**Episode 716: How Regulations Affect Our Everyday Lives**

**Guest: Per Bylund**

**WOODS:** Let's talk about regulation. A lot of times people think that the problem with libertarians in particular is that they don't believe in regulation, and what kind of a blockhead would you have to be, what kind of a numbskull would you have to be not to recognize the merits of regulation? Now, in your book you're taking on — you're not looking at a particular kind of regulation or empirical examples of regulation; you're looking at regulation as an economic phenomenon and tracing out its various consequences. So you are really taking this on at the most fundamental level. So let me take you outside your book a little bit and just start off by saying, is it correct to say that libertarians don't believe — and by the way, I know you haven't written — you've written a book on economics, not on libertarianism, but I have a libertarian and let's talk about that. Is it correct to say libertarians don't believe in any form of regulation? Is that how you would put it?

**BYLUND:** No, it's not. I mean, we would believe in any kind of regulation that is market-based, that is voluntary, such as standardizations in technology and so forth. If it's regulation in the sense of when the government does it — that is, prohibition or simply outlawing certain actions, making trade impossible because you will put people in jail or things like that — then of course we're not pro such regulations in any form.

**WOODS:** All right, so it's not that we oppose all forms of regulation. There's something about government regulation, as opposed to some professional association certifying the quality of some product — there's nothing wrong with that. That's fine. But why is there nothing wrong with that? What is it particularly about government regulation that should arouse our skepticism?

**BYLUND:** Well, I contrast it in the book with destruction, and the point of doing that is part of playing off of Frederic Bastiat's well known essay on the seen and the unseen, where — just to recap very quickly — where a boy destroys a window, and people say, oh my goodness, that's horrible; you destroyed the window. And then someone says, well, wait a minute; that means the glazier gets more business, so he can invest that money in doing something else and so forth, so there's actually a good economic effect of destroying the window. That is what is seen. Of course the unseen is what would have happened otherwise, that the owner of that building would probably have bought a pair of shoes or something like that.

With government stepping in and regulating a business, what they're really saying is that certain sets of actions or certain types of actions are never, ever okay to do. Destruction sets us back a little bit in terms of value. We lose value. But it also means that we change our preferences. So in the case that Bastiat talks about, for instance, with the window, the owner of the house changes his preferences — I mean, he's made off worse, of course, because he has to buy a window, but it's also the case that suddenly he values getting a new window higher than the other things that he could have done with the money otherwise.

With regulation, we don't really change our preferences. The preferences are exactly the same. But we cannot take certain actions to satisfy those preferences, which means there is a mismatch suddenly with what people want to do, what people would value doing, and what they can do. And it's not that it's costly, which is a problem that the market sort of deals with and overcomes, at least more and more the more we produce, but something we can't do, it's prohibited based off of violence. So it's not really a cost. There's also not a temporary setback. It's not something we can get around, really, in the market, because it means dealing with violence, which is a non-market measure.

**WOODS:** All right, let's try and walk through this. Maybe you can give us an example of how a particular regulation following the way you think about it — I mean, just think of it this way. Most people hear "regulation," and they think this is a case of government wanting to make me safer, whether it's financial regulation wanting to keep my money safer; or it's regulation of consumer product quality, it's to keep me either from being ripped off or from being physically harmed by a consumer product. Yes, government is taking some options away from me, but these are options no one in his right mind would want to exercise, so what's the problem?

**BYLUND:** Well, I mean, very, very often, I would add just for the sake of those in government, that they probably mean well in many cases as well. I mean, they want to save people from themselves and so forth. Whether we agree with it or not is another matter. But — I'm sorry; what was the question again?

**WOODS:** Well, the question is, given that you're saying that with regulation people simply have their options taken away — that's it; it's a destruction of their options — but most regulations people are familiar with are taking away options no one would want to exercise — my option to buy an exploding toaster, my option to put my money in an unsound bank — why would I want those options? I'm glad those are regulated away.

