

MBO Interview

“Countries which have a strong rule of law, protect private property, engage in relatively free trade, have free markets, use a sound currency, and maintain relatively low levels of government spending, taxing, and regulation, will grow much more rapidly than those countries that do not follow these constructive policies.” **Richard W. Rahn**



Richard W. Rahn currently serves as Director General of the Center for Global Economic Growth (a project of the Freedom Works Foundation) and as a member of the Board of Directors of the Cayman Islands Monetary Authority (which regulates the world’s fifth largest financial center). He is also a visiting fellow with the Heritage Foundation, an adjunct fellow of the Discovery Institute, and an adjunct scholar at the Cato Institute. In addition, he writes a weekly economic column for *The Washington Times*, which appears in many other newspapers around the world.

In the 1980s, Dr. Rahn served as Vice President and Chief Economist of the Chamber of Commerce of the United States, Executive Vice President and Board member of the National Chamber Foundation, and as the editor-in-chief of the *Journal of Economic Growth*. Previously, he was the Executive Director of the American Council for Capital Formation. He has advised senior government officials on tax and monetary policy matters in a number of countries, including serving as the U.S. co-chairman of the Bulgarian Economic Growth and Transition Project in 1990. In 1982, President Reagan appointed Dr. Rahn as a member of the Quadrennial Social Security Advisory Council. During the 1988 Presidential campaign, he served as an economic advisor to President G.H.W. Bush.

MBO: Montenegro previously selected certain industries and they generated most of its successes. Do you believe that “driven based” development could be the right direction for Montenegro or should it be led by market demand?

Given that Montenegro is one of the most beautiful places on the planet and is blessed with a very pleasant climate, it is obvious that tourism has enormous potential. To reach the full tourist potential, the infrastructure and tax and regulatory treatment of tourist facilities needs to be improved. The government does not need to build much of the infrastructure that can be done by granting concessions to private companies, to build such things, as more and improved airports, and new and improved roads. (Airports can be highly profitable and there are airport management and development companies, which probably would find Montenegro most attractive.)

There is no world-class airport, or aviation repair and maintenance facility, in the Balkans, thus there is a wonderful opportunity for Montenegro to allow private operators to develop such facilities, which fits in nicely with a major tourist destination.

Dr. Rahn is the founder of the Novecon companies, which included Sterling Semiconductor (now owned by Dow Corning). In the 1960’s and 70’s Professor Rahn taught at Florida State, George Mason, George Washington, and Rutgers Universities; and at the Polytechnic University of New York, where he served as head of the graduate Department of Management. He also was an instructor for the U.S. Air Force, and the Washington economic advisor for New York Mercantile Exchange.

Dr. Rahn is a member of the Mont Pelerin Society. He serves as a member of the Board of: the American Council for Capital Formation, the Small Business & Entrepreneurship Council, the Southeastern Legal Foundation, and the Institute for Research on the Economics of Taxation. In addition, he serves as a member of the Board of Visitors of the Pepperdine University School of Public Policy. Dr. Rahn has written hundreds of articles for newspapers and magazines such as the *Wall Street Journal*, *The New York Times*, *American Spectator*, *The Weekly Standard*, *National Review*, and *The National Interest*. He has contributed to numerous books and professional journals, and is the author of the book *The End of Money and the Struggle for Financial Privacy* (1999). As an economic commentator, he has appeared on such programs as the *Today Show*, *Good Morning America*, *Wall Street Week*, *MacNeil-Lehrer Newshour* and *Crossfire*, and was a weekly commentator for *Radio America*. He has testified before the U.S. Congress on economic issues more than seventy-five times.

Dr. Rahn earned his B.A. in economics at the University of South Florida (1963) from which he received the “Distinguished Alumnus Award,” an M.B.A. from Florida State University (1964), and a Ph.D. in business economics from Columbia University (1972). He was awarded an honorary Doctor of Laws by Pepperdine University (1993).

MBO: How would you define your vision of freedom, both economic freedom and individual freedom?

My view of individual freedom is the classic one where each individual has the right to do and say what they please, including the right to own property, provided they do not interfere with another individual’s person or property. Economic freedom includes: The right to sell ones labor (both physical and mental) and property at a market price without interference from any government, to whomever one chooses: The right to own, both tangible and intangible property, and to develop such property to it highest and best use according to the judgment of the owner; The right to attempt to make profits by seeking to fulfill whatever wants, needs, and desires customers may have for goods and services, and the right to create the necessary form of business organization to provide the desired goods and services; and, The right to be free of excessive taxation and regulation which destroy the value of property or the incentives to engage in productive economic activity.

MBO: What reforms and adjustments need to be introduced in Montenegro in order to create a better and attractive investment climate?

As previously mentioned, the biggest concerns are about the role of law and the ability of Montenegro to get rid of corruption, which should be easier now that Montenegro is becoming a totally independent state.

MBO: What do you foresee for Montenegrin future development and what would be the key elements of such development?

It is likely to be many years before Montenegro will be admitted to the EU, thus Montenegro should focus on those policies that are best for its citizens, and not necessarily what the EU would prefer. If Montenegro becomes highly successful, it will be in a much better bargaining position with the EC in the future. And in fact, Montenegro may determine that it is better off without being a formal member of the EU – and may opt for a Swiss type relationship of a series of bilateral agreements.

MBO: According to your opinion, what reform might have the strongest influence on the Montenegrin economy? What is the advantage of Montenegro on global markets?

