

Chapter 4: The Ladder Principle

"The problem with capitalism is not that there are too many capitalists, but that there are too few."

— G.K. Chesterton, *The Uses of Diversity* (1920)

A civilisation does not collapse because some people rise. It collapses when rising becomes impossible. The modern argument about inequality has adopted the posture of moral certainty while refusing the burden of diagnosis. It treats inequality as if it were itself a malfunction, a disease lodged in the system's organs, to be cut out by taxation and redistributed into virtue.

But inequality is not a diagnosis. It is a description.

People differ—in talent, appetite, discipline, luck, timing, risk tolerance, family structure, and the simple capacity to endure boredom for future gain. In any society that allows freedom, those differences will show. In any society that allows reward, those differences will compound. To demand the disappearance of inequality is to demand the disappearance of variation. And variation can be erased only by coercion.

The indictment is not that outcomes differ. The indictment is immiseration: people trapped with no stable route to competence, no workable path to ownership, no enforceable property, no reliable money, no honest chance to trade, build, and keep the fruit of their labour. The scandal is not that there are winners. The scandal is that entry has been quietly rationed, and the ladder removed, while the public is invited to stare at the rooftop and curse the climbers.

This chapter is about that ladder: what it is, what it requires, and how modern policy—often under the banner of compassion—breaks it.

The Governing Claim

Inequality is a description; the scandal is a ladder that has been quietly removed. A healthy society is not one where outcomes are identical, but one where **entry is wide, rules are stable, competence can be acquired, and rewards are not reserved for the well-connected.**

The rival of meritocracy is not equality. It is corruption.

Two moral confusions

Before definitions, a correction.

The first confusion is the belief that if inequality exists, injustice must have occurred. This is a childish syllogism dressed in academic clothing. In any complex system, distributional differences emerge even under fair rules. Indeed, the most talented and disciplined often produce unequal outcomes precisely because their output is unequal.

The second confusion is the belief that if inequality is morally uncomfortable, flattening outcomes is morally necessary. Flattening outcomes is not justice. It is a method. And the method has a cost: it requires policing difference. If you insist that outcomes must converge, you must control the behaviours that generate divergence—effort, savings, family decisions, risk-taking, and the preference for long-term investment over short-term pleasure. A world of equal outcomes is not a world of goodwill. It is a world of surveillance.

So if the purpose is to build a just society without building a cage, the question becomes more precise: **can people rise?** Is the ladder intact?

Definitions: what the ladder requires

Mobility

Mobility is not a slogan about “opportunity.” It is the actual, measurable capacity of people to improve their position across time and across generations. It requires more than hope. It requires access.

Mobility is hindered when housing is artificially scarce, when jobs are locked behind licences, when skills are priced beyond reach, when credentials replace competence, and when the state becomes a toll booth run by incumbents.

Competence

Competence is the ability to do something valuable reliably. It is acquired through education, apprenticeship, discipline, feedback, and time.

A society that weakens competence—by rewarding credentials over skill, compliance over judgement, and fashionable language over measurable ability—does not become kinder. It becomes poorer. Worse: it becomes a society where the incompetent gain power by becoming administrators of other people’s lives.

Stability

Stability is the condition in which a person can plan beyond next week. It requires predictable rules, honest money, enforceable contracts, and an environment where effort is not punished by arbitrary confiscation or bureaucratic cruelty.

Stability is what makes long-term investments rational: starting a business, training for a trade, saving for a home, or raising children in a neighbourhood you expect to keep.

Enforceable property

Property is not merely possession. It is the legally protected ability to control, use, transfer, and benefit from an asset. Enforceable property creates a future: it makes saving sensible, investment rational, and responsibility meaningful.

When property rights become uncertain—because taxes become arbitrary, regulation becomes political, or enforcement becomes selective—investment retreats and corruption expands. People do not become altruists. They become cautious, evasive, or cynical.

Honest trade

Honest trade is exchange under rules that are stable, transparent, and enforceable. It requires low corruption, clear standards, and the absence of predatory gatekeeping.

Trade is not merely a market transaction. It is a social system of trust. When that trust collapses, the poor lose first, because they cannot buy protection.

These are the ladder's rungs. A society that destroys them and then announces a war on inequality is like a builder who steals the stairs and then demands the roof be shared more fairly.

Meritocracy: imperfect but necessary

Meritocracy is a hated word because it implies judgement. It implies that some work is better, some results are stronger, some discipline is superior, and some competence deserves reward. That offends the modern taste for emotional egalitarianism, which wants respect without measurement.

Meritocracy is not perfect. Luck exists. Bias exists. Networks exist. Birth matters. And all of these distort outcomes.

But the alternative to imperfect meritocracy is not perfect fairness. It is selection by power. It is selection by status. It is selection by ideology. It is selection by nepotism and administrative credentialism. It is the replacement of merit with a priesthood.

The true rival of meritocracy is corruption: when reward is determined by connection rather than competence, when rules are written by incumbents to exclude entrants, when regulation becomes a cartel mechanism, and when credentials become gate passes sold at inflated prices.

If a society wants less inequality of life chances, it should attack corruption and widen entry, not pretend variation can be abolished.

The ladder is removed by bottlenecks, not by philosophy

The ladder is not removed by a single villain. It is removed by accumulated bottlenecks—dozens of small policies that each look reasonable in isolation. Together they function as a system of exclusion.

This is why the modern exclusion is so hard to see. It is bureaucratic. It arrives in the form of permits, codes, committees, compliance checklists, and “public consultations” dominated by the already housed, already credentialed, already employed, already protected.

It is not dramatic oppression. It is administrative suffocation.

The following examples are the primary mechanisms.