**BYLUND:** Right, and those things would probably be taken care of by the market anyway, because you don't make money selling toasters that explode, unless it's for a movie set or something like that. But the problem here is thinking about it as a one-shot game, as an economist would call it, talking about regulation as affecting only what regulation directly is aimed at affecting. And the point of the book that I've written now is to trace the real effects of regulation by not only looking at, as Bastiat does, the seen and the unseen in the first step, but actually going through sort of the

Kantian effects throughout the market process, and look at how does this affect other choices that we make. How does this affect production that could be very far removed from what is directly affected by the regulation? And what are the effects, then, for people who seem to be not affected at all by this?

And what I find is, I have an example at the very end of the book where I go through a little society, talking about, okay, so this is — I trace out production and walk through value creation in this little market without any regulation, and then I go through the same example again, and I look at, okay, so what happens if there is just one minor regulation that is very specific and it has only to do with one specific type of production. What happens to what everybody's doing, the value that is available in this marketplace and so forth? And it turns out that in a very, very small example, everybody's affected in a negative way. Everybody's worse off. Several people have jobs that they would rather not have, and there is less specialization, which means simply that the whole market is set back, and constantly set back as well. So it's not like I mentioned before. Destruction is something we can kind of work around and that we can regain sort of the value that was produced and destroyed, but regulation sets back the market basically forever.

**WOODS:** I want to come back to that example, but let's talk about — you actually mentioned sweatshops in your book as a kind of example of what you're talking about. How do sweatshops fit into this?

**BYLUND:** Well, it fits into the whole contrast between "the seen and the unseen and the unrealized," which is the title of the book, and "the unrealized" is sort of my own addition to this. And in terms of the sweatshops when we talk about the sweatshops, of course you have the progressives who are outraged by the sweatshops, and they see how people are working in those sweatshops at terrible pay and they don't have any Western safety standards, and they don't have — as would be the case in, for instance, Sweden, my home country — they don't have five weeks of paid vacation and things like that. Instead they're working really hard, probably six days a week and so forth, so it's terrible. Well, that's the seen.

The unseen is what would have happened had they not been given this option, this job in the sweatshop. And of course, as libertarians we use that argument quite a bit, and some conservatives do as well, saying that, well, the sweatshop is better than the other options that they have, simply because it pays better, it is a better job, and people are actually lining up to get those jobs, because many times the alternative for them is prostitution or starving to death, and those are definitely not very attractive choices.

Now, the unrealized is what would have been had there not been regulation in this market, and that would be the options that would have been there had there not been regulation. And when I talk about this, I show that for a sweatshop, there's nothing technologically saying that you couldn't have this level or productivity and this level of production anywhere in the market. Because the sweatshop is there, so it proves it is feasible technologically speaking. It's not feasible economically unless you are in the sweatshop.

And the reason for that is that there's some form of regulation that is setting the market back that is forcing out certain actors, that is keeping production and value creation down to a lower level, which creates these monopoly situations for those companies running these sweatshops, which means that the real problem for these people in these poor countries is not that the sweatshop offers a job that is not as cushy as a university professor in the US, but that there are not more jobs just like that. Why aren't all jobs in these countries as good as the sweatshop or possibly better? And that's where regulation comes in. It's because of regulation on international trade and things like that that affects who is actually producing in this country, where can these people get jobs and so forth.

**WOODS:** Let me ask you if this is an illustration of what you're driving at in the book. Ben Powell gave a talk on sweatshops at the Mises University program this year, and one of the points he made involved some interviews with people who actually work in sweatshops. He actually went to — I don't remember which country; it might have been Guatemala and possibly one other place — and he actually sat down and said, all right, suppose you could get the following amenities, but it would mean a slight decrease in your take-home pay: you could have more pleasant working conditions; you could have the hours that you want; you could have more breaks — whatever it is. And he had a whole, long list of things.

And overwhelmingly — I mean, very often 90+% of the answers were no, no, we don't want that. At this state of the development of the country — they didn't quite put it this way — we would rather have the money. Right now we just need the money. Yeah, it'd be nice to have the money and comfort, but right now I'll take the money, and then later in my life I'll see what my combination of desires is. But of course we know that what regulation does all over the world is to deprive people of that choice, to be able to choose the combination of compensation forms that they might want. Yeah, they might want money, but they also want these other things? Well, maybe but it turns out they really just want the money. But if government says, well, sorry, you have to also have this amenity, they're going to lose some of the money they want, and they're actually going to be worse off than if they'd been allowed to make their own choice. So is that an illustration of what you're driving at?

