

Innovative Entrepreneurs Replace Despair with Hope

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Abstract

In the bourgeoisie deal the worst off do not begrudge the prosperity of the well off because they hope eventually to earn their own prosperity. But that hope wavered when regulations limited the ability of innovative entrepreneurs to create new jobs for the worst off. If deregulated, the innovative entrepreneurs can again create a labor market where a low-skilled worker can usually find a job that gives him hope for a better future. When left unbound, innovative entrepreneurs have the means and motivation to find productive employment for unused resources, employing milkweed to insulate parkas or employing desperate small farmers as steel workers to run a new kind of steel mill. Innovative entrepreneur Ken Iverson at Nucor, who hired unskilled farmers to be steel workers, provided a proof-of-concept that the worst off can benefit when lighter regulation allows innovative entrepreneurs to create more jobs. [144 words]

Keywords: regulations, low-skilled, redundant labor markets, Nucor, innovative dynamism, entrepreneurial capitalism, tariffs, industrial policy, Universal Basic Income, alcoholism, addiction

Introduction

“And what is a weed? A plant whose virtues have not yet been discovered, . . .”

Ralph Waldo Emerson (1880, 3)

Donald Trump is not the only authority on making deals (Trump and Schwartz 1987). Deirdre McCloskey and Art Carden suggest a better deal in the title of their book *Leave Me Alone and I Will Make You Rich* (2020). In their "bourgeois deal" the worst off can "have a go" and even those whose go does not go far, can still expect a better life for themselves and their children (McCloskey and Carden 2020, 6 and passim). For a long time the U.S. had in place something approximating the bourgeois deal. But now the worst off seem not as able to "have a go."

A free society of entrepreneurial capitalism, what I call "innovative dynamism," has been defended as most benefitting the worst off (Smith 1976; Schumpeter 1950; McCloskey 2016; Diamond 2019). Much depends on the truth of the claim. That the worst off have the opportunity to flourish, underpins both the moral justification of a claim for property rights in a free society (Nozick 1974) and the political viability of that society (Buchanan and Tullock 1965).

But in the last 15 or so years, many scholars and policy experts who were sympathetic to some version of innovative dynamism, began to worry that it needs to be modified so that it continues to benefit the worst off (Brynjolfsson and McAfee 2011; Murray 2016; Munger 2011, 2015, 2018; Cass 2018). If defenders of innovative dynamism are to make their case, they need to address this problem: some of the worst

off are suffering; and some have been suffering for a long time (see, e.g., Amior and Manning 2018). Anne Case and Nobel laureate Angus Deaton document the plight of some of the worst off in their aptly titled *Deaths of Despair* (2021).¹

A variety of other scholars and observers have documented the stagnation of the worst off, some with statistics and some with compelling narratives.² Harvard economist George Borjas's *We Wanted Workers* presents statistical evidence to show that open immigration has reduced the wages of the worst off (Borjas 2016). Sam Quinones's *Dreamland* eloquently describes how the downward spiral of the worst off often led to, and was sped by, tar heroin and opioids (Quinones 2015). J.D. Vance's *Hillbilly Elegy* paints a pitiful picture of persistent poverty in Appalachia, attesting to how hard it is to rise from that poverty (Vance 2016). Amy Goldstein's *Janesville* paints a similar picture of a company town after the company leaves, describing the many workers who flail and decline (Goldstein 2017).

Although Case and Deaton identify a lack of good-enough jobs as a primary source of despair, other sources are also important. For instance Quinones gives a nuanced account of the reasons for the spread of opioids since the 1990s. The use of OxyContin spread widely in part because doctors were told by Purdue Pharma and others that OxyContin was not addictive. Purdue presentations were based on few studies beyond a paragraph letter to the editor in *The New England Journal of Medicine* claiming that of nearly 12,000 rigorously monitored patients in a hospital setting who at

¹ Michael Munger's useful analysis of *Deaths of Despair* first alerted me to the strengths of that book's diagnosis, and the weakness of its cures (Munger 2021).

² Gary Klein (2017) shows how narratives can be one way we come to understand the world.

some point received some dose of an opiate, only four became addicted (Quinones 2015, 107-108).

The paragraph was used to justify prescribing large and continuing doses of OxyContin to unmonitored patients who wanted relief from pain; doctors could keep them happy while also keeping appointments short. The FDA, alleged guardian of drug safety, approved OxyContin, without good evidence that it was nonaddictive when prescribed long term in large doses. Curtis Wright, the FDA supervisor of the team examining the OxyContin application, later got a job with Purdue Pharma (Quinones 2015, 125).

