WHAT AILS THE WORKING CLASS?

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The topic of this panel is something that has concerned me since my earliest days as a rational adult. I grew up in the industrial North East of England, in an aspirational working class family at a time of significant change and upheaval. My grandfather was a coal miner who wanted his son to escape the pit, and so my father had left school at 14 to train as an electrician, and eventually became an electrical engineer who built power stations all over the world.

Yet even as my parents strove to send me to private school – not an easy thing in 70s Britain – the industries of my home town were in collapse. Coal mining and shipbuilding, which had been

protected from competition through nationalization for many years, were no longer sustainable.

When Margaret Thatcher took the unpopular decision to privatize these industries it was a death knell for them, and it seemed like it was a death knell for my home town. Prime age male unemployment in that town, South Shields, hit 50 percent in the mid-1980s. Thatcher became a dirty word there, and to some extent it still is.

But even as those old industries died, hope emerged. SLIDE. Nissan opened a new plant, attracted by the skilled work force and the low regulation of an enterprise zone. Slowly but surely other industries emerged to fill the gaps left by the old ones. Call centers may not be everyone's idea of fulfilling work but they provide higher wages than the jobs they replaced – and they are far less dangerous. Coal mining may be seen as noble work, but I will never forget how my strong grandfather withered away before my eyes as black lung disease claimed him.

Today, my home town's unemployment rate remains above the national average, but not significantly so. It's a happy and vibrant place – at least as long as the local football team is winning. The area even saw the conservatives challenging for the first time in over a hundred years at the last general election, an achievement that Rishi Sunak seems all too happy to throw away.

So, the question I have for everyone today is why is that process of adaptation I saw in my homeland not happening in my adopted land? Why do we seem to have only half of what Joseph Schumpeter called "creative destruction" – the destructive half?

Moreover, why does that destruction seem so much more destructive? Not just why aren't people in the labor force, which Nick has skillfully explored, but why do they so often feel that they are stuck in dead-end jobs, working for someone who seems at odds with their values, with no hope of advancement, or feel that the jobs that are available just don't offer any opportunity?

To explore this issue properly, I think we have to look at what has been for some years a crisis in what used to be a strength – American dynamism. And see how two Cs are compounding this problem – credentialism and corporatism.

To begin with, we should review the trends in three core indicators of the strength of American dynamism – the rate of new firms being created, the rate at which people switch jobs, and the rate at which people move about the country.

Let's start with new firm creation and old firms closing. SLIDE. This is really the heart of the creative part of creative destruction. If we look at the data we can see that it really used to be the case that old firms closed down at a higher rate than they did today, but even more firms opened up – and this held true even through recessions. Then the financial crisis came and closures overtook openings. And after the great recession wound down, an odd thing happened – old firms stopped closing and new firms started opening at a much lower rate. COVID, of course, saw an uptick in

both, but I'd be surprised to see the data change much as it updates.

What this implies is that there are fewer new jobs available, and fewer people are forced to look for new work as a result of firms closing. That doesn't mean firms aren't closing at all – 2023 saw an average of 3 million job losses per month. But it implies that a major source of career advancement has been curtailed somewhat.

The corollary is that a greater proportion of the firms that exist are older. SLIDE. And older firms generally mean that people get stuck in career structures and hit plateaus. Their salary or wage rises aren't as much as they would like and they happen more slowly.

The answer to this normally come from job switching. Anyone who has been involved in real world employment, which is to say not at a think tank, knows that the best way to increase your salary is not to ask the boss for more, but to switch to a higher

paying job. SLIDE. However, if there are fewer new firms and people aren't leaving jobs in firms that stick around longer, then that option isn't as available as it once was. So, you stick in the same job and feel you're going nowhere.

We see this trend in the rate of job reallocation data, which has settled at what appears to be a permanently lower rate since the financial crisis.

Now it used to be that Americans had an answer to this. If jobs weren't available in their home town, some of them would pack up and move to where there was work, even if it meant moving to another state. SLIDE. Yet interstate mobility has basically halved since the mid-2000s. this isn't because Americans now love the place where they are more than in the past – roughly half of the people who feel they're stuck in place would move to find better work if they felt they were able to do so.

So, what is going on? Why is America so much worse of a place for dynamism than it used to be. Given that so much innovation

happens as a result of dynamism, why are we squandering what has always been a uniquely American advantage. Why, perish the thought, are we becoming more like Europe?

I'm a regulatory policy guy first and foremost so it may not surprise you to learn that my answer is the inexorable growth of regulation at the federal, state and local levels. We're making it more and more difficult to do business in America, and that should terrify everyone.