**BYLUND:** Well, sort of, but that is the sort of direct effect, and what Ben is talking about is really the unseen. What are the options? I mean, would they choose to have something else instead of the pay if they had the tradeoff, which is basically recognizing both the seen and the unseen. What I'm talking about is the market process as a whole, and yeah, these people really like their jobs in the sweatshop, because they are a lot better than any other jobs that they could possibly get. But what would have been the case had we not regulated and basically stifled the market process in these countries and elsewhere in the world? What sort of options would they have had and what alternatives had they been presented with in addition to the sweatshop? That is what is unrealized, and obviously you can't study that because those options are unrealized.

And that's not really part of Ben's story. I think Ben is doing great work on that and showing exactly how sweatshops actually benefit people in poor countries and how that is a way of letting these people and those countries catch up with the wealth that we have accumulated and created in the West. But I think another important point is to look at the unrealized and look at where could we have been without these regulations.

I saw an article on LewRockwell.com many years ago; it was called something like "The Year 3500," or "That's Where We Would Be Without the State." But that is sort of a summary of my book, because what I'm doing is looking at the market process, what sort of value, what sort of prosperity is produced in the market, and what happens if you add a little bet of regulation, just a little bit somewhere, just for someone's safety or someone's security, or making sure that people get a little vacation or they get sick leave and don't get tired, or something that seems almost harmless and very beneficial for those who get this sort of benefit.

But what happens to the market overall, and what sort of services do not get produced? What sort of product will not be offered? How does this affect the whole capital structure in the market? What sort of machines, what sort of knowledge is never produced because we have regulation in some area that seems very specific, that seems very limited but still affects everybody's actions through ripple effects in the market and thereby sets the whole market process back?

**WOODS:** Let me ask you to do something that's quite difficult, actually, but I like putting the burden of the difficult tasks onto the guests squarely. You say that at the end of the book you do have this example where you walk through a society, a more or less laissez faire society, and then you introduce a regulation, and then you walk through step by step what the ripple effects wind up being. Now, that may be hard to reproduce in its entirety, so we'll tell people that it is more involved than you're saying. But I wonder if you could still at least give it a try so that we have a clear understanding of what some of these effects that we might not be able to anticipate might actually be in practice so that we can see the real life application of this.

**BYLUND:** Well, sure. The whole book is really full of these sort of hypothetical examples where I from the beginning create a little market with just a few people and look at what is trade and how do people benefit from trade and what happens if there is an additional guy added to the equation, and how does this little society evolve over time if we just have trade and people only produce for others through their specialization. In a real market with specialization, we do not produce for ourselves; we produce in ways that — we produce goods and services that basically serve other people's needs, which means that we can specialize in something and become better, and that means that we can then benefit ourselves from the result of what we produce.

So these examples are throughout the book, and the reader will follow the same population sort of in a small society. And the last example is going through sort of the evolution of this market where you have a few people; you have a couple of people who are nail smiths, someone who is a construction worker, someone who is an apple grower, and so forth. And I walk through in this example and you can see that, well, there's suddenly an increase in demand for housing, so this construction worker gets a lot more business, which means that someone else who was interested in construction work, but there is not really market demand, at least not sufficient for this lady to start building houses. So she waits and she plans to start this type of business, and she gains the competence and skills and so forth, but she's still working on her second best option, which is something completely different.

But with this increased demand, she suddenly can take the step into building a house for payment, and that in itself means that in this little society, suddenly the number of businesses or the number of building projects underway doubles, which means that someone else who has sort of a crappy job can get into a specialization that didn't exist before but that there is now a market demand for. So he goes into producing planks, I believe, so he can sell those to the construction worker, which means that they can focus on building the houses rather than cutting down trees and all this stuff.