In this way many of the *well off* who started off with pain complaints became addicted to OxyContin, often descending to black tar heroin, and despair, even though before taking OxyContin, their job prospects looked bright. Quinones tells an especially compelling story about how some well off high school and college football players, who otherwise had a bright future, started down the road to addiction when some coaches recklessly and routinely handed out opioids to keep their stars playing through pain (Quinones 2015, 291-292).

Although some of the well off experience despair, Case and Deaton found that most of those experiencing despair are those lacking a college degree who are either jobless or stuck in a job with stagnant earnings, poor working conditions, and little chance of advancement (7-8). Responses to the National Opinion Research Center's General Social Survey for 2002 show that happiness depends more on hope for a better job in the future than on the level of earnings in the current job (Brooks 2008, 169). So

who is "worst off" is more a matter of who lacks hope for a better future, than of who is currently the poorest.³

While many sympathetic observers from both the left and the right agree the plight of the worst off is real and serious, they widely disagree on the causes, and so also on the solutions. Many see the lack of jobs, or of high-enough-paying, or stable-enough jobs as the main proximate cause. The lineup is long of the usual suspects for the deeper cause of the poor employment prospects of the worst off.

A Roundup of the Usual Suspects

The two most commonly discussed suspects for being the deeper causes of the poor employment prospects of the worst off are technological progress and offshoring of manufacturing, especially to China.

Some who are otherwise sympathetic to innovative dynamism have accepted the claim that innovative dynamism increases automation, resulting in persistent joblessness and poverty for many of the worst off (Munger 2015; Murray 2016). Believing in the high likelihood of persistent joblessness from automation, and admirably empathetic to the suffering this would cause, they join those who advocate a universal basic income (UBI) as a justified way to mitigate the suffering (Bregman 2017; Munger 2011, 2015,

³ Marian Tupy and Gale Pooley (2022) and Robert Whaples (2022) are correct when they remind us that even the poorest today are still better off than most humans of the past, even of the fairly recent past. But since as wealth grows, so aspirations grow, their reminder is not inconsistent with the currently worst off feeling despair if they have lost hope for a better future.

2018; Murray 2016; Yang 2018).⁴ The costs of a UBI include paying for it, and also that the gift of a government income cannot substitute for the self-respect, pride, and fulfilment that many find in productive work. Amy Goldstein observed that when the factory workers of Janesville were laid off, they did not want government aid, they wanted a job (Goldstein 2017, 92).

Even though the costs of a UBI are substantial, they might be justified if a UBI compensates the worst off for inevitable and substantial joblessness due to automation. Fortunately this worry is largely allayed because similar worries about the job effects of computers and the internet proved baseless—computers and the internet created more and better jobs than they destroyed (Diamond 2019, 94-100; 2020). The worry is further allayed if we consider AI, which is the form of automation of most concern today.

AI expert Melanie Mitchell, is skeptical of AI's ability to equal general human intelligence, saying that we greatly underestimate how much of human knowledge is beneath the surface of our articulate consciousness (Mitchell 2022). Cognitive psychologist Gary A. Klein makes a similar claim (Klein 2023). If Mitchell and Klein are right, and if we plausibly assume that AI does not have access to this vast, often practically useful, reservoir of unarticulated knowledge, then AI will be severely constrained in what it can cheaply be trained to effectively do (see also Mitchell 2019, 104).

⁴ Another reason given in support of a UBI is that it will improve the well-being of children. A recent large and expensive randomized controlled trial failed to find support for that hypothesis (DeParle 2025, Noble et al. 2025).

AI will face even greater constraints on the frontiers of articulate knowledge that have not yet been codified on the internet and so cannot easily be used to train AI (Mullin 2025). Robert Atkinson makes the case that if AI takes on some jobs, then in the long run that will simply free up human labor to take on other jobs (Atkinson 2025). Since robots and artificial intelligence (AI) are in any event more complements than substitutes for human labor (Diamond 2020), and since new uses for human labor always can be imagined and implemented (Diamond 2019), the fears of persistent joblessness are unjustified.

Besides new technology, the other suspect usually rounded up for causing the poor employment prospects of the worst off is the offshoring of manufacturing. President Trump, Vice President Vance, Oren Cass, and the National Conservatives see in the scarcity of good-enough jobs a market failure and seek to fix the failure by tariffs on foreign goods and by subsidies to domestic goods, aiming to encourage domestic industries that they view as likely to hire more of the worst off. They also hope that tariffs will work as a threat to encourage foreign countries to reduce their tariffs on U.S. goods and to encourage foreign firms to build more manufacturing plants in the U.S.

