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## Free Markets Flower as War Memories Fade

By Richard W. Rahn

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*New nations of former Yugoslavia discover keys to economic stability*

### SARAJEVO, BOSNIA-HERZEGOVINA

It is a beautiful place with a tragic history. In 1914, the heir to the Austro-Hungarian throne was assassinated while riding in his carriage in the center of the town by a Serbian nationalist. This act was the spark that ignited World War I. It was a war without purpose that cost millions of lives. Some 80 years later, another Serbian nationalist by the name of Ratko Mladic commanded the Serbian forces that not only killed many residents in Sarajevo, but he is said to have ordered the massacre of 8,000 Bosnian men and boys in the Bosnian city of Srebrenica. Mladic was captured in Serbia last week and now is expected to face a war-crimes trial.

The evening after the announced capture of Mr. Mladic, there did not appear to be much in the way of celebration that one might have expected in Sarajevo. After all, it was only a mere decade-and-a-half ago that Serbian troops under the command of Mr. Mladic were randomly shooting at Bosnians from the hills that surround Sarajevo. But on Friday evening, many young Bosnians, both men and women, were in the bars and restaurants having a good time as they do on most summer weekends. Good Muslims are not supposed to drink but, even though Bosnia is a majority-Muslim country, most seem to be no more rigorous in following their faith than most Europeans of Christian heritage follow theirs. As one young Bosnian who had been wounded in the war said to me, "Most of us now are more interested in building our lives than we are following the religion of our ancestors and fighting old grudges."

Of the seven countries carved out of the former Yugoslavia - Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Macedonia, Kosovo and Montenegro - only two have a majority-Muslim population, Kosovo and Bosnia, and they are both largely secular. Having traveled many times over the past couple of decades to the

Balkan countries as an economic adviser, and this time as part of the Vienna-based Hayek Institute's economic seminar series, I am most struck by how quickly they are becoming normal European countries. Northern Europe, for the most part, got over its religious wars almost 400 years ago. Now, even in the Balkans, many of the religious animosities seem to be relics of the past. Modern glass-walled office buildings, as well as the global chains like McDonald's and Starbucks, are found in all the Balkan cities. Those countries increasing look like and feel like the rest of Europe.

Kosovo is the most recent former Yugoslav entity to gain independence, having achieved it only in 2008. Yet, free-market capitalism, both in theory and practice, has definitely taken hold. The maximum income-tax rate is 10 percent. The young woman who previously served as head of the American Chamber of Commerce in Kosovo is now a deputy prime minister. Kosovo is noticeably poorer than the other areas of the former Yugoslavia, but Pristina, the capital, is filled with new construction and new businesses, which bodes well. Trade relations with its neighbors are improving, and Kosovo's economic-growth rate is high. The young people and college students now dress and act like other young Europeans.

#### RELATIVE SUCCESS OF NEW COUNTRIES FROM OLD YUGOSLAVIA

Country	Economic Growth Rate (%) 2011	GDP per Capita (USD) 2011	Unemployment Rate (%) 2011	Government Debt as a % of GDP 2011	Heritage Index of Economic Freedom Rating (183 countries rated)	Fraser Economic Freedom of the World Rating (141 countries rated)	Transparency International Corruption Index (178 countries rated)	World Bank Doing Business Index (183 countries rated)
Bosnia & Herzegovina	+2.2	8,063	23.0	41.4	104	111	91	110
Croatia	+1.3	18,103	12.8	44.1	82	87	62	84
Kosovo	+5.5	2,510 (2009)	45.0 (2009)	N/A	N/R	N/R	110	119
Macedonia	+3.0	10,112	32.2	26.8	55	72	62	38
Montenegro	+2.0	11,090	14.7 (2010)	43.1	76	66	69	66
Serbia	+3.0	11,255	19.6	40.5	101	97	78	89
Slovenia	+2.0	28,874	7.5	42.3	66	61	27	42

Sources: Heritage Foundation; Fraser Institute; Transparency International; World Bank; CIA; IMF

Slovenia is by far the most prosperous of the former Yugoslav republics, having a higher per-capita income than some of the original members of the EU. Unlike the other former parts of Yugoslavia, Slovenia has succeeded in getting rid of much of the corruption that plagues the others.

Serbia has ceased to be the bad boy of the former Yugoslavia, having elected a reformist government that has embraced Europe. The capture of Mr. Mladic by the Serbian government is a major step towards full integration with the rest of Europe.

Finally, there is the small jewel of Montenegro, which, for its size, is perhaps the most scenic county on the planet. One can be skiing in the mountains and within a relatively short drive be under a palm tree sipping a summer drink on the spectacular Adriatic coastline. But the best thing Montenegro has going for it is the University of Donja Gorica (UDG), a very fine private institution founded by Veselin Vukotic to help insure that future generations of leaders in Montenegro will have a good understanding of free-market economics.

As can be seen in the accompanying chart, the newly independent countries from the former Yugoslavia still have some way to go in increasing economic freedom and transparency, but they have all made considerable progress in becoming normal and successful European countries. Fortunately, these countries have not made the mistake of increasing their debt/gross domestic product ratios to unsustainable levels, unlike the major European countries. The additional good news is that the Balkan countries (i.e., old Yugoslavia plus Bulgaria and Albania) appear to be well on their way to no longer being synonyms for political and economic instability.

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