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February 20<sup>th</sup>, 2006

## Economic Development and the Perspectives for Prosperity

### 1. Trends and main features of economic system in Montenegro

Indicator / Year	2000	2001	2002	2003	2004	2005
<b>GDP - mil EUR current prices</b>	1,022.2	1,244.8	1,301.5	1,433.0	1,535.0	1,644.0
<b>GDP per capita - mil EUR current prices</b>	1,668.1	2,023.5	2,107.3	2,310.8	2,465.4	2,638.0
<b>GDP real growth rate</b>	3.1	-0.2	1.7	2.3	3.7	4.1
<b>Inflation rate - %</b>	49.2	23.8	9.4	6.7	4.3	1.8
<b>Unemployment rate - %</b>			30.5	25.8	22.6	19.3
<b>Share of privatizes state capital - %</b>			21.7			80.0
<b>Foreign direct investment - mil EUR</b>		10.6	87.0	38.7	50.0	248.4

### The most important natural resources

- Length of the coast of 293.5 km
- Five natural lakes with reach flora and fauna
- 4 national parks
- Industrial disposal the facilities for producing: 400,000 tons of crude steel; 1,000,000 tons of bauxite; 280,000 tons of alumina; 100,000 tons of aluminum; 75,000 tons of sea salt, 2,700,000 tons of coal, while the power plants produce around 3bn KWh per year
- Forests and woodlands cover the area of 720,000 ha, thus making 54% of the total surface area of the Republic
- Agricultural cultivated land of 189,745 ha

### 2. Question:

What are foundations of the development in 21<sup>st</sup> century? What is the “Road to prosperity” for Montenegro and which approach to economic development it has promoted? Can Montenegro keep old paradigm of development or should it develop the new one?

### 3. Hypothesis

My hypothesis is that Montenegro must change its concept of development in the conditions of globalization and EU accession, which means that Montenegro must abandon socialistic picture of economic development and **adapt to open and free market economy**. The development in 21<sup>st</sup> century is no longer focused on state and state actions, but on an individual, quality of life and wealth of an individual. The question being asked here is how to abandon philosophy of development focused on state and state actions and go toward philosophy of development which put individuals, their dreams and desires in center of attention. In other words, the question is how to liberate individuals from strong network of state institutions and political parties?

I'll test this hypothesis through four questions:

1. Whether the development should be based on macroeconomic policies or economic freedoms?
2. Whether the development should be based on state entrepreneurship or private entrepreneurship?
3. Whether the development should be based on comparative (natural) advantages or competitive advantages?
4. Is authenticity the best export good of Montenegro in the globalization environment?

#### I

Whether the economic development should be based on macroeconomic policies or economic freedoms? In other words, do we need political or entrepreneurial economy? Macroeconomic policies (fiscal, monetary, development policy) are so called visible hand of state in the case when macroeconomic policies are dominant. The power lies in state, i.e. political parties. It is the belief in benevolence of politics and people who deal with politics and those are foundations of classical economic theory on public finances. Nobel Prize Laureate, James Buchanan, showed that actions of every individual in politics, alike in other areas, are driven by his personal interests. There lies the explanation on roots of corruption and rent-seeking.

The question of economic development, which is very important to me is: **how to limit political power**, in other words **how to limit power of authorities**? How to become aware of the fact that democracy is not an ideal system? **How to protect an individual in**

**democracy?** How to protect an individual from majority? Limitation of majority rights must be constitutionally established. Constitution should limit power of majority.

That is the reason I consider that the new Constitution of independent and sovereign Montenegro is very important for its future economic development. That Constitution should and must limit power of majority over individuals; limit power of political parties and protect individuals from majority. Constitution should be focused on an individual and his rights; it should protect an individual from majority.

In this meaning the Constitution of the independent and sovereign Montenegro must be founded on the concept of entrepreneurial economy and not on the concept of political economy. In other words, foundation of economic development should be less in macroeconomic policies of the state, and much more in private sector, creative and innovative potential! Economic freedoms are related to an individual and opportunities that belong to the individuals; individual freedom to work, to produce, to spend and to invest. Aspirations to enter European Union are exactly the thing that impose need to increase economic freedom in Montenegro; it means that in the phase of stabilization and association we should try to catch level of economic freedom in EU countries especially in members such as Ireland, Estonia, Slovenia.

Economic freedoms are also important for regional economic cooperation between the countries on the West Balkan. Encouragement of regional cooperation and active involvement in collaboration activities – especially on the business level is one of development pillars of Montenegro.

I think that regional economic cooperation in the West Balkans is very important evolutionary step toward adoption of business principles effective in EU.

We can not strive to enter EU without preceding opening and cooperation with our first neighbors' countries: Bosnia, Serbia, Kosovo, Albania, Croatia,...

Entrepreneurial economy is based **on economic freedoms**. And basic foundation of economic freedoms lie in freedom of an individual to enter and exit the business; economy with low transaction costs; open economy with no tariffs; low taxes; equal treatment of foreigners and domestic people in economy, including property rights on land and protection of property.

In a nutshell, economic freedoms are related to an individual! Economic freedoms are needed for individuals to make their dreams come true! And every individual, whether he or she is rich or poor, has his/her own dreams.