Libertarians object to tariffs because they restrict our freedom to trade. Economists object to tariffs because both economic theory and empirical experience show that restricting trade reduces the mutual benefits from trade, and the general prosperity of the economy. As an economist, when I taught the chapter on international trade in a microeconomics course, I would emphasize the overall gains from trade. The country as a whole is better off, though some particular groups are worse off. I

justified hurting those who were made worse off by referring to the “compensation” or “Kaldor-Hicks” version of the Pareto Principle, that the overall gains are more than enough to compensate the losers, while still leaving the gainers better off (Kaldor 1939; Hicks 1939). The problem with that justification, as I sometimes admitted, is that though the losers *can* be compensated, the losers usually *are not* actually compensated.⁵

So I added a further justification by arguing that in a dynamic society, each of us is hurt by some aspects of the dynamism, but each of us gains more in the instances when we are gainers than we lose in the instances when we are losers. Consider this a version of McCloskey and Carden’s “bourgeois deal.” This deal can work when there is openness to innovative dynamism in the new goods we consume and a “redundant labor market,” a labor market where those who lose a job can find an equal or better one without too long a wait. Unfortunately, through over-regulation and high taxes, we have shackled the start-ups that create jobs, and we have slowed innovative dynamism. So more often, even overall in the long run, the uncompensated losers still lose.

Economists especially object to tariffs intended as “deals” to encourage promising U.S. industries. Governments do not have a good track record of picking the industries or technologies that turn out to be the promising ones. Partly this is because government officials tend to invest in the ventures of their cronies, and partly this is because of their simple ignorance of what will eventually be the best technology or industry. The government did not fund the Wright brothers; it funded Samuel Langley whose planes crashed into the Potomac (McCullough 2015, 35 and 100). Joe

⁵ George DeMartino (2015) makes this problem the core of his case against neoliberalism.

Biden, at the time serving as Vice President, promised "about 1,000 permanent new jobs" would be created from the government's investment in the soon-to-be bankrupt Solyndra (Diamond 2021, 46).

Former Harvard President and Democratic Secretary of the Treasury Larry Summers generalized the evidence when he famously emailed in 2009 that the "the government is a crappy venture capitalist" (Summers as quoted in Boskin 2012). Vice President Vance never studied with Larry Summers, but before he started advocating that the government in effect become a venture capitalist, he spent some time becoming a venture capitalist himself. His largest investment was in AppHarvest, a startup that aimed to build gigantic greenhouses in Kentucky and claimed it would provide many good jobs for Appalachia's worst off (Hakim and Gaffney 2024).

But the worst off were mostly not willing to work in the sweltering heat and humidity of the greenhouses, so AppHarvest mostly hired migrant labor. Even with that change in its labor force, the demand for AppHarvest's tomatoes did not bring in enough revenue to exceed AppHarvest's costs. Bankruptcy ensued. At least the losses here were born by Vance and his friends like Steve Case (formerly of AOL) and Peter Thiel (formerly of PayPal and currently of Palantir). If Vance becomes a government venture capitalist, with similar success at picking winners, we all will bear the losses.

The currently dominant approach to help the worst off is to *grow* the government through a Universal Basic Income, tariffs, industrial policies, and subsidies. A better alternative is to *downsize* the government by systematically reducing regulations. These regulations can take a variety of forms, but many of them

can be seen as restricting the innovative entrepreneurs' ability to creatively make use of the labor of the worst off.

Reducing regulations will appeal not only to classical liberals, libertarians, and many economists, but also to many on the left, recently and notably including the authors of *Abundance* who call for cutting back regulations that do not work (Klein and Thompson 2025, *passim*), and also including the author of the last Economic Report of President Barack Obama who called for less occupational licensing (Council of Economic Advisors 2017, 60). Another example is President Obama's Administrator of the Office of Information and Regulatory Affairs, Cass Sunstein, who wrote eloquently of the downside of the Precautionary Principle that is often used to promote regulations (Sunstein 2005). Deregulation should also appeal to Oren Cass, a leading intellectual advocate of National Conservatism, who has explicitly and strongly identified regulations as one of the primary policies harming the worst off (Cass 2018, 3 and 88-89).

We have benefitted from an implicit broad mutually beneficial deal for freedom. If importers are free to import and inventors are free to invent, some workers may be temporarily hurt. But if entrepreneurs are free to create new jobs and the workers are free to become entrepreneurs themselves, the hurt will be short and small. And allowing all to be free, creates a society where lives are healthier, longer, and more fulfilling (Diamond 2019).

