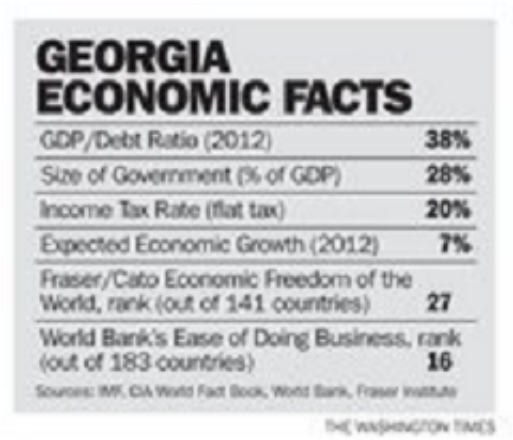
THE EASY FORMULA FOR AN ECONOMIC MIRACLE

Batumi, Georgia. This city is one of the oldest on earth, as humans lived here at least as early as the 12th century B.C. Now, it is rapidly becoming one of the most modern cities on the planet. Its setting at the eastern end of the Black Sea coast is spectacular, with orange groves and snow-covered mountains rising literally within walking distance of the beaches.

While most of the high-income countries are in the process of squandering the wealth they once created, there are places on the globe that are making great progress merely by doing the right things. One of these places is the small, relatively poor country of Georgia. Ironically, Georgia, through its success, is a reminder to the United States that reversing regulatory excess and state intervention pays dividends.

Georgia was swallowed up by the Soviet Union in 1921 and did not regain its independence until 1991. The Georgians struggled to develop a free-market democracy during the first years after becoming independent but fell short until they elected a young, and partially U.S. educated, free-market reformer by the name of Mikheil Saakashvili as their new president in 2004. President Saakashvili and his reformist colleagues - despite a few missteps, such as getting into a war with Russia in 2008 - have done many more things right than wrong.

The Georgians eliminated much regulatory red tape, moved to a largely free-trade regime and went to a 20% flat-rate personal income-tax system and a 15% corporate tax rate. The results are impressive. In the World Bank's 2012 Doing Business report on the "ease of doing business," Georgia ranks No. 16 of 183 countries and is No. 1 among the 24 countries in the Eastern European and Central Asian region.



GEORGIA ECONOMIC FACTS

GDP/Debt Ratio (2012)	38%
Size of Government (% of GDP)	28%
Income Tax Rate (flat tax)	20%
Expected Economic Growth (2012)	7%
Fraser/Cato Economic Freedom of the World, rank (out of 141 countries)	27
World Bank's Ease of Doing Business, rank (out of 183 countries)	16

Sources: IMF, CIA World Fact Book, World Bank, Fraser Institute

THE WASHINGTON TIMES

Georgia ranks No. 27 of the 141 countries in the Fraser/Cato Economic Freedom of the World index, by far the highest ranking in the region. Most important is the fact that Georgia ranks No. 7 on business regulation and No. 15 on the size of government.

Georgia has had more success in fighting corruption than any other country. In Transparency International's Global Corruption Barometer 2010, a public opinion survey, Georgia easily ranks first out of 86 countries - a whopping 78 percent of its citizens surveyed considered that corruption had decreased.

According to a new World Bank report, "Since 2003, Georgia has had unique success in fighting corruption in public services. Many countries in the world are struggling with the same problem. Georgia has proven that success can be achieved in a relatively short period of time given strong political will and concerted action by the government."

Georgia has a debt-to-GDP ratio that is half that of the United States, the United Kingdom and France at a very manageable 38 percent. Except for the period right after the Russian invasion in 2008, Georgia has enjoyed a high rate of economic growth as a result of the reforms, with an expected growth rate of 7 percent this year. Despite the successes, Georgia needs to do even more to bring down its unemployment rate and bring its standard of living up to the developed world's standards.

Batumi is the major city in the Ajara region of Georgia. The head of the Ajara government for the past eight years is a smart, personable and dynamic 40-year old lawyer, Levan Varshalomidze. He is the force behind the massive redevelopment of the region and particularly Batumi.

A century ago, before the communists wrecked it, Batumi was a thriving port city. Much of the old city has been restored. Along a few-miles-long stretch of the Black Sea coast from the airport to the old city center, a string of architecturally distinctive luxury international hotels, office buildings and residences have been completed recently, and others are still under construction. The old, ugly

Soviet-style housing is being torn down and replaced with modern, well-designed condos and apartments.

The rebirth and redevelopment of Batumi is properly called the "Batumi miracle."

Batumi is still too much of a summer tourist center, so Chairman Varshalomidze told me he is trying to stimulate year-round service industries, including the development of an international financial center. Unlike too many politicians in the United States and Europe, he is not trying to manage decay. To his credit, he is in a great rush to create a newer, better and much more prosperous Batumi.

The secret of Georgia and Batumi's success is simple - less regulation, lower taxes and more freedom. That is a formula that can work everywhere.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.