Then I introduce a regulation on the nail smiths, saying basically — a real example, from the real world of industrialization — saying that they need to have taller chimneys because of the soot and all this pollution and everything from their work. And this means that it raises the cost a little bit for the nail smiths; it raises the prices a little bit on nails in this little market, but it also forces one of those people out of business who needs to find another job, which affects how many houses are demanded in the market, which means that this lady who's dreaming about becoming a construction worker and producing houses, she's not able to take that step because there is no market space, there's no market demand. And the same thing with this guy who wanted to specialize in producing planks. He can no longer do this, because there's only one construction worker and only one house being built, so this construction worker, he produces the planks himself and cuts down the trees and so forth.

So even though the regulation has really nothing at all to do with the art of house building, in this little example — and there's more to it of course — suddenly this market does not have production of planks, just because there is a regulation on the height of chimneys for nail smiths, which it seems to not be very related. In this example they're a little bit related because you can't have a market of, I think it's a dozen people, and they all do related things, but in a very big market, in the global market today as it is, regulating something that seems to have nothing at all to do with you will still affect what choices you can make and what sort of jobs are available for you, what sort of specialization, what sort of goods and services can you buy. But I mean, not just looking at sort of the purchasing power or your wage, but looking at what options are actually made available to you in the market. And that's the unrealized, what never comes to be really for us in our real lives because of some regulation somewhere.

**WOODS:** All right, now that is a good description of these ripple effects, and I think another interesting point of that is that it means that a lot of people who've had their lives dramatically changed for the worse, particularly when it comes to choosing their occupation, will never be able to trace out the line of causation leading to their distress. They'll never trace it back to the regulation. Maybe they'll blame it on Chinese competition or they'll blame it on the free market or they'll blame it — who knows? Who knows what they'll blame it on? But they won't place the blame in the right place. Now, is that, by the way, part of your thinking about this as well? Or are you — because maybe you're just acting as a dispassionate economist who wants to teach some lessons, but to me that's one of the principle lessons, is people won't blame the right source.

**BYLUND:** Well, I can't lie to you, Tom, of course. That's how I started thinking about regulation, because when we study regulation we look at the direct effects and maybe sort of the second order effects, but how does that really affect us? Well, as libertarians or Austrians we say the whole market is affected somehow, and I was interested in seeing, okay, but how really. And thinking about it, I realized, wait a minute, it's not really only the case that we get a little poorer. Anybody could say, well, if I don't get a raise of 5% but I get 4% next year, but people get education or whatever, then we could have more regulation and more taxation and what not. It doesn't matter so much.

I mean, Menger taught that already in his magnum opus from the 1870s that we don't talk about goods in the same way as neoclassicals talk about them, as sort of infinitesimal little pieces. We talk about full goods. A whole egg, or if we want to make a pie, maybe we need six eggs. Well, that's the good we want to buy, then. Well, that is the same thing when we have options presented to us in the marketplace. It's not the case that heavy regulation will take away 12% of the choices that I could make. No, they take away a number of the goods and services that I would have been able to choose otherwise.

So the effect is probably a lot greater, and it's not going to be the same fore everybody because we have different wants and needs. So some people are going to be a lot worse off, and some people are not going to be all that worse off, but they're going to be worse off anyway. So I wanted to look at sort of the real effects on each person and each individual in this sort of choice situation, because I think that is the powerful argument. It's the sort of almost emotional argument as well. And I think that is where the discussion should be. Talking about arguments is not really the Austrian way, and talking about how, say, the economy doesn't grow the .1% that it otherwise would have been growing, that doesn't mean anything at all to anybody, so maybe that sounds like a small sacrifice to make for the promise of some sort of regulation. But if we look at the unrealized that options that would have bee presented to us were the options that would have been taken away had we had even more regulation. Then it becomes a lot clearer to us and a lot more personal. And the question is how much have we lost individually and how much have our families lost because of these regulations. What exactly would have been available to us had there not been all this regulation?

**WOODS:** Let me play devil's advocate on your example. First devil's advocate argument would be: in the same way that there are losers from regulation, surely there are winners. If there aren't going to be as many houses built, then something else will be built. Labor and resources will go into another channel, and maybe there'll be more opportunities over there, and those people benefit. And since we can't assign cardinal utility to people, how can we say that my benefitting from the unintended consequences of the regulation isn't as important as your loss from the unintended consequences of the regulation? Wouldn't we just have to say, well, it's a wash?

