



# Regulations: The Good, The Bad, and The Ugly

**GRADE LEVEL: 9TH-12TH GRADES**

**TIME ESTIMATE: 50-MINUTE CLASS PERIOD**

## Lesson Overview and Introduction

"While licensing can offer important health and safety protections to consumers, as well as benefits to workers, the current system often requires unnecessary training, lengthy delays, or high fees." — White House Statement during Barack Obama's presidency.



Government regulation consists of requirements the government imposes on private firms and individuals to achieve government's purposes. They are put in place, most likely with good intentions, to protect public health and safety, protect the environment, promote fair competition, and ensure market efficiency, among other reasons. If regulations are not met it may result in fines, orders to cease doing certain things, or, in some cases, even criminal penalties. This lesson will explore both the positive effects of regulation on the economy, and also the deleterious and unintended consequences that can result.

On the positive side, government regulations can protect consumers from harm and ensure that businesses operate in an ethical and socially responsible manner. Consumer protections, such as truth in advertising and product safety regulations, can prevent businesses from engaging in fraudulent or dangerous practices. Similarly, environmental regulations can promote sustainable practices and protect natural resources for future generations. Safety regulations can also protect workers from dangerous working conditions.

However, regulations can also have negative impacts on the economy, especially for low-income individuals. For example, occupational licensing can create barriers to entry and hinder employment opportunities, especially for those who cannot afford to obtain the necessary licenses or certifications. Additionally, excessive regulations can place a burden on small businesses, making it difficult for them to compete with larger corporations.

Throughout this lesson, we will examine specific examples of government regulations and their impacts on the economy, including how regulations can both help and hurt consumers and workers. By the end of this lesson, students will have a better understanding of the complex and nuanced relationship between government regulations and private firms and individuals.

## Objectives

- Students will be able to evaluate the costs and benefits of specific government regulations, considering both short-term and long-term impacts on various stakeholders.
- Students will be able to critically evaluate arguments for and against government regulations, considering different perspectives and sources of information.

## Vocabulary

- Cost-benefit analysis
- Regulatory capture
- Deadweight loss

## Materials

- Printed copy of [this article](#) from The Pew Charitable Trusts: Government Regulation: Costs Lower, Benefits Greater Than Industry Estimates.
- Printed copy of [this article](#) from Forbes: How Too Much Regulation Hurts America's Poor

## Warm-Up (15 minutes)

- Begin class by asking students what do the professions of doctors, lawyers, and hair-braiders have in common? Then tell the class that if they want to earn a legal income, they must have a government license to do these jobs. Inform students that according to the [Institute for Justice](#), "...to legally braid hair for a living, braiders in many states must spend thousands of dollars and hundreds of hours on cosmetology training—training that has nothing to do with African-style hair braiding." Next, you can see if your state is one of the 18 that requires a natural hair braiding license by displaying the map [at this link](#).
- Then inform the class that today they will be learning about the cost and benefits of government regulations on the economy.
- Next, ask the class to list some government regulations that make society better off. (Possible answers include environmental regulations, worker-safety rules, truth in advertising laws). Then ask the class if they can think list other rules and regulations that have negative or unintended consequences. (Possible answers include increased costs of goods and services passed on to consumers, licenses that make it harder to find employment, building codes that reduce the supply of housing, or rules that make it difficult for small businesses to compete with larger competitors).
- Show [this video](#) from Reason TV: *Stop! You Need a License to Do that Job!* (4:32). After the video, have students answer the following questions either individually, in small groups, or discuss as a class.
  - Describe how licensing requirements can make it difficult for people to earn a living.
  - How might a licensing advocate make an argument in favor of licensing?
  - How do these barriers to entry for unlicensed competitors help those who have licenses? What effect do you think this has on consumer prices?
  - List some jobs that you would like to only be done by someone with a license. Why is this?
  - Does someone need a license from the government to make consumers happy? Why or why not?

## Activity Part One: Pro-Regulation Arguments (15 minutes)

- Inform the class just as government regulations can have negative, unintended consequences, there are many who argue regulations promote the public interest, where the benefits outweigh the costs. Tell them they will now read an article quantifying the cost-benefit analyses of some different government regulations.
- If not already covered in class, define the cost-benefit analysis: Cost-benefit analysis is the process of comparing the costs and benefits associated with a regulation or law to determine whether it makes sense from a societal perspective.