If we deregulate we can reseal the deal. What follows is the case for optimism.

Innovative Entrepreneurs Create Uses for the Unused

One of the great achievements of innovative entrepreneurs is that they create new uses for currently unused or underused inputs. Substantial evidence shows that for the full range of workers in an economy, innovative dynamism creates more jobs than it destroys (Diamond 2019, 79-81) and the new jobs tend to be better jobs (Diamond 2019, 92-100). But a thoughtful sceptic might ask: though true for jobs in general, does the claim remain true for the particularly hard case of jobs for the worst off? I answer that it *can* be true if policies are adopted that *allow* it to be true.

Innovative entrepreneurs have a long history of turning the previously useless into valuable inputs. Some forgotten entrepreneurs from centuries past somehow discovered that ambergris, a gelatinous floating blob from the gut of a sperm whale, could be used to create luxury perfume (Kemp 2012). Petroleum was once just an annoying, dirty, sticky liquid until entrepreneurs figured out it could be used as a lubricant and illuminant (O'Sullivan 2018). Gasoline was a useless waste product of the lubricant and illuminant refining process, allowed to evaporate in pits, or flushed into rivers and creeks that “ran opalescent with them” or “burst into flame” (Rhodes 2018, 167). Then by the late 1890s several inventor-entrepreneurs, including Henry Ford, were experimenting with a variety of fuels, including gasoline, to power their engines (Rhodes 2018, 230); they figured out how the previously useless could be used.

Entrepreneurial farmers are now growing milkweed to use the fluffy fiber part of the milkweed seeds as insulating stuffing for parkas (Levitz 2017). Carmen Hijosa's startup uses otherwise discarded pineapple plant leaves to make a leather substitute

called Piñatex (Haddon and Craymer 2019). Inventor-entrepreneur Hannes Parth was trying to use apple waste products to make glue in the lab for his Frumat startup. He “was too tired to clean up” (Parth as quoted in Haddon and Craymer 2019) one night and found the next day that the previous day’s mess looked like what he now markets as “apple leather.” Several startups are competing to market meat substitutes made out of fungus (Kauffman 2019). Other entrepreneurs are using sub-standard corn flakes, Rice Krispies, and Coco Pops to make tasty beer (Yaffe-Bellany 2019; Haddon and Craymer 2019).

Just as, when unbound, entrepreneurs have found uses for milkweed, sub-standard cornflakes, and petroleum, so when unbound, they also would find uses for unused or underused people. Entrepreneur Ken Iverson at Nucor provided proof-of-concept. He developed the mini-mill process innovation in the production of steel (Christensen 2016, 89-93), built an innovative steel plant in rural Indiana near Crawfordsville (Preston 1991), and developed the process innovation of hiring unemployed or underemployed farmers to be steel workers (Iverson 1997, 132-135; Collins 2001, 50-51; Preston 1991). Nucor hired farmers who knew nothing about making steel, figuring Nucor could teach steel skills, but could not teach a work ethic, which the farmers already had. Nucor succeeded in spite of regulatory obstacles from the Environmental Protection Agency and the Occupational Safety and Health Administration (Preston 1991, 133-134 and 262-265).

Nucor is not an outlier. Walmart and Sam’s Club each hired less-educated “associates” with the same rationale as Nucor (Walton 1992, 138; Soderquist 2005, 40-41, 90-91, and 139). Southwest Airlines used to hire workers who had lower skill

levels, if the workers made up for the deficiency by showing a supportive attitude toward other workers (Freiberg and Freiberg 1998, 67-78), and by having a sense of humor (Blanchard and Barrett 2010, 75, 84, and 90). The entrepreneurs who created the hydraulic fracturing (fracking) innovation in energy production, at the same time created many high-paying jobs for low-skilled workers (Krauss 2019). An entrepreneurial firm called “Lucas Systems” developed the “Jennifer” AI system that gives detailed real-time oral instructions to warehouse item-pickers, so that they can increase the number of items they can pick per hour (Harford 2017, 45; O’Connor 2016). Workers only need the skill to understand and follow the simple step-by-step instructions about where to go and what to pick.

In the past the government has sometimes quashed bold entrepreneurial plans to create jobs. In the early 1920s Henry Ford drew up plans to build an “electric city” around a poor part of Appalachia centered at Muscle Shoals, Tennessee (Hager 2021). “Progressives” in the U.S. Senate rejected Ford’s plans, leading eventually to the creation of the federally operated Tennessee Valley Authority (TVA). Jane Jacobs analyzed the results of the government’s TVA central planning in her essay “Why TVA Failed” (1984; see also Chandler 1984).