The single most important act that the new independent Montenegro should now undertake is to fully protect private property with an incorruptible judicial and civil service system. Montenegro ought to play to its strengths as a world-class tourist center, and it should consider turning itself into a major free trade and financial free zone. Montenegro should first look at other highly successful small states, and try to emulate those things they have done particularly well. Lessons can be learned from Ireland, Luxembourg, Estonia, Singapore, Hong Kong, Iceland, and Cayman. A common ingredient in all of these successful economic entities is a very high degree of economic freedom.

| Economy | Population | GDP (PPP) billion | GDP per capita | GDP (real growth rate) | Inflation consumer prices | Economic Freedom rating/score |
|----------------|------------|-------------------|----------------|------------------------|---------------------------|-------------------------------|
| Ireland | 4,062,235 | \$136.9 | \$34,100 | 4.7% | 2.7% | 8/7.9 |
| Luxembourg | 474,413 | \$29.43 | \$55,600 | 3.5% | 3.6% | 9/7.8 |
| Estonia | 1,324,333 | \$21.92 | \$16,400 | 7.4% | 4% | 9/7.8 |
| Singapore | 4,492,150 | \$132.3 | \$29,900 | 5.7% | 1% | 2/8.5 |
| Hong Kong | 6,940,432 | \$258.1 | \$37,400 | 6.9% | 1.2% | 1/8.7 |
| Iceland | 299,388 | \$10.34 | \$34,900 | 4.7% | 4.1% | 13/7.7 |
| Cayman Islands | 45,436 | \$1.391 | \$32,300 | 1.7% | 2.8% | n/a |

*Source: Economic Freedom of the World: 2005 Annual Report, (Canada, Fraser Institute), page 12

MBO: Since the last period, the Montenegrin economy has recorded significant development in the field of privatization as well as its capital market, while regulatory reform and jurisdictional and institutional capacities have not accordingly developed. Which process is going to win: the undeveloped or developed process?

Small economic entities can become rich very quickly if they provide a tax and regulatory environment that is favorable for financial innovation – look at Ireland, Cayman, and Singapore.

Montenegro should adopt American style labor laws, which allow employment at will, rather than the restrictive laws found in major European countries. By making a hiring decision low risk, employers are much more willing to hire workers, and this is one of the major reason that the US has an unemployment rate half of that found in Germany, Italy, and France. Montenegro should adopt Chilean style private pensions, following the model that has been developed by Jose Pinera.

Montenegro should seek to have a smaller government than other European countries to have a competitive advantage. A smaller government can be achieved by privatizing all state owned companies, and allowing the private sector to meet the wants, needs, and desires of the people rather than non-responsive and/or corrupt government bureaucrats. All regulations should be subject to strict cost-benefit analysis, and private parties (individuals, associations, and businesses) should be able to bring legal challenges against regulations that do not meet a reasonable cost-benefit test. Fewer regulations means less corruption, because there are fewer opportunities for corrupt bureaucrats to demand bribes. Estonia has been the leader in reducing government bureaucracy and making government more responsive and efficient. They have gone to what they call “E-government” whereby all government forms are available on the Internet. Estonians can now transact almost all of their government business over the Internet, which not only saves time and money but also again reduces the opportunities for corruption. Montenegro should work with the Estonia authorities to bring in their E-Government system.

In addition, Montenegro needs: to have strong protections for private property, remove and prohibit all price controls, limit government spending and taxation (keeping tax rates low and not taxing capital at all), remove all barriers to the speeding formation of any legal business, and most importantly establish and maintain the strict rule of law.

MBO: What do you think is the role that think-tanks, such as the Center for Entrepreneurship and Economic Development or the private chamber of commerce, the Montenegro Business Alliance, might have in emerging economies? How can they help accelerate economic development?

If Center for Entrepreneurship and Economic Development (CEED) and Montenegro Business Alliance (MBA) immediately educate the Montenegrin citizens about how other small entities succeeded in greatly and quickly improving living standards, they would be doing a wonderful service. Given its natural advantages, Montenegro should seek to have at least a 10% increase in per capita income each year. We know how to do it, the only question is will the new government do what needs to be done!

MBO: Why do small and liberal economies present the most attractive field for new investments?

Countries compete on many fronts, including natural resources, labor quality and cost, and on taxes and regulations. Small states can often provide a better tax and regulatory environment than large bureaucratic states, even if they lack some of the other resources.

Montenegro should fully embrace free trade – using Hong Kong as the model, - including the development of a financial free zone.

There is no major financial center that serves as effective bridge between the Slavic countries and the rest of the world. Montenegro is ideally positioned to provide such services, which can be highly profitable for the country, given financial free zones create a lot of high paying jobs. Ideally the entire country would be a financial free zone, but at a minimum a district should be set aside in which the global financial services community could operate. The financial free zone would need to have the following characteristics: No barriers to the movement of financial capital into and out of the zone; No restrictions on world class communication facilities (satellite, cable, etc); No taxes on interest, dividends, and capital gains; Free choice of currency usage within the zone; A legal structure for the zone based on the British common law (which serves as the basis for much of the world's financial system); A minimum of rules and regulation other than that needed to prevent fraud and other types of criminal behavior (Cayman would be a good model, given that it is the world's largest and most successful offshore financial center); A court system for the zone that only has highly qualified and experienced judges of impeccable reputation (Initially, foreign judges would probably have to be brought in for limited periods of time, to provide the necessary reputation and experience and to train local judges and lawyers); English would need to be the official language of the zone – that is, the official documents would need to be in English – in part, because the English language has the most developed financial vocabulary.

Many of the most successful financial zones – Cayman, Bermuda, Monaco, etc. are also major tourist destinations and that is no coincidence. Financial and legal professionals being highly paid, naturally tend to want to live in nice locations. (Note – Dubai is now building a major financial free zone).