

Business Freedom and Worldwide Quality of Life

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In 2006 the World Bank [published](#) an extensive inventory of wealth sources in 118 nations. Based on their analysis, natural resources like arable land and petroleum reserves contribute very little to the overall wealth of developed nations like the U.S. Most of the wealth in developed nations can be attributed to “intangibles” like education and rule of law. [Reason](#) provides a useful summary for those who do not have time to read the 172 page report.

The World Justice Project quantified one of these intangibles by generating a Rule of Law Index based on the following [9 components](#); constraints on government power, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, criminal justice, and informal justice. Since the World Bank attributes 57% of intangible capital to the rule of law, it is reasonable to assume that intangible capital is proportionate to scores published by the World Justice Project.

In earlier articles I had shown how [minorities](#) and [blue-collar](#) workers benefit most in states with a business-friendly “[regulatory environment](#)” as ranked by Forbes. Similarly, the Heritage Foundation published international scores for “[business freedom](#)”, which make up one of 12 components in its annual Index of Economic Freedom. According Fig. 1, the benefits of business freedom appear to extend far beyond the availability of blue-collar jobs.

Business Freedom and Rule of Law

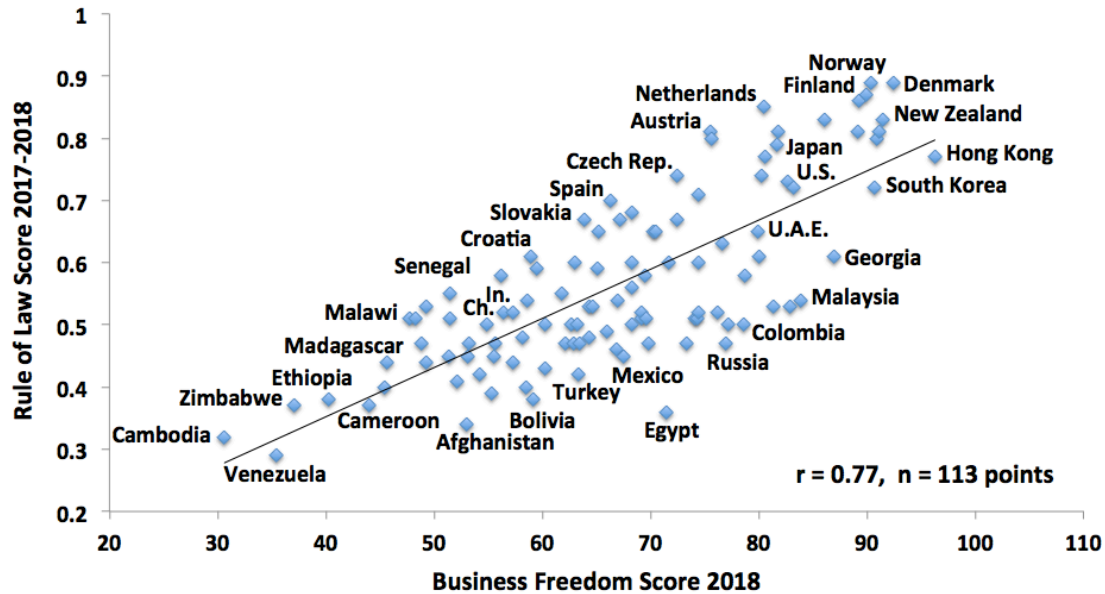


Fig. 1: The x-axis is a [component](#) of the Heritage Foundation’s overall index of economic freedom. The y-axis represents [scores](#) from the World Justice Project. The data is limited to nations scored by both organizations. Ch. = China, In. = India

Based on archived data from Heritage, the U.S. declined from 10th to 18th place for business freedom during the 8 years of the Obama administration (seven places below Sweden!). This is of no concern to progressives because they often believe that business-friendly policies are at odds with the environment and social welfare. Nevertheless, those who are dismissive of overregulation cannot ignore the fact that all the nations in the upper right portion of Fig. 1 provide a far better quality of life. What did Denmark, Norway, Finland, and New Zealand do to rank among the top 10 for both business freedom and rule of law?

The aforementioned data comes to no surprise to conservatives who believe that business freedom goes hand-in-hand with intangible capital, but they might be surprised by the lack of correlation between government spending and business freedom in Fig. 2. It is beyond the scope of this article to discuss how business-friendly policies can coexist with big government. Nevertheless, these results could serve as an opportunity to grow the consensus on regulatory reform. After all, if fiscal restraint is not a precondition for business freedom, then it might be easier to persuade moderate liberals to question the pro-regulatory talking points of their more progressive colleagues. Downsizing the government is just as important, but this battle needs to be fought separately.