We might expect that one of the greatest challenges for innovative entrepreneurs would be to find good uses for those of the worst off who are addicted to alcohol or narcotics. Recovered addict and current scholar of addiction Maia Szalavitz argues (2016) that an effective step away from addiction and toward recovery is for the addict to realize that there are those who value and respect them *as they currently are* (2016, 236 and 241). Addicts need to build sufficient confidence and self-respect to give them

some firm ground to stand on as they fight their addiction. Having productive jobs for them to do *as they currently are*, gives them such a foundation, on which they can build.

Nolan Bushnell was the innovative entrepreneur who created the Atari video game platform. In 1974 he hired a bright and energetic, but “prickly” and eccentric, young college dropout who literally stank. The dropout mistakenly believed that his fruit diet freed him from the need to take showers or use deodorant. So Bushnell found a way to make use of the stinking dropout *as he currently was*, by having him work exclusively on a night shift, distant from any other workers (Isaacson 2011, 42-43). The dropout’s name was “Steve Jobs.”

Where they have had enough freedom to experiment and innovate, entrepreneurs in the past have found ways to value workers as they currently are, and offer them incentives, constraints, or other aids, to help them be productive and improve their habits and skills. For example in the early days of the industrial revolution, entrepreneur Richard Arkwright hired farm laborers to work in his textile factories who did not have the habit of reliably showing up at a set time (Diamond 2019, 64). One of his greatest innovations was to set up bells to ring at the top of his Cromford Mill at 5 AM and 5 PM to help the workers show up by the start of their shift.

The common habits of addicts often do not add to productivity. But if entrepreneurs could offer sufficiently low starting wages and retain the right to fire at will, they could more easily afford to take a chance on hiring addicts as they currently are, who then would have the opportunity to build the habits and skills needed for better jobs. This would require flexible labor regulations and Human Resource departments.

It would also require entrepreneurial creativity and trial-and-error experiments in how to organize the firm, with what combination of incentives, constraints, wages, benefits, and worker decision rights. Firms, for instance, that attempt to enforce narcotics abstinence could try severe penalties for failing a urine test (e.g., firing) or more lenient penalties (e.g., temporarily lower wage rate). Some research suggests that the more lenient policy reduces the use of narcotics without also reducing attendance at work (Holtyn et al. 2014a, 2014b).

The kind of entry level jobs that unfettered entrepreneurs will create for the worst off will often not immediately provide them all that they aspire to. But if the despairing can see that a low paying entry level job is the start on a path forward to better jobs, then that initial low paying job can provide hope for a better future. Their life can be hard but happy, since hope for a better future is a more important driver of current happiness than is current income (Brooks 2008, 169).

So if a worker losses his job to an immigrant or to a robot or to addiction, the trauma is reduced when there are enough innovative entrepreneurs thinking up new ways to re-employ the worker. If we let them, the innovative entrepreneurs will change the status quo, reducing the suffering of the worst off. The main way we let them is by reducing regulations.

Regulations Limit Job Creation by Innovative Entrepreneurs

Harvard economist Edward Glaeser says that a jobless worker represents "a failure of entrepreneurial imagination" (Glaeser 2017). But this is not accurate—more

often it represents a failure of government in binding the entrepreneurial imagination so that it cannot be acted upon. The government should look to the number and health of the innovative entrepreneurs, who are fewer and less healthy because we bind them in a variety of ways. They are bound from obtaining funds, by taxes. They are bound from creating innovative new goods, by regulations based on “the precautionary principle.” Most germanely, they are bound by labor regulations from creating new uses for the labor of the worst off (Gutiérrez and Philippon 2019; Davis and Haltiwanger 2015).

For the last several decades in the U.S., increasing workplace rules, overtime rules, occupational licensing, payroll taxes, and minimum wages have restricted the employability of the worst off more than the well off (Cass 2018, 3 and 172). The regulations, and their results, are even worse in France (Tirole 2017, 231-264), where they substantially increase when a firm reaches the threshold of employing 50 workers.⁶ For instance, French regulations require that firms with 50 or more workers: 1.) spend at least 0.3% of their payroll budget on a staff enterprise committee, 2.) setup a separate working conditions committee, 3.) appoint a union shop steward if requested, 4.) substantially increase mandated planning activities, and 5.) submit many more reports to the government (Aghion, Bergeaud, and Van Reenen 2023, OA2-OA3).⁷

The imposition of more regulations above the threshold of 50 workers created a natural experiment in which researchers could estimate the effects on innovation (as

⁶ An increase in labor regulations in Italy caused entrepreneur Sabino Basso to cancel plans to hire 30 more olive oil bottling plant workers (Goodman 2019, B5).

