

## ***Dutch Disease - Armenian Symptoms***

### ***Dutch Disease: Diagnosis***

*The term “Dutch Disease” knocked at the threshold of the history of the economic thought in the middle of the last century. It was coined when the mines of natural gas discovered at the section of the Northern Sea belonging to the Netherlands were exploited. The consequent growth of export of the discovered resource resulted in the appreciation of the national currency, which negatively impacted on the other branches of economy which were characterized with exporting potential. The outcome was the decline of competitiveness of the national economy. The negative consequences spread through various directions infecting the social and educational panorama, the coherence of savings and investments and a number of other rules of the game adopted earlier.*

### **Our economy has caught... Dutch Disease**

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You'll say this is an absolute nonsense - we do not have oil. I'll say we do: our oil is imaginary, not tangible. Our "oil" is the love, the dedication to the family, the responsibility we take for our parents. Our "oil" is the compassion, the request, the plea on a state level which we express fully and get rewarded. But the inflow of "oil" dollars adequate to a small-scale economy continually intensifies (and will go on doing so) the pathologic tendencies. The appreciation of dram hits those economic branches that are just getting on their feet and have a disposition to export. The import which gets more and more competitive jeopardizes the availability of the internal market even for the local producer. Even if this is not obvious yet, the spiral is already stretching. All the syndromes claim the same thing: the diagnosis is Dutch Disease.

The disease requires treatment, and every treatment starts with the patient realizing and accepting that s/he is sick.

### **Once again “Ours is different”**

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Even if not fatal, the Dutch Disease is extremely dangerous. However, it still has prescribed treatments. In oil-producing countries oil funds and reserve systems are created through which an attempt is made to comprehensively manage the large volumes of foreign currency entries, implement long-term projects, use certain mechanisms to enhance the other branches of the economy, etc.

However, in our case the international experience does not offer much. In contrast to the established mechanism of centralized provisions and systematized payments for those in other countries, we export “oil” in buckets and vials, and instead of a state or one or two private corporations and a small number of elite, the “oil exporters” in our country are the grandmas and grandpas, women and children. In such conditions both approaches and solutions should be innovative. There is always a possibility of using new methods of treatment in the result of a diagnosis, especially when the outcomes of the treatment are quite tangible on the background of gloomy forecasts.

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## The time of creative economists

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In fact, the Armenian economic thought is facing a new challenge – to find a mechanism for the possible management (and not extermination) of the large entries of foreign currency, which flow in through thousands of small sources; to use one of the rare opportunities when instead of localizing the international experience there is a need to seek out new solutions and make new suggestions. Political leaders have a right to find a shelter behind politically correct statements. However, for political strategists the same can be disastrous. The histories of all the economies are written not only in black, but in red as well, and they have always had pages not only about thick wallets and rich bank accounts, but failures and tragedies as well. It seems that the politically correct official statements about the appreciation of dram smell of “red”...

Even if the seriousness of possible threats is not alerting enough, there should be at least a professional passion breaking the silence. Our economy is in need of an innovative mechanism for the management of the inflow of foreign currency. We are an oil exporting country and shall build our policies accordingly.

*The paper is elaborated based on the opinions passed by the participants of the discussion “Appreciation of Armenian Dram: Prerequisites and Consequences”, which took place on June 9, 2006. The roundtable discussion was attended by independent analysts, government officials, and representatives of the international organizations.*

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