Scotland Liddel, a British officer stationed in Georgia, remarked that it was impossible to find a room in Tiflis. "So great is the housing problem," he wrote, "that the authorities have been forced to requisition rooms in private houses, and there are few flats that do not contain more than one family..." (Georgian Archive, Box 8, Book 30). But requisition was ineffective, and came dangerously close to state brigandage. The government created a series of departments and organs, including the Ministry of Supply, which had powers of search, investigation and confiscation. A financial police was established to collect taxes; local government bodies, though they needed a vote of the district council, were given the power to confiscate property, and a special unit under the Interior Ministry was created in January 1918 to fight "speculators, spies, and counter-revolutionaries" (*Sessions of the Georgian Government*, 44). It was given the right "in exceptional circumstances" to search trade establishments, warehouses and flats and to put people under arrest by special order of the Ministry of the Interior. A law dated 11 July 1920 gave these organs the legal power to confiscate almost any property, should the state require it. It declared that the "government has the power on the entire territory of the republic to requisition immovable private property by force, to seize it temporarily, or share in its use when this is demanded because of state or social needs" (*sakartvelos demokratiuli respublikis samartlebrivi aktebis krebuli* 1990, 282).

There were appeals through the courts and compensation for confiscated property, but a 75,000-ruble cap – the rest being paid over six years – meant a loss for the owner because of inflation. The fight against corruption revealed the weakness of the state. The real answer was long term, and largely out of the control of the government. It required adequate supplies, stabilization of the currency, and strong accountable institutions. Arresting speculators or requisitioning property was a gesture that could not get to the heart of the problem.

Labour

The economic problem was tied to the intellectual and social impacts of revolution. The Georgian social democrats had to deal with a growing unskilled urban population, which could not find work. Industrial capacity was inadequate for the mass of village migrants escaping rural poverty. Only fundamental structural change could improve chances for employment; in three years this was an impossible prospect. Free and universal education introduced by the new government might help, but only in the long term. Moreover, the new government faced fundamental challenges in education such as inadequate teachers, school buildings, textbooks and communications. Budgetary outlays on health and education were minimal.

Social democrats had been telling workers for years that they should be in control. Now, through their trade unions and local soviets, and in the face of growing inequalities, inflation, and food shortages, these well-organized workers demanded more. They had high expectations of the new Georgian government. The government, on the other hand, quickly realized that its interests were served by "class discipline." Greater productivity was essential to the state's survival. Jordania, sounding like a beleaguered owner, criticized workers "who worked five hours out of eight" and quoted a Factory Inspectorate report, claiming "there is a whole group of workers who do no more than two to three hours a day" (Chubinidze 1953, 158). In October 1920, he claimed that productivity in some sections of the railway industry had declined by up to 60 percent.

The GSDLP faced the paradox of all revolutionary governments – with power in its hands, should it step on the revolutionary accelerator or work for the broader interests of the state? The Bolsheviks quickly abandoned their democratic commune state for a disciplined labour state, but Georgian social democrats were more equivocal. An oppositionist socialist paper *akhali skhivi* ('New Ray'), expressed the dilemma:

> "As the ruling party, the social democrats stand at the head of the government and are forced to be leaders of all the people, and to take decisions which are in the best interests of the whole nation.

> But as leaders of the proletariat, social democrats must follow a policy, which should aid the development of the class struggle. It is difficult …to preserve a balance...” (Makharadze 1921, 49).

The tensions were reflected by government-imposed restrictions on strikes, and by official trade unions losing their oppositionist role. Concerns for productivity led to the introduction of piece rates, and the search for investment from former imperial powers. The powers of employers over their workers, the role of the state in the economy, and the nature of land reform became central debates in the party. The rank-and-file, without the responsibility of power, remained committed to earlier ideals: the universal right to strike, popular power through referenda and decentralized local government. The National Guard, under Valiko Jugheli’s leadership, emerged as the radical defender of revolutionary goals, warning the government not to abandon the proletariat. The government, trying to meet their constituents’ expectations, provided subsidies and social welfare to workers, but these policies were untenable financially.

