REVIEW

The Seen, the Unseen, and the Unrealized

FERNANDO A. MONTEIRO
C. D'ANDREA

Spears School of Business,
Oklahoma State University

Review of *The Seen, the Unseen, and the Unrealized* by Per L. Bylund, Lexington Books, 2016.

The Seen, the Unseen and the Unrealized: How Regulations Affect Our Everyday Lives promises to advance the understandings initially offered by the 19th century French classical-liberal economist Frédéric Bastiat. Bylund especially promises to advance the understanding of the consequences of what has become widely known as the "broken window fallacy" (Bastiat 2007). In the original text, Bastiat demonstrates that not only what is seen should be considered in the analysis of the consequences of economic actions, but also what is *not* seen.

As a consequence, this 10-chapter monograph sets a high bar for itself. Bylund's analysis builds upon Bastiat's work and provides additional layers of reasoning to the pure-economic analysis of regulation, though not without a few flaws, that leaves the sense that some potential has been left unexplored.

The book follows uses Mises's (1998) and Rothbard's (2004) approach to economic understanding and analysis. Starting from a few characters with simple economic roles, Bylund builds thought experiments that start with very simple and straightforward societal and market settings. Little by little the situations gain in complexity to allow for more advanced understanding of the market process. The situations are analyzed using economic reasoning looking to understand the consequences, particularly the unintended and mutually dependent consequences, of the economic choices made by the actors in the hypothetic small-scale society. From this basis, the whole theoretical development and the analysis of the consequences of economic actions, from the simple to more complex ones, are derived.

In chapter 1, Bylund sets the stage in a concise introduction to economics and the economic way of thinking. The central questions here are, 'what is the market?' and 'does it work?' He differentiates between power-based and voluntary relations and posits that only this second type constitutes what we should understand as the market process. This is important because the rest of the book deals only with this kind of transaction in a pure-economic analysis. As for the question of the market working or not, the author explains that the market is not perfect, there will be errors all over the place, all the time. Because of the inherent imperfection, comparing the market as it is in reality with an ideal, theoretical, state is a fallacy. In other words, yes, the market works, however, not without imperfections including the fact that some individuals will be worse-off as the process continuously unfolds. Newly successful producers satisfy a need that is higher in the consumer's value scale when compared to the old producers. The resources in the hands of the producers that are expelled from the market will be freed to be used in the production process of products that occupy a higher position in the consumers' value scale. This constant process of substitution of some producers by others, even with its problems, is a feature of the market, not a bug. A consequence of the discussion is that entrepreneurial production occurs because entrepreneurs foresee greater consumption possibilities in the future. Production occurs because it is capable of generating future consumption possibilities.

Chapters 2 and 3 deal with prices. In chapter 2 the concept of money is introduced. Chapter 3 explains how prices of all goods in the production process are formed based on entrepreneurs' expectations of the valuation of the final product. The reasoning in this chapter is far from trivial and full of complex ideas such as capital goods, entrepreneurs bidding for prices and choosing costs, prices conveying knowledge, the need for production to allow for consumption etc. In spite of this, Bylund is able to convey these complex ideas to the interested reader in a fairly short space.

Chapter 4 goes back to the discussion of markets and uses three of the most influential minds in economics to do so. The theories of Smith, Ricardo and Schumpeter and blended to explain how production takes place and what mechanisms are capable of supporting or undermining it. Once again complex issues such as the extent of the market, division of labor and innovation – that allows for the economic and social development – are discussed fairly and concisely. Here the reader needs to pay extra attention, a lot of information and theoretical background is discussed and it might be difficult to follow for the ones without some background in economics.

Chapters 5 and 6 deal with the core of Bastiat's story, "that which is seen and that which is not seen". Bylund stresses that the future is unknowable, but not unimaginable. It is the entrepreneur's role to rely on what he believes to be his most wanted and productive skills to imagine and produce the future by organizing the production processes. This is where the author explains how changes in a specific part of the market will bring about a series of other changes, and that many of those modifications will occur in areas of the market that are not directly connected to the one in which change first happened. This is where Bylund explains how something unexpected, the broken window or a natural disaster, will have usually unexpected ripple effects. This is, in particular, where Bylund makes sharp methodological criticisms to the current state of economics. By explaining that the statistics of the past, no matter how accurate they might be, do not necessarily predict the future and by mentioning the fallacious 'multiplier effects', he puts on the forefront two of the biggest flaws in contemporaneous economic reasoning: the widespread use of statistical methods and correlations and a pretense ability of policy makers to direct the market by tweaking legislation. Chapter 4 is also where Bylund, for the first time in the book, briefly deals with regulation. Chapter 5 expands the discussion to natural disasters and their much broader consequences for the market process. In specific, natural disasters modify the value scale of many individuals in a society at the same time. A broken window has this same modification, but for one single individual in a society, because of this, the ripple effects of the broken window are much smaller than the natural disaster ones. In the case of a disaster, the individuals abruptly rearrange their value scale in pursuit of the basic: food and shelter, leaving the least urgent needs temporarily aside. The market mechanism, if left to work properly and without interventions, responds by realigning the resources through prices. People will get what they most need before anything else. For example, instead of stakes and wine, retailers will focus on noodles and bottled water because this is would be mostly needed when there is no reliable power to store food and drinks.

