How much economic freedom do we really need?

Imagine being a businessman in a high regulated economy, where the policy makers introduce the "staple right". This means you are obligated to unload your goods at the local place and offer them to the customers for three days before you continue your travel. Additionally, you have a strict route of places where you can and should offer the goods. However, you may not have an option for avoiding the route that is prescribed by the law, except you pay a fee.

Now imagine you are a businessman operating on a huge territory, without any internal borders or obstacles. You are allowed to create another ways to sell goods, you can use any kind of transport, you target your own customers and you can sell goods by the market price.

This comparison is rather hypothetical because the "staple right" was applied in 8th century and it is used as a radical example of non-free market economy. In that case you would have been able to sell that goods in another place for higher price but you are obligated to offer them locally beforehand and you may be losing profits. Moreover, occasionally you may be able to pay a fee so that you can avoid certain places, but it raises your costs. In the second example, you are operating in a free economy that stimulates the competition, helps you cut the costs and allows you to use your creativity on the market.

Regarding the price restrictions, direct government intervention and regulatory restrictions, we can assume the main driver here is only the level of trade freedom. Actually there are many things that slip unnoticed. For instance, the lack of freedom of choose, freedom to move, financial freedom, business freedom and many different rights or opportunities.

So the basic questions here is how much freedom do we really need for a successful economy?

In order to be able to answer this question, we must consider the concept of measuring and defining economic freedom. Many economists have defined economic freedom by considering free markets, free trade and private property. Some economists added more indicators as intellectual right and political freedom because they considered this definition as too narrowed. The most widely accepted index for measuring economic freedom is the Index of Economic Freedom introduced by Heritage Foundation. The index includes 12 aspects of economic freedom which are grouped into four categories:

1. Rule of law (property rights, judicial effectiveness, and government integrity);
2. Government size (tax burden, government spending, and fiscal health);
3. Regulatory efficiency (business freedom, labor freedom, and monetary freedom); and
4. Market openness (trade freedom, investment freedom, and financial freedom).

Imagine a country that have the highest score of this index. It would look as a utopia with unlimited innovation, new products and services, cost reduction, absence of Red Tape etc. Accordingly there will be more employment opportunities and increased employment rate, higher economic growth, revenue mobilization, lower poverty rate and higher standard of living. On the other hand because of the self-interest, several problems may arise such as externalities, lack of public goods, underproduction or overprovision of goods and abuse of monopoly power. The final result is a market failure. As the market will need a lot of time and resources to recover and achieve equilibrium, usually the government take actions. As an example during the 2007/2008 crisis, we saw that the Neo-Keynesian theory won an important battle against the Neoliberalism. The global economy had a collapse of many financial institutions, stock markets and housing markets that caused high unemployment rates, bad living standard and low economic activity. The economy was in a recession and the governments responded with many measurements such as increased public investment, capital injections, interest rate cuts, non-standard banking measures, and many other financial arrangements. Despite the fact that the economic freedom and reduction of state interference in economic processes are being actualized, Neo-Keynesian theory is still on the scene in times of crisis and emergency.

However there is one more interesting theory which suggest that the crisis should never be attributed to the free markets or self-interest. The theory suggests that the free market is always in equilibrium, and that the covert government involvement in the markets, secret corruption and manipulation are the real reasons. Accordingly the governments purposely break the market balance and then use the situation for gaining profits by the measures they implement. Although this sounds like a conspiracy, some economists are trying to produce evidence that all crises are externally implemented in the markets. The other side accuses that this conspiracy is in fact a strategy for the liberals to block the involvement of governments in the economy. The same conspiracy is actualized right now with the Covid-19. As the outbreak threatens to drastically reduce economic activity, the governments started implementing measures for “saving it”. The conspiracy theorists claim that Covid-19 is a laboratory created virus as a new way for market destruction and for gaining profits through the government’s measures.

As there is no solid proof for any of this, the only solution is a hybrid system. We must not lose the level of economic freedom we have, but we also need the government intervention when the markets fail. However the government interventions should be managed and controlled in order not to be used for other purposes. The question has triggered a lot of economists and experts but a short and concise answer cannot be delivered as a lot of things have to be observed and examined.