At the first Congress of Trade Unions in April 1919, employees were represented by 82 trade unions. Workers were granted privileged rations, including a “Workers Table” where essential foodstuffs and clothes were sold at subsidized rates. Laws were passed guaranteeing conscripted workers jobs on return from military service. Compensation rates were set favourably for skilled workers, printers and railway engineers, who earned as much as doctors, and more than white-collar employees (*Proekt Ustav Tarifnoy Palati*). Georgia’s labour legislation was advanced – and its constitution, like those in Mexico in 1917 and the Weimar Republic in 1919 – contained wide social and economic rights: unemployment assistance, insurance for the disabled, minimum wages, and a working week of no more than 48 hours.[19] New laws increased security for women and children, and improved workers’ rights in cases of dismissal, bonuses, overtime, and reinstatement. The law on Labour Agreements, passed in August 1920, forced owners to follow labour contracts, and coordinate with local municipal officials; to hire workers through Labour Exchanges; and to take disputes to Labour Courts. A government decree made the eight-hour day mandatory, along with a maximum of six hours’ work without a break.

But the government’s dilemma was how to keep both workers *and* owners happy. Major concessions were made to employers. The law on Labour Agreements, in contrast to the Transcaucasian Commissariat’s decree of January 1918, no longer required the sanction of the trade union to hire anyone, and an employer could dismiss a worker within six days of his commencing a job or for taking three consecutive days off without good reason. If a worker was half an hour late, the employer could exclude him for the whole day without pay. The constitution provided unions with important protections, including the right to strike (Article 38), but the right was not universal; water workers, pharmacists, hospital workers and workers in military factories had no such right. The law provided owners with the power to fire or fine “agitators” (*Zakon o trudovom dogovore*). On balance, labour legislation contained important protections for employers. It underlined the importance of discipline and productivity, and its declared goal was to remove obstacles that “held back the development of productive forces,” even at the risk, in some cases, of undercutting workers’ short-term needs (Eradze 1919, 28-36).

Strikes, or more commonly temporary stoppages, persisted throughout 1918-21; they mostly concerned wage demands. The most serious, which illustrated the government’s tough approach, was by Tiflis local government officials in March 1919. Over one thousand lower- and middle-rank officials, many of them Armenians and Russians – giving the strike a decidedly anti-national flavour – complained: “the collective agreement and Arbitration Commission which is seen as such a valuable gain for the working class, has remained a vain dream for us... All our appeals to the Minister of Labour and the Council of Trade Unions has brought no results...” (Beridze *et al* 1958*,* 386). The government refused to raise wages, dismissed officials, and arrested the strike leaders. It accused the strikers of provocation and sabotage. G. Eradze, Minister of Labour, tarred the strikers as counter-revolutionary: “all those elements who up to the revolution went hand in hand with the bourgeoisie now lead strikes,” he declared (Eradze 1919, 34).

But strikes occurred for a reason. In October 1919, the Ministry of Labour admitted that a skilled worker “spends his money on only the most modest food, and the quantity is three times below the necessary amount for a proper diet...” (Beridze *et al* 1958, 488). The pro-government newspaper, *ertoba*, acknowledged: “earlier, despite political and economic slavery, the working class was economically better off. Today the working class has political freedom, but the economy enslaves it...” (Makharadze 1921, 56). Registered unemployment reached about 9,000 in Tiflis in 1918, almost 25 percent of the workforce (*Report of the First Congress of Trade Unions* 1919). Without the links workers had with the countryside, their position would have been unbearable. Valiko Jugheli, head of the National Guard, accused government leaders of losing touch, and letting the working class “perish in poison.”

The peasantry

Despite the strong roots of Georgian social democracy in the countryside, Georgian leaders, like all erudite Marxists, feared a repeat of the Vendée. *Ertoba* warned in July 1918 that "the bridge between us and the peasantry will be destroyed if we cannot give them land, and this is why they will not submit to the government" (Mirtskhulava 1978, 350). Peasants returning from the war were restless, organized, and had high expectations of the social democratic government. The new regime inherited a calamitous situation in the countryside, intensified by the impacts of war, including the loss of male labour, unsown fields, the destruction of farms, and occupation of territories (by the Turks) in the south. Agricultural reform was crucial to the Georgian economy's recovery, and it was on the agenda of all new states – socialist or not – which emerged from Europe's backward empires.

