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THE BRUSSELS BUSINESS JOURNAL

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The Protectionist Nature of Brussels Precautionary Regulations

From the desk of [Carlo Stagnaro](#) on [Mon, 2005-08-15](#) 21:14

European protectionism is Europe's business, one might think. If people on the Old Continent want to pay more for goods that they might well get for less – vis-à-vis the dubious benefit of keeping alive inefficient companies – then they should be allowed to do so. This line of reasoning may make sense to a certain extent, yet there are two serious problems.

The first has to do with the very nature of the costs and benefits of protectionism: while the former are spread among millions of consumers, the latter are concentrated in the hands of those who would not be able to compete globally. So these people have a strong incentive to fight hard to get the privileges they seek. Unfortunately there is probably no way to address such a flaw, short of a cultural revolution where people become aware of how subsidies and trade barriers really work.

A second, more complex problem is that protectionism does not always dress the way you would expect – subsidies and trade barriers. Ever more often a new form of protectionism – regulatory protectionism – is making its way into the European Union. Most people do not recognize it, or even welcome it believing it has nothing to do with the economy. They prefer to think it is about protecting public health, the environment and the like.

The main ideological trick lies in the so called "precautionary principle." Indeed, inside the golem of precautionary regulations the protectionist dwarf is well hidden while he moves all the machinery. As a result, Europeans seem willing to accept higher productive standards or limits or even caps to importation that benefit European firms in the first place. By no means do European citizens benefit, unless you dare to define as "benefit" the feeling that goods and services made in Europe are safer than those made anywhere else.

If that were the case, there would be no need for specific regulations: after all, people would be willing to pay more and foreign goods, however cheap, would lie uninterestingly in the supermarkets. Well, evidently that is not the case. A growing number of European firms actively seek protection and regulations that are designed precisely to shield them from

international competition.

Such a regulatory framework impacts European consumers as well as international producers. A recent paper ([pdf](#)) by **Lawrence Kogan of the Institute for Trade, Standards, and Sustainable Development** addresses in particular the effect of regulatory protectionism on American free enterprise. **Mr Kogan** claims such regulation will primarily affect “small and medium-sized companies (SMEs) operating within specialized market niches that serve as catalysts for research and development in areas of new technology or processing techniques.”

By cutting the grass from under their feet, precautionary regulation prevents SMEs from growing and developing products, services, or technologies that might be greatly beneficial. Thus, precautionary regulation has a direct effect on European consumers (raising the prices they have to pay) as well as an indirect effect: by curbing innovation Europeans will enjoy less, or later, the possibility of living a better life. A second indirect effect might be that of strengthening US lobbies that aim at adopting similar regulation – perhaps as a form of retaliation: human ability to find plausible excuses for vested interests is endless. That would further weaken American innovative firms, and Europeans as well as Americans and others would be worse off.

One thing that is rarely emphasized is that such regulations are made possible by the very existence of a common regulatory framework in the European Union. Autarchy – the goal that protectionist regulation ultimately pursues – is a costly nightmare: alas, the bigger the territory, the less costly. In other words, while a city-state cannot be self-sufficient in any meaningful way, a continent can, although at some cost. Nation-states fit in middle: the cost of regulation is pretty high, and that makes it less likely that protectionist regulation will be implemented.

A lobby, therefore, must be very powerful to get a smaller state endorse its cause and impose extra costs on competitors. As a state gets bigger, however, less persuasive power is needed to obtain your goals, especially if you are good enough at dressing them with the clothes of environmental or public health protection. After all, almost any cost is justified and acceptable to protect human life and the environment! Most people will not see protectionism under the cover of precaution.

The problem is that no matter how one “sells” one’s own interest: it still is one’s interest pursued through political favor-seeking at the expense of consumers or tax payers. The

possibility of dealing with a supra-national level of government, such as the European Commission in Brussels, may be more than welcome to those who do not feel very confident with fair competition. Yet, Europeans might be better off if Brussels had less, or less discretionary, regulatory power.