⁷ Information on the regulatory requirements that begin when a firm reaches the 50-worker threshold are very sketchy in the published article but can be found in some detail in the online appendix (with page numbers prefaced with “OA”) entitled “The Impact of Regulation on Innovation Online Appendix” and available at <https://www.aeaweb.org/content/file?id=19575>

measured by patent applications) as firms approached the threshold (Aghion, Bergeaud, and Van Reenen 2023). Nobel Prize winner Philippe Aghion and co-authors found that the increase in regulations at the threshold substantially reduced the incremental innovation of firms approaching the threshold, which the authors inferred reduced innovation overall by 5.7% from the level it would have achieved without the increased labor regulations (Aghion, Bergeaud, and Van Reenen 2023, 2896).

Although labor regulations matter most in reducing job creation by innovative entrepreneurs, other forms of regulation also matter. In the U.S., environmental regulations have increased the costs of the manufacturing sector more than the costs of the knowledge sector (Cass 2018, 3 and 88-89; Becker and Henderson 2000; Greenstone 2002; Walker 2013). So if, as Oren Cass argues, manufacturing is a promising sector in which to devise jobs for low-skilled workers, then environmental regulations have hurt the worst off more than they have hurt the middle-class or the well off.

Some of the most illuminating studies on the effects of all forms of federal government regulation have made use of the relatively new, and more fine-grained, RegData collected by the Mercatus Center at George Mason University (Al-Ubaydli and McLaughlin 2017). Previous measures of the increase in regulatory intensity were based on the number of pages of the Federal Register. The innovation in the RegData is to identify words such as “shall,” “must,” and the like, to provide a better measure of the intensity of regulations. These data are available longitudinally by year over many years and have also been classified by industry and agency.

The cumulative burden of increasing regulations has been found to fall

disproportionately on small firms (Chambers, McLaughlin, and Richards 2022). These would include the small startups that have the most innovative corporate culture. One reason for the finding is that small startups are less likely to have the legal, finance, and accounting specialists who are most needed in order to deal with increasingly numerous regulations (Bailey, Thomas, and Anderson 2019, 92-93; Mulholland 2019, 108). If the small startups are the ones most likely to find creative ways to make use of the worst off, then increasing regulations will result in fewer jobs for the worst off.

James Bailey and Diana Thomas make use of the RegData on regulatory intensity by industry, combined with data on firm creation and employment, also by industry (Bailey and Thomas 2017).⁸ They find that industries with greater regulatory intensity have a statistically and economically significant lower number of new hires. They also find that in industries with greater regulatory intensity, there is less birth of small firms and less death of large firms. Together these last two findings support the public choice theory that regulations tend to favor large incumbent firms since such firms have better staffing and more experience in dealing with regulations, and more lobbying resources to influence regulations, than small young firms.⁹

⁸ The primary scholar behind the development of the RegData, Patrick McLaughlin, and two co-authors, attempted to replicate the paper by Bailey and Thomas, and reconcile the paper with some puzzling results in a paper by Nathan Goldschlag and Alex Tabarrok (2020). After much econometric analysis, McLaughlin and co-authors conclude: “we are able to replicate and verify the key findings of Bailey and Thomas (2017) and Goldschlag and Tabarrok (2018)” (Chambers, McLaughlin, and Sherouse 2023, 2464). However, though they offer speculation, they reach no firm conclusions on how the Bailey and Thomas results can be reconciled with those of Goldschlag and Tabarrok.

⁹ Regulations harm the worst off in other ways besides fewer jobs for the worst off. They disproportionately increase consumer prices in the categories, like food, that are most heavily consumed by the worst off (Chambers, Collins, and Krause 2017). They reduce wage growth (Bailey, Thomas, and Anderson 2019), increase poverty rates (Chambers, McLaughlin, and Stanley 2019b), generally increase inequality (Choudhury 2023; Chambers and O’Reilly 2019, 2022), and specifically increase inequality by disproportionately increasing salaries of regulation compliance workers, such as accountants, lawyers, and managers (Bailey, Thomas, and Anderson 2018; Chambers, McLaughlin, and Stanley 2019a; Mulholland 2018). Finally, regulations increase mortality (Broughel and Chambers 2022).

How Redundant Labor Markets Flourish

A "redundant labor market" is one where a large majority of workers at all skill levels, when they lose a job, can in a modest length of time, find another that is as good or better (Diamond 2019, 76-79).¹⁰ More jobs are created than destroyed, and the new jobs tend to be better jobs. This redundancy is important both for the moral justification of innovative dynamism and for its political viability.