Chapter 7 focuses on discussing regulation. The discussion uses what has been explained in the initial chapters to guide the reader through the seen and the unseen consequences of regulation. Most importantly, this is where the concept of the unrealized is developed and explained. Bylund starts by saying that ineffective regulation is not interesting and focus, instead, on the type that does affect the market interactions. He divides those in incentives and disincentive types and discusses their differences. Bylund introduces a character, Luke, something like a benevolent and very rich policy maker, almost like a good-king, who wants to solve the societal problems by imposing regulations that would, in his mind, improve the living standards of society as a whole. This character, weirdly, does not impose taxation, but instead uses his own money (and his political power) to direct the market in the direction he believes is the most beneficial to the society. One debatable point is in page 105 when Bylund suggests that subsides must follow regulation. For the reader more acquainted with how the political process usually works, this would clearly be seen as a mistake. In Bylund's system this reasoning makes sense, but the author fails to make it clear and to the lay reader this will most likely lead to confusion.

One very important theoretical insight from the book is seen in chapter 7. It is the explanation of how regulations are worse than disasters for the market. This is so because regulation stops development from happening, while destruction 'simply' takes the market, abruptly, back to a least developed stage (p. 114). This insight effectively provides reasoning to discuss policy, of any kind, from a perspective that is substantially different from what is currently used. This has the potential to be developed in a long-range research agenda.

Chapter 8 goes deep in using the thought experiment based on a micro-society to providing examples of the effects of regulation, especially when trying to improve the functioning of the market process. The discussion on the minimum wage is particularly relevant because it demonstrates how a well-intended interference in the market prejudices the ones that it supposed to help the most.

In chapter 9, the author reminds us that human wants are endless and that this is what makes economics a science worth studying. In a world with no scarcity, economics is unnecessary. However, as wants are endless and means are scarce, economics tries to understand what should be done to take the greatest possible satisfaction out of the limited existing resources. This is the most theoretical chapter in the book and ties up the discussion made in the initial chapters. Bylund is clear in stating that the consumers do not look for efficiency, they look for better ways of satisfying wants that are higher in their value scale. They look for efficacy in solving their needs and wants. This is also where he discusses some hard pills, especially connected to the ability of people to consume and the relationship between economics and charity. For some readers, the direct way Bylund deals with such sensitive topics might be problematic.

Particularly relevant in the last chapters is the way the author brings to the forefront the unrealized; in other words, what ends up not happening because (usually well-intended) coercion has substituted free exchange in the market. This is the most important theoretical insight in the book, particularly in Chapter 10. Also in this chapter, discussion of the opportunity costs takes the centre stage. By choosing to do A, the individual is, necessarily, leaving all other options behind and the cost of what was not chosen is the actual true cost of A. One flaw in the explanation here can be found when Bylund discusses the decision to go to college. He focuses on the financial reward and on the comparison of what will happen with what could have happened if the individual would have chosen otherwise. Bylund, however, seems to fall into the *homo-economicus* trap and does not mention directly, nor explains, that subjective value might be playing a major role in this decision. In other words, the choice of going to college (as any other choice in life) might be almost unrelated to the financial reward and could be based solely on the willingness to pursue a given career, regardless of the financial benefits and costs associated with it. For the reader acquainted with the literature, this is implicit – and almost obvious in Bylund's reasoning – but it could be misunderstood by someone that does not have this kind of background.

The Seen, the Unseen and the Unrealized is an introduction to the economic way of thinking for people that have had some previous contact with the matter. The goal of the book is to modify – or at least provide an additional point of view – the perspective of public-policy analysis. The first six chapters would be an interesting read for students with some knowledge in mainstream economics and interested in deepening their understanding by relying on sharp logic and creative thought experiments. The focus on regulation comes to the forefront of the discussion in the second part of the book and is more of an illustration of the central concept topic: the working of the market process and how trying to direct it will have negative consequences. Bylund willingly (?) refrains from taking his analysis to more complex settings in which politicians and pressure groups would be acting. It would be interesting to see how his analytical framework would play out closer to real-life environments.

In all, this book cannot be considered an introductory economics book. It is not a traditional economic policy book either. In spite of the shortness, Bylund does a good job in bringing the economic way of thinking to the forefront of the policy discussion and in presenting the (almost never obvious) problems that will occur when free-exchange is substituted by coercion. Bylund's step-by-step thought experiment development helps the reader to further understand the market. At the same time, it opens one's eyes to the perils of the use of power over voluntary action to dictate the directions of the market process. People in academia, especially in public-policy, would gain from reading it and incorporating, or at least discussing the implications of Bylund's points. Entrepreneurs, politicians and citizens interested in understanding how to ferment economic and social development, and why it does not happen very often, should definitely take the time to read it.

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