- Read [this article](#) from the Pew Charitable Trusts: Government Regulation: Costs Lower, Benefits Greater Than Industry Estimates and then discuss the following questions as a class or have students answer individually.
  - What was the industry's argument against the Acid Rain Program and how did the Office of Management and Budget re-evaluate the cost of the program from its inception?
  - What were the benefits of all clean air regulations (including the Acid Rain Program) over the previous 10 years?
  - What were the automakers' objections to mandatory seat belts in all U.S. cars, and what were the benefits of seat belts according to the National Highway Traffic Safety Administration?
  - What was the industry's argument against the automotive emissions reductions mandated by the 1970 Clean Air Act?
  - Why did the implementation of catalytic converters lead to improved fuel efficiency for consumers?
  - Summarize the evidence presented to support the idea that regulatory requirements are beneficial.

## Activity Part Two: (15 minutes) Anti-Regulation Arguments

- Now, inform the class that they will analyze arguments in which the costs of regulations outweigh the benefits, and how these costs disproportionately affect those with low incomes.
- Show the class this quote by Economist Adam Smith:

**“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”**

— Adam Smith

- Next, define the two terms below: regulatory capture and deadweight loss:
  - **Regulatory capture:** Where a regulatory agency, which is intended to act in the public interest, becomes heavily influenced or controlled by the industries or businesses it is meant to regulate, and creates barriers for new competitors to enter the market or for smaller firms to compete.
  - **Deadweight loss:** This occurs when the quantity of a good or service traded in the market is less than the socially optimal quantity due to factors such as regulations, taxes, price ceilings or floors, or other market distortions.

- There are two options for the next activity: reading an article or showing a six-minute video. You may choose to do both if time allows.
- **Option One:** Show [this video](#) (6:11) from the Institute for Justice: The High Cost of Occupational Licensing and then discuss the following questions as a class or have students answer individually.
  - What is occupational licensing and why is it a controversial issue?
  - How does the case of horse trainers in Massachusetts and manure spreaders in Iowa illustrate the negative impact of occupational licensing on individuals and the economy as a whole?
  - Describe the “Cadillac Effect” and how it relates to deadweight loss.
  - How does occupational licensing affect economic outcomes such as job growth, wages, and consumer prices?
- **Option Two:** Read [this article](#) from Forbes: How Too Much Regulation Hurts America's Poor and then discuss the following questions as a class or have students answer individually.
  - What is the Code of Federal Regulations (CFR), and how has it changed since 1970?
  - What types of regulations are particularly harmful to low-income people, according to the studies discussed in the article?
  - Give an example of regulatory capture, and how it contributes to income inequality?
  - What are some examples of state and federal efforts to reduce excessive regulation?
  - Can you think of any examples of regulations that you believe are necessary for basic safety, and why they are important?
  - How do you think the costs and benefits of regulations should be balanced, and who should make those decisions?

### Activity Part Three: Exit Ticket (5 Minutes)

Give students the following prompt to write a 2 or 3 sentence exit ticket. “Do you think our society needs more or less government regulations? Please use specific examples from today’s lesson.”

### Extension

**Option 1:** Have students research their own state’s occupational licensing laws [at this link](#) from the Institute for Justice. Students can click on the map to research and report on issues relevant in their own state in the form of a current event report, or a brief presentation to the class on the issue of their choosing.

**Option 2:** Read [this article](#) from the Cato Institute: The Infant-Formula Market Is Still Bottled Up and answer the following questions in either individually, in small groups, or discuss as a class.

- Describe what led to the infant-formula crisis in the United States?
- What were the consequences of the closure of the Abbott Nutrition's infant-formula plant in Sturgis, Michigan?
- Why is it inaccurate to blame the free market for the infant-formula crisis?
- What were the two different barriers to imported formula coming into the US?
- How did the U.S. regulations and policies ensure that a handful of large formula producers continue to dominate the market?
- What is the article's main argument about the U.S. formula market, and what policies would be necessary to achieve a more robust and resilient U.S. market for baby formula and other essential goods?

**Option 3:** Listen to [this podcast](#) (10:27) from the Cato Institute: Swifties, Ticketmaster, and the Role of Antitrust and discuss as a class. Be sure to circle back to the terminology from the lesson such as deadweight loss. Here are some questions you can use in the discussion.

- What role does supply and demand play in the high costs of Taylor Swift tickets.
- What are some of the antitrust or monopoly concerns raised by the Swifties' experience with the merger between Live Nation and Ticketmaster?
- What are some potential solutions to the issues of market power and lack of competition in the ticketing industry?
- Who do you think bears most of the blame for the high prices and ticket buying issues with Taylor Swift concerts: Ticketmaster's market power, the laws of supply and demand, or Taylor Swift herself?