

Less and Better Regulation Means Better Life



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Imagine you wanted to do business on your merchant vessel in the west of Germany. It is the year 1259 and you pass Cologne with your barge. The city has just been granted the so-called staple right. Actually, you wanted to sell your goods further upriver. The new rule, however, forces you to first offer the goods here at Cologne at a generally unfavorable price for three days before you are allowed to continue your journey. In 1346, this will happen to you in Tallinn; in 1440, even in the distant shores of Poltva River near Lviv.

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IF HUMANKIND HAS TAKEN A TREMENDOUS UPSWING SINCE THE LATE EIGHTEENTH CENTURY, IT IS BECAUSE THIS TIGHT CORSET, INTO WHICH INDIVIDUALS HAVE BEEN FORCED, RAPIDLY BEGAN TO DISINTEGRATE

Or let us consider a different scenario. Would you like to go shopping and treat yourself to some really nice clothes? Consider yourself lucky that you do not live in the 12th century. Noblemen may only buy chic clothes in different colors – and even they may have to wear only their family colors. For the lower classes, simple clothing is prescribed and the professional guild membership must be visible on their clothes. Apparel, according to the church – which began to “uniform” its clergy in the 6th century – must be the image of the hierarchical divine world order.

You urgently need money and have to borrow it somewhere with interest, because

otherwise who would lend it to you? After the 12th century, this is prohibited almost everywhere in Europe. The Bible forbids it, basta! Yes, the Jews are exempt from the ban and you can borrow from them. If there happens to be greater unwillingness to repay the debts, then the Jews are simply persecuted and killed, and one can put forward highly religious arguments for his actions. An extraordinarily dirty deal...

Most readers will probably no longer wish to live in the Middle Ages, following these few examples. Too strange and different, the worldview of that age seems to be compared to that of today. And we also know the consequences of the tight regulation of all possible aspects of life in these times. That there could be wealth for the mass of people seemed to be too impossible to imagine.

Still, in the 17th century, philosopher Thomas Hobbes would explain that the life of the then ordinary person of his age was "poor, nasty, brutish, and short". Three factors

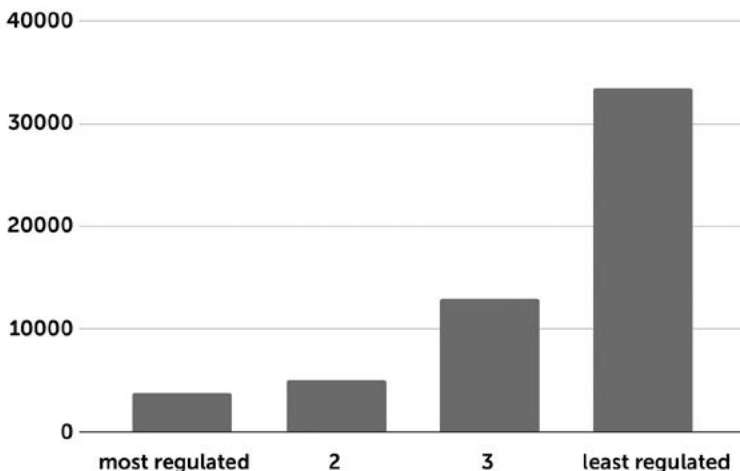
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turned regulation into a tight prison, leaving little room for the individual to unfold his talents and knowledge, and in so doing took away society's wealth-enhancing dynamics.

1) People were not seen as creative and independent individuals, but rather as part of social or moral categories to which they ideally belonged within the order of

Figure 1: Regulation and GDP per Capita in USD (ppp)



things. This would lead to an ever-closer compulsory determination of status and activity.

- 2) As a consequence, a moralization of the public and private space came into operation. Lifestyles based on a different set of values (as long as they did not threaten others) were seen as non-desirable and became subject of legal regulation.
- 3) Social improvement, economic momentum, and progress were not key objectives of policy development. Politics was – at least ideally – the realization of a given natural and unalterable idea of order.