**This all means that I am promoting development based on economic freedoms**, not on macroeconomic policies. And this is the philosophy Montenegro has started to implement, that gave great results.

## II

Whether the economic development should have foundations in private entrepreneurship, or state entrepreneurship? Or to reformulate the question, should the state be the founder of enterprises? Do we need enterprises own by state at all? Or, hundreds and thousands of individuals should form their own private enterprises; found their own businesses? **Private business is key foundation of economic development in 21<sup>st</sup> century.** Montenegro needs 300.000 employees in its economy. The employment is now on the level of less then 200.000 people. The question is how to employ at least 100.000 people? Should the state form its own enterprises and employ these people? Or maybe these 100.000 people should be employed in state administration? No! **Montenegro needs several thousands small enterprises more. It is the challenge of its economic development!** Montenegro need big international companies, but at the same time Montenegro needs domestic enterprises and domestic entrepreneurial class!

What is the key problem that keeps people out of entering businesses and running their own enterprises? The problem lies in barriers to doing business!

What is the key barrier to doing business in Montenegro today?

Are high taxes the key barrier to doing business? No, but taxes should be additionally reduced! We have to introduce proportional tax system.

Are customs the key barrier? No, but customs should be completely abolished!

Are municipal burdens the key barrier? No, but municipal duties should be completely abolished as well!

Is lack of money the key barrier to doing business in Montenegro today? No, but we still need more money!

Essential development problem of Montenegro lies in the fact that most of the elites (political, media and intellectual) still accept private business as necessary evil, something that we need temporarily until the transition is over. In other words the **principle of equality is still rated much higher, then principle of freedom.** I could also say that we are still collectivistic society on mental level! The important matter here is how to open the way from collectivism toward individual, toward individualization of the society?

From this point of view organization of Montenegro as **microstate with entrepreneurial economy and presidential system, instead of current parliamentary system is very important.** For me microstate is the basis of economic development of Montenegro in 21<sup>st</sup> century.

This for example means that public spending should be reduced from current level of 47% of GDP on less then 30% of GDP. It means that we should have more then 95% of private economy; to completely privatize pension system; to leave Bismarck's model and introduce Jose Pinera's model.

That reduction of public spending can not be mechanical: it should be essential through change of concept of state organization. Can we have completely privatized economy and public spending on the level of 47% of GDP? There is no development of business as long as we have 15 Ministries, 15 regulatory bodies and agencies and around  $\frac{1}{3}$  of all employment employed in state and state administration.

We need small and efficient state, which will take care of the rules of the game, protection of property rights and contracts; and not the state that will take care of happiness and joy of its people! Let every citizen take care of himself and his own dreams! This means that I am devoted to the development of private enterprises and business, which needs new concept of state and political system! **I propose the solution in microstate with presidential system!**

### III

Whether the development should be based on comparative (natural) advantages or competitive advantages? Is it enough to have this beautiful coast and be better then other countries? Is it enough for being more interesting for tourists then other countries? David Ricardo's theory of comparative advantages has been basis of development in previous three centuries and along with economic doctrine of J.M. Keynes from previous century created logics of development in closed system and within national economy! That logic is still strong! But globalization is destroying it!

It is not enough to have natural advantages in order to be better then other! This same sun shined over the coast of Montenegro few centuries earlier, in the time of famous dynasties: Crnojevics and Petrovics, but the coast is still underdeveloped. **We have to be competitive! It means we have to be better and more efficient then the others!** Competitive advantage is much more important then comparative advantage! If that wasn't the case, Japan would be a deserted island today and today we probably wouldn't know more of Japan that we know of Falkland islands.

From this perspective **opening** of Montenegrin economy and **development through strategic partnerships** is strong and important keystone of economic development in Montenegro. This means that Montenegro shouldn't be deceived by comparative (natural) advantages but strive to achieve competitive advantages.

### IV

What can be sold on global market today? In my opinion, those are **authentic competitive goods and services!** Goods and services that essentially and qualitatively differ from other countries' goods and services. From this perspective the development of service industry can be practical implementations of the principles and ideas I am promoting! Montenegrin economy has a future as an economy **of service industries:** tourism, health services, education, transport... I also consider that development of **sports, culture, art, and research and software industry** is very important. In other words all of this means that we need to use grey brain mass of the young generation in Montenegro and create knowledge society.

Having in mind all previously said I think that:

- (1) The development should be oriented toward an individual, and not state activities; the foundations of development should be in entrepreneurial and not in political economy.
- (2) Economic freedoms, not macro policies, are the essence of new development paradigm in 21<sup>st</sup> century
- (3) The development of private business is the only way to employ people in Montenegro, especially within West Balkans and EU.
- (4) Competitive advantage is much more important than the comparative (natural) advantage!
- (5) Authentic goods and services are the only products that have real market in the globalization environment.

From this perspective Montenegro needs:

1. Constitution, that will protect an individual and limit power of authorities
2. Montenegro should be organized as microstate with presidential system and entrepreneurial economy
3. Strategic partnerships should be developed and encouraged as the way to expand our markets.
4. Domestic entrepreneurial class should be encouraged especially in the areas such as material and intellectual services, sports, culture and arts.