Let's start with Federal regulation. SLIDE. Every year, my colleague Wayne Crews charts the growth, because it's almost always growth, of federal regulation in a publication called Ten Thousand Commandments. Of course, we bust past the 10,000 regulations mark ages ago, so that's an understatement, but the growth just keeps on going.

Many of these regulations are supposed to benefit the environment or ensure employment fairness, but the end result is they make it more difficult for businesses to form or to grow. It is a

central rule of economics that incentives matter, and the vast majority of regulations disincentivize business formation and business growth.

Take the self-employed, owner-operator trucker for instance. The COVID pandemic showed how important these amazing men and women are to our economy, but the EPA wants them to ditch their traditional trucks for electric ones, which are much heavier and so allow much less room for shipping, while the labor regulators at state and local level says that if they have a contract with one firm, they should be an employee of that firm and not an independent businessman. It's not a good time to start a trucking business.

Or look at fracking – a business which was almost solely responsible for all the job gains in America in the Obama era. Yet significant numbers of states, most notably New York, ban fracking entirely, killing opportunity in the industry. And just last week the President said he wouldn't allow any more exports on

LNG on environmental grounds. The ramifications for the industry will be significant – and good paying jobs will surely be lost.

Yet even the most basic of businesses have to deal with regulatory costs. SLIDE. Wayne compiled this table of the regulations every business has to comply with on startup, on hiring their first employee, their second, and so on. All of this is paperwork costs that keep the employer, normally, from concentrating on running and growing their business. And its' why you see concentrations of firms at employment levels just below the next step – you don't hire that next employee because of the costs of having to comply not just for that employee, but all your others.

So regulations not only discourage new firm formation, they discourage the growth of firms. This obviously impacts both the first two indicators of dynamism. The third – interstate migration – is hit not just by those regulations but by state level regulations on things like occupational licensing. If another state isn't going to

recognize the license you worked hard for, there’s no way you’re going to move state. And, of course, the effects of disability and other welfare benefits have an effect that ties people to their state, as Nick alluded to. And at the local level zoning can kill the idea for a business stone dead by making rental property just too expensive, among other effects.

So deregulation, even modest deregulation, should have some effect in stopping the sclerosis we’ve seen, but I want to quickly talk about two other things that I think are having an effect.

The first is credentialism. The high school diploma is no longer the ticket to a good job it used to be. Part of that is the dumbing down of the high school curriculum, but part of it actually races to a civil rights case from 1970 called Griggs v Duke Power that found that using assessment tests to check the skills and aptitude of workers could be racist.

The effect of this was significant – firms stopped using tests and started outsourcing the assessment of skills to universities. Where

a high school diploma used to suffice, you needed a degree. SLIDE. This contributed to the exploding cost of college that is rapidly putting the degree – the ticket to a good job – out of reach of working class families. I'm not working class any more, but I know how much my children's tuition is and it is crippling.

This has of course been accompanied by a sprint leftwards in university teaching. I talk about this more in my book The Socialist Temptation, but it means that the managerial class has become ever more leftwing – thus divorced from the traditional values of their working class employees.

This contributes to the problem of corporatism. SLIDE. Where previously corporate managers would complain about regulation, increasingly they either embrace it, or worse, lobby for it, thinking that by doing so they will save the world. This ethos of global salvationism, as my late friend David Henderson put it, increases the appetite for corporate initiatives under the rubric of diversity, equity, and inclusion, or environmental, social, and governance –

DEI and ESG. This has led to the creation of what Russ Greene of Stand Together calls the Acronym-Industrial Complex. Corporations lobby for these regulatory frameworks as a means of fending off new competition and entrenching themselves as the only one socially responsible enough to exist.

Governments reinforce this through a process known as jawboning, which is, simply put, the threat of a regulator saying "Nice business you have there, it'd be a shame if it was subject to increased supervision." Companies either comply or face sanctions like Operation Choke Point, which threatened to kill off small dollar lending except from approved financial sources, before President Trump put an end to it. We're seeing Choke Point reappear in new guises, by the way.

Yet there is hope. Anheuser Busch got a bloody nose when it decided to insult its customer base by embracing DEI. The same, I think, is happening to Disney. The concept of shareholder value is not yet dead.

So, to return to my original point, the best solution to what ails the working class is a healthy dose of Thatcherism, in the sense of getting government out of the way and letting the genius of America’s ultimate resource – its people – take over. Just look at the deregulatory proposals in Heritage’s Project 2025, which I was delighted to contribute too. There’s a blueprint for a better tomorrow. As a movement, together, we can restore American dynamism, overthrow corporatism, and Make America Work Again!