The Georgian state never had a reliable supply of food from the countryside, especially grain, and the reform was unlikely to make it much better. Seventy-nine percent of the Georgian population was employed on the land, overwhelmingly subsistence farmers living on an average of two to three *desyatinas*.[20] They used wooden ploughs, and thrashing sledges, while crop rotation and manure spreading were rarely employed. Mechanization in the form of tractors, electric motors or agricultural machinery was extremely unusual. Only 27.7 percent of arable land could be described as irrigated and on average only 50 *puds* of grain was produced per *desyatina*, 2-4 times less than in most European countries (Abkhazi 1921, 6-7; *Sostoyanie v respublike Gruzii sel'skogo khozyaystva*, 2). Karl Kautsky, who spent over three months in Georgia, remarked that Georgian agriculture belonged to the "era of Charles the Great" (Charlemagne), the eighth century King of the Franks (Kautsky 1921, 23). Georgian land tenure and its technological backwardness made quick improvement in the food supply unlikely; the agricultural modernization of nineteenth century Europe had passed Georgia by. Outcomes of the land reform could be measured in the long term, but Georgia had only three critical years to register improvement.

Eighty-one percent of Georgia's arable land was sown with grains like maize and wheat, but this did not provide enough bread for Georgia's citizens. In 1913, 12.09 million *puds* of grain were imported into Transcaucasia, three quarters of it from Russia. Georgia's production of bread between 1912-1917 slumped from 647,982 *puds* to 515,531 (*Sostoyanie v respublike Gruzii sel'skogo khozyaystva*, 1). Grain supply after 1918 was both a social and strategic issue, decisive to Georgia's survival. In November 1919, facing massive grain shortages, the government attempted to expel all those from Tiflis who had no employment or residential status. The state depended on whoever controlled southern Russia, whether it was the Volunteer Army or the Bolsheviks. Grain, along with fruit, vegetables and meat, was put on the list of banned exports. State confiscation of grain began in 1918, along with the selling of land to peasants (rather than the more radical alternatives of municipalisation or nationalization). In September 1918 at the Conference of Land Committees, Noe Khomeriki, the Minister of Agriculture, explained the motives behind land reform:

> "For us the basic issue is the confiscation of land and that means the destruction of feudal society and the development of a democratic society. We consider this most important... Giving the land to the peasantry prevents peasants falling into the clutches of rent cabals and at the same time aids production..." (Khomeriki, 2).

From the left, the Socialist Federalists condemned the privatization of land as "a harmful compromise of bourgeois and socialist ideas." Their newspaper, *sakhalkho sakme* ('The People's Work'), wrote: "The selling of land destroys the very hopes that brought the people to revolution... The peasantry could buy land before, it was not forbidden... but can he buy any more now than he could then...?" (Mirtskhulava 1978, 316).

The government justified privatization on four grounds. The Treasury needed revenue (an anticipated 300 million rubles); the peasants longed to own land, and they should not be refused it because of ideological precepts; money would return to the population through public spending; and, repeating the sentiment of tsarist Prime Minister Petr Stolypin (1906-1911), who as part of his agrarian reform encouraged individual peasant proprietorship, the Georgian government declared land ownership would "calm the peasantry and would lead it to defend the existing structure" (Drabkina 1928, 102). This was the language of both pragmatism and revolutionary reform – the peasants would get what they wanted, and the power of feudal lords would be broken; land ownership would be more egalitarian. The state would maintain its leverage through control of the land fund, consisting of large economic estates, the seeds of an efficient socialist future in the countryside.