When you read biographies of those living in the U.S. in the last half of the 1800s or the first couple of decades of the 1900s, you sometimes find evidence of redundant labor markets where young workers could transition seamlessly from job to job, and from job to entrepreneurship, and from entrepreneurship back to job. Examples would be John D. Rockefeller, Sr.'s early years in the late 1840s and the 1850s in towns in the states of New York and Ohio (Chernow 1998); Andrew Carnegie's early years, also in the late 1840s and the 1850s, in what is now Pittsburgh (Nasaw 2006); and Walt Disney's young adulthood in the early 1920s in Kansas City (Susanin 2011).

When I first started reading Timothy Susanin's *Walt before Mickey* I had the annoyed impression that Susanin was including far too much irrelevant detail about various side characters who had some modest connection with Disney. But gradually it

¹⁰ Here I am shortening the "robustly redundant labor markets" phrase that I use in my *Openness* book (2019). The word "robustly" adds unnecessarily to the length of the phrase. "Redundant" labor markets might also be called "dense" or "thick" (Moretti 2013, 128-131).

occurred to me that a pattern in these details yielded an important cumulative unintended message. They illustrated the fluidity of the Kansas City labor market at the time: many of the minor characters moved back and forth between job and job, and between trying their hand at being a free-agent entrepreneur and having a job. Walt worked for a month at an advertising firm, lost the job when the firm had less business, made ends meet by postal delivery through the heavy Christmas period, and on and on. People were dealing, selling, employing, and being employed. There was churn and good-natured optimism. *Walt Before Mickey* expresses what innovative dynamism *feels like* for ordinary people who are not well off.

Unbinding the entrepreneurs may be a necessary, but not sufficient, condition for the flourishing of the redundant labor markets such as young Walt's Kansas City. Two other conditions that contribute to the flourishing are a stable macroeconomy and the agglomeration benefits of urban areas. Many believe that inevitable recessions must periodically undermine the first of these conditions, a stable macroeconomy, and thus threaten an otherwise redundant labor market. But a plausible contrarian view argues that recessions are not inevitable, since they are caused by policy mistakes that can be avoided (Glynn 2018; Irwin 2016, 2019a, 2019b; Rudebusch 2016).

For example, Australia achieved 29 years without a recession, allowing a flourishing redundant labor market to attract energetic, smart, young French citizens who could not find jobs in a sclerotic labor market in France (Rubin and Breeden 2015). Australian workers could often move seamlessly between entrepreneurship and jobs (Bradsher 2016). In the couple of years before the pandemic, the U.S. economy, though far from a perfect exemplar of a redundant labor market, was strong enough to

allow more workers to quit their jobs to seek better jobs (Cutter 2018; Harrison and Morath 2018). The strong economy also allowed more low-skilled workers to find jobs (Ip 2019; Modestino et al. 2016, 2020).

A second condition that contributes to the flourishing of redundant labor markets consists of the agglomeration benefits of urban areas, where firms and workers are both numerous and diverse. The positive effects of this density and diversity are called “agglomeration forces” (Moretti 2013, 124). Unfortunately, these positive forces are weakened by regulations, including zoning and regulations that restrict the construction and development of housing, and thereby limit the extent to which low-skilled workers can move to, and benefit from, redundant labor markets (Herkenhoff et al. 2018; Hsieh and Moretti 2019).

For example, in New York City regulations limit the height of skyscrapers (Glaeser 2011) and require apartments to exceed a minimum size (Bertaud 2018, 11, 47, 231-234, and 258-259). When Alain Bertaud and his wife were young and poor, they were only able to move from Paris to Manhattan because they found a tiny apartment that they could afford. They were delighted because they valued all that Manhattan could offer. But today a Manhattan developer who built such tiny apartments would be violating the law (Bertaud 2019, about an hour into interview).

Other Paths to Hope

I have argued that unbinding innovative entrepreneurs can cause new jobs to be created that improve the lot of the worst off. But nothing in nature or logic implies that

for every effect there must be just one cause. Several causes can drive the effect.

For instance, the worst off can improve their lot by their own choices. As a young man J.D. Vance took a boring, physically demanding job loading floor tiles onto pallets in a distribution warehouse. A fellow “hillbilly” named Bob worked there too. Except unlike Vance, Bob showed up late, without warning often failed to even show up, and when he did show up took long and frequent breaks in the bathroom (Vance 2018, 5-6). He was fired. Pondering Bob many years later, Vance saw an exemplar of many of those who do not escape Appalachian poverty (6-7).