**BYLUND:** Well, that's sort of where you would end up if you were only to go with the Bastiat route. I mean, yeah, you lost a windowpane, but look at all these ripple effects. We basically have this Keynesian multiplier effect. So the multiplier effect, even if we skip the problem with interpersonal utility comparisons for a little bit and just talk about money values, well, you would have multiplier effect one way or the other. So like you say, isn't it really not much of a difference anyway?

But looking at real life, you add this dimension to it and I think this last example that I quickly summarized a minute ago actually shows this quite well, that the effect is not simply that some value is taken away from us, but that we miss out on a bunch of specialization in the market. I mean, we know since at least Adam Smith that with specialization comes productivity increases, which means that we can create a lot more value using less resources, which means that we lose a lot of this growth that we would have had otherwise.

So it's not a wash, and it's not simply losing a windowpane, as in Bastiat's example; it's really losing all the potential that we would have gotten had there not been this regulation. And in terms of the windowpane, I mean, that's a temporary setback. That's a minor distraction and happens all the time. Yeah, we replace the windowpane; we would have wanted to do something else, but then of course this guy adjusts his preferences and he chooses whatever he wants more — he does whatever purchasing or invests his labor or whatever it is.

But with regulation, well, you can never, ever buy shoes, as this guy would have bought had that windowpane not been broken. So okay, if no one ever can buy shoes, how does that affect the market? Well, obviously that means that we will have a lot of problems. We will develop products which will never have been wanted before. So if we can't buy shoes, maybe we would develop products that are protecting our feet in ways that do not involve shoes. This is a complete waste of resources, and people who would have specialized in shoemaking or any type of supplies needed to make shoes or sell shoes or transport shoes or whatever it is, they would have to stick with their old jobs, and the would not specialize further — which means of course the effect on the market process of its value creation is worse. It is not the windowpane, and it's a lot, lot more.

**WOODS:** All right, one other thing. Let's take your air pollution example, the example of the chimneys. Now, that's a case — maybe not all examples are like this, but the one you chose is a case where even in a pure free market, something would have to be done about that pollution, because it would be actionable. So maybe they would have to make taller chimneys. I mean, maybe in the free market they wouldn't say to you, here's how you have to solve the pollution problem, but they would say you have to solve it. And that solving it does involve the use of resources, and that will have ripple effects just like a government regulation. So what's the difference?

**BYLUND:** Well, the difference is that you get to do what is actually valued in ways that are actually valued. This is part of the competition as discovery process that Hayek talks about, that rather than have a regulation saying "you cannot," there will be a market demand for those who can produce nails in this case in a better way or in a less-polluting way, so producers will shift their production toward the best use. Well, that is the market process. That is how we produce value. And of course, value is not only products and services offered to us; it is anything we subjectively value. It could be clean air; it could be whatever, but it's easier to talk about as physical goods. The regulation of course, it just says that "you cannot ever," and that's it.

I mean, say there is some sort of destruction in this marketplace after producers have begun to shift away from sort of this simpler production of nails, so that they're cleaning up their processes and so forth. Then there's a destruction. Well, maybe they would go back to producing nails in the old way, just because the demand for nails is so much more important now that all these resources are destroyed. So it doesn't matter. Pollution is no longer as important as it was.

Well, with regulation you can't do that. You have to go through the political process and change the laws and then change the bureaucracies and so forth, so regulation is forever in a sense that a market standard or market technologies are not, because in the market, if something happens you can always go back. But with regulation, you cannot.

**WOODS:** All right, good. I like playing devil's advocate, and I like your answers, and I hadn't fully anticipated either one, so I like that even more. So I'm going to direct people to TomWoods.com/716, which is where I have the Amazon link to your book, or they can go directly to Amazon and pick up *The Seen, the Unseen, and the Unrealized: How Regulation Affects Our Everyday Lives*. Best of luck with it, Per, and thanks for your time today.

**BYLUND:** Thank you so much, Tom.