Much depended, however, on implementation. Gradualism was a good choice for such a complicated reform, but land distribution did not begin until the spring of 1919, and went at a pace far too slow for impatient villagers. In Tiflis *guberniya,* only 235,718 rubles' worth of land was bought and distributed by January 1920. Things barely improved the following year; a total of 621,697 *desyatinas* was confiscated (511,539 in east Georgia, 110,158 in west Georgia), but only 7,203 *desyatinas* was distributed to the peasantry as private property. The reform was complicated by local laws, customs, vague property lines, conflicting claims, inexperienced courts, and a lack of trained land surveyors. Land commission members responsible for the reform at the local level were unpaid, amateurish, and corrupt. A conference of land surveyors in January 1920 concluded that the regional land commissions had “lost all trust and authority in the eyes of the people” (*Proceedings of the Land Surveyors’ Conference* 1920).

The root problems were overpopulation, shortage of land, backwardness, inaccessible markets abroad (a result of the transport breakdown and the economic blockade imposed by the Allies), and inadequate credits for land improvement. All this was a major social and economic headache for leaders of the new economy. The surplus population in the countryside continued to flow into the cities. Most of the land in Tiflis and Kutaisi *gubernyias* consisted of pasture (28 percent) and woodland (48 percent) (*Sel’sko-khozyaystvennaya perspektiva Gruzii*, 1). The Ministry of Agriculture conceded that the reform could “not satisfy the land hunger from which the Georgian peasant suffers,” and Minister Khomeriki concluded that the average peasant household would receive no more than one *desyatina* of arable land. The average peasant landholding was 3.01 *desyatinas* in Tiflis *guberniya* and 2.57 in Kutaisi *guberniya*; the reform would only make a marginal difference to the peasantry’s economic security, and not provide the food surplus the government needed. In these conditions, especially without government help, Georgia’s villages could not stimulate economic recovery. The small peasant owners still owned scattered parcels of land, were underemployed, could not make an adequate living and at the same time provide a surplus for the market. They could not access foreign markets (bad luck given the high post-war prices in grain), would not sell their crops for worthless government bonds, and could not afford to buy industrial goods from the cities. The cry for bread echoed around Tiflis’s streets, but Georgian agriculture was a drag on economic recovery and peasant interests were on a collision course with the young state and its needs.

Foreign trade

The level of world trade after the war dramatically declined. Georgia, as part of the Russian Empire, had always been peripheral in global trade; its agricultural decline from 1914 on reinforced the country’s dramatic imbalance of trade. If in June-September 1918, Georgian exports amounted to 62.9 million rubles, and imports to 24 million, in the last quarter of 1918 this was reversed to 90.1 and 116.9 million rubles respectively. By June-September 1919, it was 144.5 million rubles of exports compared to 318.5 million rubles of imports; between January-November 1920, after inflation, exports amounted to 1.3 billion rubles and imports twice that at 2.6 billion (Abkhazi 1921, 21). Georgia had a negative trade balance with every country except Armenia. Its biggest imports were fuel, food, fabrics, and medical supplies; its biggest export earners were minerals. Cognac, wool, tobacco, tea, and cotton – a traditional source of export revenues – were devastated by the war and the inaccessibility of markets. Georgia’s major port of Batumi was controlled by the British until July 1920, and Poti, a smaller alternative to the north, had not been dredged since 1912. The Georgian government had no merchant fleet to speak of – two steamers and six tugboats – but between July-December 1920, when Batumi was already under Georgian control, 151 ships had managed to dock at the port bringing much needed goods from abroad (Abkhazi 1921, 28).

At every opportunity, Georgian leaders collared foreign representatives, urging them to invest in manganese, the railways, food processing (one of the biggest sectors in Georgia), or in crops like tobacco, wine and silk. But one can imagine the obstacles. The new state’s juridical status was uncertain, businessmen still thought Georgia was part of Russia, transport was broken, insurrections were being reported in the newspapers, corruption was rife, and there were rumours of requisition and nationalization. The Germans hoped they would be able to exploit Georgia’s raw materials, and in economic agreements in May 1918 (part of the Poti Agreements signed on 28 May 1918) secured exclusive mining rights; the German government promised Georgia a loan and capital investments, and there were promising negotiations with German industrialists such as the Friedrich Krupp Company and the Gelsenkirchen Mining Company, among others. Draft agreements on the formation of three Germano-Georgian companies to control railway transit, mining, and the Poti port were drawn up (Avalishvili 1940, 94). On the other hand British military administrators responsible for Georgia, such as General George Milne, Commander of the British Forces at Constantinople, were dismissive of the country’s economic potential and usefulness for the British Empire.[21] Yet of all barriers to investment, the most serious was Georgia’s inability to pay its foreign partners in anything but raw materials. The latter was Georgia's “real money” as Kandelaki called it. There was no capital account convertibility, and paper money was unacceptable; communications with Western states, either by telegraph or train, were non-existent. The insufficiency of imported and home-manufactured goods meant there was nothing to give the peasant in exchange for his products, which were so desperately needed by the towns.