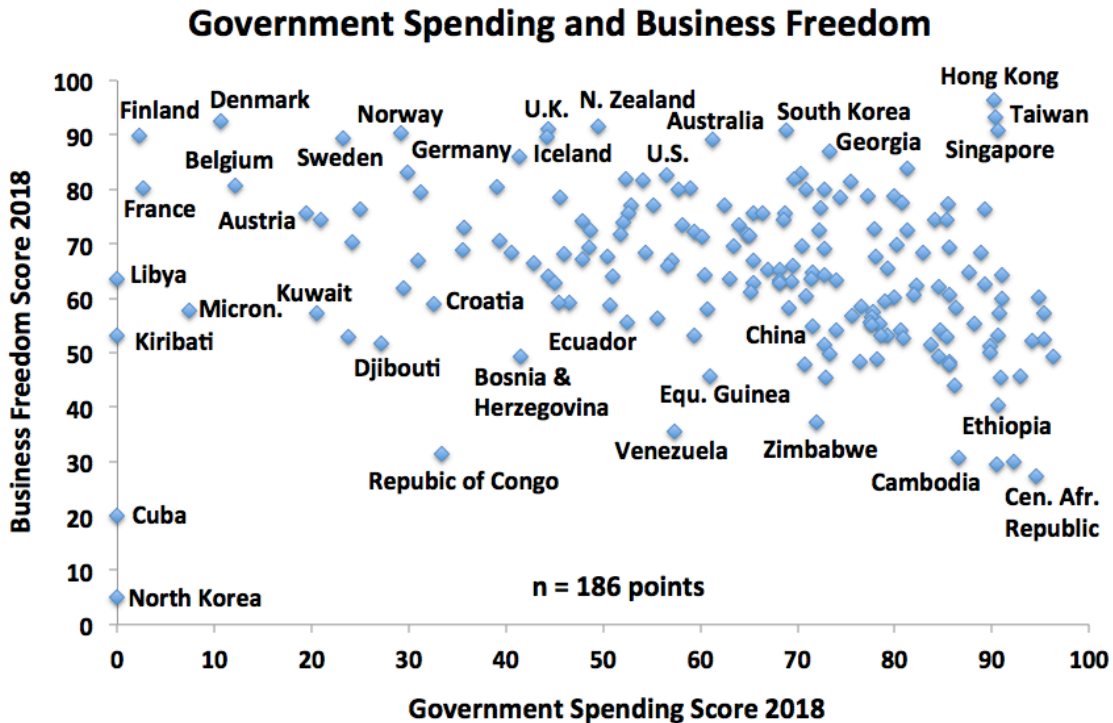


Fig 2: The graph represents two [components](#) of the Heritage Foundation’s index of economic freedom. Government spending scores are obtained by subtracting from 100, so a higher score for government spending indicates that government expenditures make up a smaller portion of GDP.

As the Trump administration rolls back [job-killing regulations](#) of the Obama era, some reporters wring their hands over [safety](#) and the [environment](#). Even if you believe that Republicans do not care about public safety or “[want dirtier \(and\) dirtier water](#)”, you still must acknowledge that there is a point at which the cost of compliance exceeds overall benefits to society (in environmental science we call it the “law of diminishing returns”). If everyone agrees to take a closer look at the policies of nations near the top right portion of Fig. 1 then both sides might agree on where to draw the line on regulations. Even though liberals will look to Finland and libertarians will look to Hong Kong as their models, they might at the very least come together on the need to minimize the administrative barriers to free enterprise.

Links (in case the hypertext does not work):

https://www.americanthinker.com/blog/2018/03/business_freedom_and_worldwide_quality_of_life.html

<http://siteresources.worldbank.org/INTEEI/214578-1110886258964/20748034/All.pdf>

<http://reason.com/archives/2005/12/16/the-intangible-wealth-of-natio>

<https://worldjusticeproject.org/our-work/wjp-rule-law-index/wjp-rule-law-index-2017%E2%80%932018/factors-rule-law>

https://www.americanthinker.com/articles/2017/12/the_davisbacon_act_of_1931_and_the_breakdown_of_the_black_family.html

https://www.americanthinker.com/articles/2017/04/the_disproportionate_impact_of_overregulation_on_blue_collar_jobs.html

https://www.forbes.com/best-states-for-business/list/#tab:overall_header:regulatoryEnvironment

<https://www.heritage.org/index/explore>

<https://www.usnews.com/opinion/economic-intelligence/2014/03/24/obamas-slams-small-businesses-with-excessive-regulations>

<https://www.cbsnews.com/news/trumps-deregulation-push-may-be-hurting-new-safety-rules/>

https://www.washingtonpost.com/news/the-fix/wp/2017/03/29/trumps-rollback-of-obamas-environmental-legacy-is-all-kinds-of-unpopular/?utm_term=.1c0522af4763

https://www.realclearpolitics.com/video/2011/10/17/obama_gop_wants_dirtier_air_dirtier_water_less_people_with_health_insurance.html