But if humankind has taken a tremendous upswing since the late eighteenth century, it is because this tight corset, into which individuals have been forced, rapidly began to disintegrate. Ecclesiastical authority, aristocratic privilege and the guild system – they all fell prey to the Enlightenment. Staple rights, dress codes, and interest bans have been a thing of the past since the 19th century.

The fact that people whose lives are not excessively regulated by the state, and who are able to determine their legitimate goals for themselves, are more creative and productive and live in more productive and creative societies, can still be fairly well proven empirically. Figure 1 shows the most recent data on regulation from the Economic Freedom of the World index, which measures the restriction of economic activity in 162 countries. The data (World Bank) are placed on a scale from 0 (totally regulated) to 10 (completely unregulated). The quartiles of the countries with the lowest, second lowest, second highest, and highest levels of regulation are correlated with those countries' gross domestic product per capita.



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The result is clear: the countries with the lightest regulation have almost ten times higher gross domestic product than the overregulated countries.

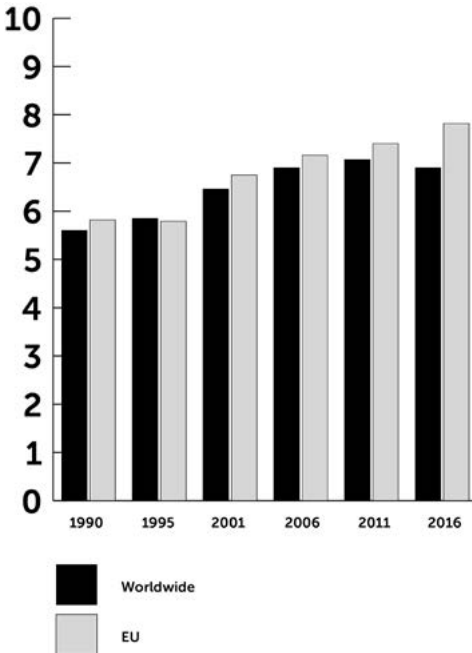
This also explains why the European Union (EU) is still an important economic player in the world. It is often thought to be a haven of hyper-regulation and therefore it should be in worse shape than it actually is.

There are, of course, innumerable anecdotal examples of nonsensical regulation by the EU and they are often exploited by Eurosceptics. But such regulations are found elsewhere as well. What counts is not the absolute amount of regulation alone, but also the comparative one – that is, whether this amount stands out as unusually negative when compared to that of other countries.

Looking at the valuation of regulation in the EU since 1990 compared to the world

average, the EU does even look a little better than others (although certainly not perfect). The EU has also been involved in all major international “fashions” of regulatory policy – during the 1990s, it has been more deregulated like most other countries, and since the financial and the Euro crisis in the late 2000s, regulation appears to be on the upswing again.

Figure 2: Regulation Compared: EU vs. the World



Source: World Bank (2018) Economic Freedom of the World

One should not, however, fall into the error of paying attention only to the quantity of regulation. There is always a qualitative element as well. As the industrial rise of Europe began in the 19th century, some regulatory projects of unprecedented proportions came into existence. For the first time, even institutions were created to globalize them. New rules were introduced in the creation

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of measures, weights, damage regulations at sea, telegraph traffic, and much more. Such rules were supposed to make spontaneous and free economic processes more friction-free and reduce transaction costs. Some of them may have made free economic development possible on a grander scale for the first time in history. The phenomenon distinguishes this kind of regulation from the stifling regulation of pre-modern ages.

Unfortunately, the knowledge about this qualitative, freedom-enabling dimension seems to be recently on the decline. A dense network of anti-discriminatory rules, political correctness, and protective measures of all sorts (e.g. over-bureaucratic consumer protection) is leading again to the classifica-

tion of individuals into categories and victim groups. The right-wing populist answer to this and other challenges of globalization responds with similar categories, albeit with different omens – backward looking and national-tribalistic.

In many ways we may be more akin to the medieval idea of regulating life goals than we would like to assume. Regulatory restraint and the preservation of a liberal perspective in setting rules have become a difficult task.

We keep standing strong and firm against threats and violations to personal freedoms. ●



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