A social democratic model

Georgian social democrats faced tensions in 1918 between public welfare and social spending on the one hand, and the need to create an attractive investment climate on the other. This meant social democracy had to abandon its more radical transformational goals of state ownership, for a liberal labour market. Georgian leaders believed in state activism in the economy, but they were cautious and pragmatic too. The Georgian cabinet had no compunction determining wage rates for engineers, metalworkers and janitors (as did the tsarist authorities); nationalization was a legitimate form of economic regulation, and subsidizing struggling industries was an important way to preserve jobs. As socialists, they knew economic policies had major implications for social justice.

Yet the majority of the government's economic decisions were determined not by ideology, but by crises and legacies. Owners were abandoning their factories, jobs were disappearing, wages were losing their purchasing power, bread supplies were drying up. The government was forced to take an active role, even if it compounded suspicions of Georgian "Bolshevism" among Western governments. Factories were confiscated to ensure production, cattle and grain were requisitioned, medicines (hoarded or stored?) were confiscated, trade monopolies were established, strategic industries such as railways and the ports were nationalized (public goods), and landowners were forced to give property to their peasants. These actions, though pragmatically determined, undermined Georgia's image in Western states as well as investment at home. But such policies were also legacies: a continuation both of the *Kriegssozialismus* policies of the German, and to a lesser extent tsarist, governments during the war, and of the Russian state's historically dominant role, determined, as Alexander Gerschenkron (1962) suggests, by economic underdevelopment and a weak bourgeoisie. Building upon this reality, social democracy proposed the replacement of Marxist etatism with state supervision of capitalism to protect the public good. Georgian social democrats understood that their experiment would fail without successful capitalism, yet facilitating capitalism in Georgian conditions demanded state intervention. It was a strange dilemma that other social democratic governments would face in the future; it led to an emphasis on improving workers' conditions rather than giving them ownership, and on democratization through unions and cooperatives, rather than giving workers power over their managers. This incremental model put the Georgian social democrats in the political centre; they were attacked from the right (National Democrats) for insufficient patriotism, and from the left (Socialist Federalists and Socialist Revolutionaries) for insufficient radicalism.

In December 1919, the government was warned by one of its best friends, British High Commissioner Oliver Wardrop: "any action… which injures the interests of British trade in this country will be resisted and the authorities… will be held responsible" (Georgian Archive, Box 5, Book 37, no. 60). In November 1920 a loan Georgia was seeking from a British bank was almost sabotaged by an angry tobacco merchant, who warned of requisitioning by the Georgian government (Kandelaki 1960, 188). Georgian leaders insisted that they were not trying to introduce socialism. They would protect the free market, and socialism would be introduced, as Eduard Bernstein (1961) has suggested, through a gradual and democratic conquest of social power. Public ownership would be introduced only when necessity required it. Jordania declared in 1920: "the socialist revolution will not come from Georgia or Russia. The advanced states, England and France, must start it. Until this happens, we must develop the European forces of production" (Chubinidze 1953, 162).