The version of Vance who wrote *Hillbilly Elegy* suggested that the worst off need to realign their values. That Vance might quote Charles Murray who claimed that the well off do no favors for the worst off when they preach that the worst off are victims, while in their own lives the well off flourish by practicing a work ethic. The cure, says Murray, is for the well off group to "start preaching what it practices" (2012b, C2; see also 2012a, 289-291).¹¹

More and better jobs are not the only way that the worst off can become better off—they also can be allowed to become free-agent entrepreneurs (Diamond 2019, 102-104). Just as regulations restrict the ability of the innovative entrepreneurs to create more and better jobs for the worst off, so too regulations limit the ability of the worst off to better themselves by becoming free-agent entrepreneurs. “You can begin an Internet company in Silicon Valley with little regulatory oversight; you need more than

¹¹ Character matters, but we could use stronger evidence on how it can be changed. We should try to measure the success or failure of efforts to improve character, such as Dolly Parton's distribution of 145,000,000 free copies of the children's inspirational classic *The Little Engine that Could* ("By the Book" 2020; see also: Piper 1930; Yandle 2011).

ten permits to open a grocery store in the Bronx” (Glaeser 2017).¹²

Another way to improve the lot of the worst off is to reduce healthcare costs. Case and Deaton point out that in the developed world there has been greater stagnation of wages for low-wage workers in the U.S. than in any other country (Case and Deaton 2021, 155-156). At the same time, compared to the same developed countries, the percent of GDP going to healthcare has risen much more in the U.S. than elsewhere (193-194). Case and Deaton suggest that what would otherwise be modest wage gains by low-wage workers have been absorbed by rising healthcare costs, leaving the worst off stagnating with less hope for a better future (8-9).

Just as unbinding entrepreneurs in the broad economy creates a redundant labor market, so too unbinding medical entrepreneurs can create innovations that cure more diseases and lower costs. For example, reducing medical licensing regulations would allow entrepreneurs to also innovate regarding which levels of training are needed for which medical tasks. As new treatments become routine, they can often be well-performed by physician assistants or nurse practitioners, freeing more highly trained physicians for harder or more cutting-edge tasks (Christensen et al. 2009, 356-357 and passim; see also Bush and Baker 2014). Current licensing laws slow and limit these changes, making healthcare more expensive.

Milton and Rose Friedman suggested an even more important way that healthcare costs should be reduced when they argued that the FDA should be abolished because the bad it does by blocking good drugs is greater than the good it does by

¹² See Aaron Randle (2019) for a poignant example of the regulatory harassment of poor innocuous entrepreneurial street-vendors in New York City.

blocking bad drugs (Friedman and Friedman 1980, 208-209; see also Peltzman 1973). In his later years I heard Milton Friedman say what he had earlier implied in print (1973), that perhaps a politically achievable step in the right direction would be to at least limit the FDA to regulate for safety, and no longer also to regulate for efficacy.¹³ This would leave it to markets to establish efficacy and eliminate the huge costs of government-mandated Phase 3 trials, which often cost more than the combined total of Phase 1 and Phase 2 safety trials. Drug innovation would increase and healthcare costs plummet.

Conclusions

If innovative entrepreneurs are unbound, we can achieve redundant labor markets that enable even the worst off to flourish. With the renewal of redundant labor markets, innovative dynamism will again clearly benefit the lives of the worst off, not just through new goods that are cheaper and innovative, but also through more and better jobs. The main cause of the status quo suffering of the worst off is not free trade or new technology. The main cause is that innovative entrepreneurs are too few and too constrained. Their numbers can grow, and they can be less constrained if we keep taxes low and reduce regulations. Innovative dynamism is not the cause of the suffering of the worst off, it is the cure.

Before we resort to tariffs or a Universal Basic Income, each of which comes

¹³ Nobel laureate Gary Becker (2004) and Geoff Lawrence (2022) have explicitly argued that limiting the FDA to regulate for safety, and not efficacy, would greatly reduce costs and increase innovation.

with downsides, we should give systemic deregulation a chance. Based on the accumulated experience of many millennia, every reasonable observer before 1700 would have argued that the "Great Enrichment," the blade in the GDP hockey stick, (McCloskey 2016, 9; 2010, 2) was impossible. Yet the impossible happened, and a similarly great leap in human betterment can happen again, a leap that allows everyone to have a go. Today no reasonable observer can precisely predict how much good can come from massive deregulation, because we cannot know the innovations that currently unheralded entrepreneurs will achieve when they are fully unbound. We cannot know, but we can reasonably hope.

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