"European forces of production" had special meaning for Georgian social democrats. Revolution was not a spark that would lead to a conflagration in the East and the destruction of capitalism in the West. Jordania's own view of socialism was based on four ideas, quite contrary to those of Bolshevism. First, Georgia was European. Culturally and politically it shared European traditions; Georgia's current experience of revolution, national liberation and economic stratification was a European experience. Second, socialism itself was European. Only economically developed countries could follow the socialist path described by Marx. Developing states, like Georgia (and Russia), had to emulate Europe's historical trajectory. That meant modernization and industrialization, based on the bourgeois model. It also meant a rejection of rural forms of socialism. Third, socialism was democratic. The dictatorship of the proletariat, as practiced in Soviet Russia, was a perversion. Democracy was indispensible to socialism; it entailed the diffusion of power, not its concentration. Fourth, socialism was national. It did not homogenize minority cultures, but neither did it abolish national state structures. Socialism promoted and preserved distinct political systems based on specific cultural and economic features.

These ideas led to certain economic conclusions: extensive nationalization of the economy at this stage was illogical, undemocratic, and anti-European. Georgia could only survive as part of the global economy. That meant protecting foreign investment in Georgia and the rights of foreign owners. Economic development was evolutionary. Private initiative, private ownership, and free trade were, until conditions were ripe for socialism, sources of wealth, economic progress, and economic pluralism. The suppression of private trade was impractical and harmful. A mixed approach was essential if the consequences of Bolshevism were to be avoided. Socialism was a goal, not a practical task for the first republic. Noe Khomeriki declared that Georgia's economic policy was characterized "by aid to social production, not by the oppression of private initiative... Our country is in the first stage of economic development … only gradual movement is possible" (Kandelaki 1960, 205).

Between 1918-21, the government had no time or the means to work on economic strategies. Dealing with crises every hour of every day reinforced the instinctual pragmatism of Georgian social democracy. Government members tried, given their socialist beliefs, to contain the power and privilege of business, and to promote the interests of workers and peasants. But for every "socialist" step they took, reality demanded compromise (some would say retreat). The "reality" was that Georgia could not implement any ambitious reforms because of absent institutions, resources, and honest civil servants. But there was also confusion as to what economic form social democracy could take in the present. Georgian social democracy had the advantage, compared to European socialist parties, of a convincing majority in parliament, but it was reluctant to enforce its programme "maximum." Rather, it decided to pursue a series of *ad hoc* economic programs that shifted the balance of social power, but did not challenge the fundamentals of capitalism. It was managing capitalism on behalf of the workers.

Central to the debate was the role of the state. Georgian SDs supported economic pluralism. Socialism did not require the expropriation of the petty bourgeoisie. The working movement could only remain strong if it had the support of non-proletarian elements, a Gramscian notion Georgian social democrats had promoted since the 1890s.[22] Free trade had to be established with European capitalist states; it was recognized that a socialist government in a bourgeois world would "serve the interests of the bourgeoisie" but in the Georgian case, given the broad support among trade unions, petty traders, and white-collar workers in local government, the authorities believed it could protect the property-less classes. This was reflected in the government's labour legislation, in its support for workers' insurance and pension funds, and by its subsidized prices for basic products, most importantly, bread. Labour exchanges and labour courts were created, a powerful workers' militia (the National Guard) was financed, free education was expanded, and property was redistributed.

In Georgia's economic conditions at a time of war, increasing government involvement was inevitable, and the list of government controlled industries expanded. By 1920, Tiflis, had twice as many workers in state industrial concerns than private (8,416 to 4,289); only 19 percent of workers were employed in private industry, with 52 percent working in state and 28 percent working in municipal institutions (Kazemzadeh 1951,193-4). Instituting government monopolies was driven by the need for revenue. Most of the government's decisions on monopolies were in response to a specific emergency; there was no large-scale nationalization of banks and industry. Monopolies in manganese, tobacco, silk and wool, were not introduced until the end of 1919, and a central state bank was not created until July 1920.

In a report in March 1920, the Ministry of Finance was insistent: the only way to secure foreign currency, a healthy budget and decreased inflation was through export monopolies. They would ensure the producer (rather than the seller or buyer) received a portion of the profits, but more importantly, the report concluded, "the action of the government as an active organizer of the national economy is dictated by the interests of the nation" (Kozlovskiy 1920, 96). This was a vital component of Georgian (and European) socialism after the Great War. Social democratic economic policies coincided with national consolidation, were aligned with historical development, and reinforced national liberation.

Such powers were a response to domestic conditions – but the potential for abuse, including the use of force against reluctant entrepreneurs and the peasantry, was evident. In a report in November 1920, Colonel Stokes, a Foreign Office official who subsequently became the British High Commissioner in Transcaucasia, painted a picture of confusion and corruption. There were excessive government charges for the export of certain goods, railway freight tariffs and rents for storage at ports were arbitrarily raised (Stokes complained that the transit of manganese from Chiatura to Poti was increased from 9000 to 45,000 rubles in one go), and there was unpredictable requisition using "extraordinary methods of taxation, not on profits actually made, but simply demanding part of a supposed future turnover…Now and then, amounts based on the same method, are demanded from banks…as a contribution to a fund for soldiers at the front…" (Stokes 1920). State action such as requisition and forced confiscation driven by revenue deficits, when crudely implemented by unsupervised officials in a weak legal environment, was a danger not only to economic recovery, but to the democratic republic itself.

Conclusion

Georgia's leaders, in the three years at their disposal, failed to stabilize the economy and provide economic security to their citizenry. This was a structural and temporal problem, not the failure of social democracy's economic ideas. Georgia's social democratic government largely ignored its own ideological precepts in 1918-21. Georgian social democrats' pragmatism drew on a strong tradition of civil society activism among the native intelligentsia, and the Georgian social democrats' own pre-revolutionary experience as legislators and local government officials.

Georgian social democrats were not starry-eyed idealists, but hard-headed realists, who had built expediency into their political approach from the very beginning. This had led them beyond an exclusive emphasis on the "proletariat" to a broad incorporation of the "oppressed and exploited." This evolved into the creation in 1918 of a national party. Still committed to social democracy, the government promoted an economic policy designed for the nation-state and its interests. Its moderate socialism incorporated both support for local industry and the needs of the property-less. It was a difficult balance to maintain – perhaps an impossible one – but in the conditions of 1918-21, neither a *laissez faire* policy, nor radical socialism were economically sustainable. State support for industry, combined with the principles of economic liberalism, was widely practiced among other European states emerging from the First World War, driven by the goals of national self-determination and economic sovereignty. Czechoslovakia was closest to the Georgian model, as it included ideas of social justice as well as national economic emancipation.

Economic failure in Georgia was determined in part by poor policy choices, but the government inherited an undeveloped economy devastated by the destructive impact of war and revolution. There was persistent military conflict with neighbours, a lack of financial resources and limited economic expertise among leaders. The state machinery was weak, and there was little sense of identification with the new state among the ethnic groups that made up Georgia's new citizenry. These were challenges that would have confounded any government, especially an inexperienced one like Georgia's. Georgia needed peace, first and foremost, and international aid to create a breathing space for economic and political stability at home. The government had only three years to achieve this. Things were looking up in 1921, when Georgia negotiated a loan of £100,000 from a British bank which would help stabilize its currency; the economic blockade had been lifted, Georgia received *de jure* recognition from the Allies, and in its last days, the Constituent Assembly passed a constitution. This may have just been enough to attract foreign investment and start Georgia on the road to economic sustainability.

But three years was too short for a new and workable economic system, and fiscal or monetary reform was constantly postponed. In Eastern Europe among states in a similar position (Bulgaria, Hungary and Rumania), budgetary equilibrium was not attained until the mid-1920s, based on currency reform, international loans, revenue increases, and the taming of inflation. Until then, all these governments, like Georgia, were reckless in either printing money or taking out domestic loans through their national banks. But by the mid-1920s, these governments could borrow from foreign creditors, who after the restoration of stable capital markets, were more willing to provide cheaper short-term loans. After 1921, had it survived, the Georgian state would have struggled with poverty, a poor balance of payments, weak investment, and unemployment, but the international context, along with currency reform backed by foreign loans, may have provided Georgia its path toward greater economic stability and a chance to continue its social democratic experiment. Unfortunately, Soviet troops ended this possibility in February 1921.

Notes

[1] A few notable exceptions which all deal at least in part with the Democratic Republic of Georgia (DRG) are the works by Firuz Kazamzadeh (1951); Werner Zürrer (1978); Richard Hovannisian's four-volume series of books published between 1971 and 1996 on the Armenian Republic (1918-20) deals extensively with the DRG; Ronald Suny (1989); Charles King (2008); and Donald Rayfield (2012). See also Stephen Jones (1992). Some important memoirs of the DRG include those by W. Woytinsky (1961); Friedrich Freiherr Kress von Kressenstein's unpublished *Meine Mission im Kaukasus*, which has been translated and published in Georgian (2002); Odette Keun (1924); and Karl Kautsky (1921).

[2] For an excellent review of Eastern European economies between the two world wars, see Kaiser (1985). I drew heavily on these two volumes when thinking about the parallels between Georgia and other new European states emerging out of collapsed empires.

[3] *ertoba* (Unity), no. 235, 16 October 1918, cited in Vadachkoria (2001, 257).

[4] *La Republique Democratique de Georgie*, in *Archives of the Delegation to the Conference of Peace and the Government in Exile* (*Georgian Archive*), Box 4, Book 8. The Georgian Archive contains the state papers of the Democratic Republic of Georgia from 1918-21, and is located on microfilm at the Houghton Library, Harvard University. For a comprehensive assessment of Georgia's natural resources at this time, see D. Abkhazi (1923.).

[5] For the best English language history of the Transcaucasian railway, see R.A.S. Hennessey's *The Transcaucasian Railway and the Royal Engineers: With the Sappers to Baku* (Hennessey 2004).
[6] A *pud* was 36.121 lb.
[7] The pipeline was not fully complete until 1906. On its history, see D. Ghambashidze, *The Caucasian Petroleum Industry and Its Importance for Eastern Europe and Asia* (Ghambashidze 1918).
[8] See Anderson (2006), especially the chapter on "Census, Map, and Museum," 167-190.
[9] Both Margaret Levi and Douglas North in their work, have described the state as a predatory revenue maximize.r. See for example, Levi's *Of Rule and Revenue* (Levi 1988.).
[10] A Tiflis Bank of the Georgian Nobility was founded in 1875, but it served a very small proportion of the Georgian population.
[11] On Georgian-Armenian relations during the independence period, see Nino Vashaqmadze, *sakartvelo-somkhetis urtiertobashi 1917-1921 tslebshi* ('Georgian-Armenian Relations Between 1917-1921') (Vashaqmadze 2002). For the best English language account of the Armeno-Georgian war and its consequences for Armenians in Tiflis, see Hovannisian (1971, 93-125.).
[12] See Vadachkoria (2001, 259), where Noe Ramishvili, the Minister of the Interior, is cited.
[13] In the summer of 1918 a Georgian government delegation to Germany had discussions with Germany's Secretary of State, Baron von Stein, on the establishment of German-Georgian companies for the exploitation of Georgian products, including wool and cotton (Avalishvili 1940, 73).
[14] For a break down of the Manganese industry during the independence period (with figures) see Abkhazi (1923, 18-24).
[15] For more detailed figures on the decline, see *Obschchie svedeniya o rezul'tatakh Zakavkazskikh zheleznykh dorog*.
[16] The Russian ruble was highly volatile in tsarism's final years. During the First World War, it declined precipitously from around 50 cents per ruble in 1914 to 15 cents per ruble by December 1918.
[17] Cited in Meshcheryakov (1921, 7).
[18] See the paper by William Miller and his co-authors "Are the People Victims or Accomplices: the use of Presents and Gifts to Influence Public Officials in Eastern Europe," cited in Karklins (2005, 6).
[19] See *The 1921 Constitution of the Democratic Republic of Georgia*, especially Ch. XIII.
[20] A *desyatina* is 10,925.4 m².
[21] Milne had his opponents in the British Cabinet, such as Lord Curzon, Foreign Secretary in Lloyd George's post-war coalition cabinet. Curzon, a former Viceroy in India, saw Russia as a threat to British imperial interests in the Middle East and South Asia, and envisaged the Caucasian states as potential buffers to Russian expansion. See John Fisher (1997).
[22] On the formation of Georgian social democratic ideology, see Jones (2005), especially Chapter 8.

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