Primary Example (33): Zoning limits—housing as cartel

Housing is the most obvious ladder rung because it is also the most physically constraining. If people cannot afford to live near opportunity, opportunity becomes a museum exhibit they are permitted to observe from a distance.

Zoning limits and restrictive land-use rules are often defended as “community character,” “heritage,” “environmental protection,” and “liveability.” Sometimes those are sincere. Often they are cover. The functional result is simple: supply is constrained, prices rise, and entry is rationed.

Claim: “Restrictive zoning protects communities and prevents harmful development.”

Hidden assumption: The harms of exclusion are less serious than the benefits of preservation.

Behavioural response: Developers build less; projects shift to luxury units to cover fixed compliance costs; renters compete for scarce stock; families crowd into smaller spaces; long

commutes become mandatory for workers.

Second effects: Wealth is converted into home equity for incumbents; mobility declines; young families delay formation; labour markets become less flexible; inequality hardens into geography.¹⁷

Who pays: Renters, new entrants, and the working poor; also the broader economy through reduced labour mobility and higher cost of living.

Better test: If a rule constrains housing supply where jobs are, it is an exclusion mechanism regardless of its rhetoric.

Zoning is often described as planning. In practice it becomes a cartel: incumbents vote to restrict supply, then enjoy the appreciation of scarcity. A society that permits this and then blames “capitalism” for housing costs is blaming the bakery for a famine caused by ration cards.

Primary Example (32): Occupational licensing—jobs behind glass

Occupational licensing is sometimes necessary in fields with clear safety risks. But it has expanded far beyond those boundaries. It now functions, in many sectors, as a gatekeeping mechanism: a way for incumbents to reduce competition by raising entry costs.

The moral language is always “consumer protection.” The economic effect is often producer protection.

Claim: “Licensing ensures quality and protects the public.”

Hidden assumption: The benefit of higher barriers exceeds the cost of excluding capable entrants.

Behavioural response: Entry declines; training costs rise; informal work grows; prices rise; incumbents gain market power.

Second effects: The poor are priced out of services; the young are priced out of careers; immigrants are trapped below their skill level; mobility slows because the ladder’s first rung is legally gated.¹⁸

Who pays: Consumers through higher prices; entrants through lost opportunity; society

¹⁷ **Hsieh & Moretti (2019)**, “Housing Constraints and Spatial Misallocation,” *American Economic Journal: Macroeconomics*. This famous paper estimated that restrictive zoning in high-productivity cities (like NY and SF) lowered aggregate US growth by 36% from 1964 to 2009 by preventing workers from moving to where the jobs were.

¹⁸ **Kleiner & Soltas (2023)**, “A Welfare Analysis of Occupational Licensing in U.S. States,” *Review of Economic Studies*. Found that licensing raises wages for incumbents by ~15% but reduces employment in those professions by ~20%, effectively transferring wealth from consumers and excluded workers to established practitioners without observable improvements in quality.

through reduced dynamism.

Better test: If the skill can be demonstrated without a licence, the licence is likely a cartel toll.

Licensing is also psychologically corrosive. It teaches that competence is not something you prove by doing good work, but something you receive by permission. A culture of permission is not a culture of merit.

Primary Example (39): Credential inflation—education as gatekeeping

Credential inflation is the process by which jobs that once required competence now require certificates. It looks like raising standards. It often functions as raising gates.

Credentials can be useful signals. But when they become compulsory for roles that do not genuinely require them, they serve as expensive filters: ways to reduce applicant pools and preserve status hierarchies.¹⁹

Claim: “More credentials mean a more skilled workforce.”

Hidden assumption: Credentials measure competence, and the cost of obtaining them is proportionate to their value.

Behavioural response: Students take on more debt; universities expand administrative empires; employers outsource screening to institutions; those without credentials are excluded regardless of skill.

Second effects: Social sorting hardens; trades are culturally degraded; real skill acquisition is displaced by compliance; the ladder’s rungs become tuition payments.

Who pays: Young people through debt; families through delayed stability; the economy through misallocation of talent.

Better test: If a credential replaces apprenticeship and demonstrable skill, it is an exclusion device, not a standard.

Credential inflation is often celebrated as progress because it flatters the credentialed. It is, more often, a policy failure disguised as aspiration.

Primary Example (41): Regulatory capture—rules written by incumbents

¹⁹ **Fuller et al. (2014)**, "Dismissed by Degrees," *Harvard Business School Publishing*. Documented "degree inflation," where 60%+ of job postings for supervisors/assistants required a degree, even though current efficient holders of those jobs did not have one. It confirms the "filter" mechanism over the "skill" mechanism.

Regulatory capture is the mechanism that turns a state from referee into cartel partner. It occurs when regulators come to serve the industries they regulate, whether through revolving doors, information dependence, lobbying pressure, or ideological alignment.

Capture is the true enemy of ladders because it institutionalises advantage. It prevents entry not through overt bans, but through compliance burdens that only large incumbents can afford.

Claim: “Regulation protects the public and ensures fair markets.”

Hidden assumption: Regulators are neutral and rules are designed for public benefit rather than incumbent convenience.

Behavioural response: Firms lobby for complex rules; large firms absorb costs; small entrants fail; consolidation accelerates.

Second effects: Competition declines; prices rise; innovation slows; trust collapses as the public sees “rules” benefiting the already powerful.

Who pays: Consumers, workers, and would-be entrants; also democracy itself through cynicism.

Better test: If regulation increases concentration and reduces entry, it is likely serving incumbents.

Capture is why “anti-capitalist” rhetoric often ends by empowering corporate giants. A regulatory state that favours scale creates the very oligarchs it then denounces.²⁰

Inequality’s real danger: when it becomes hereditary

The most serious form of inequality is not that one person earns more than another. It is when advantage becomes durable, insulated, and hereditary—when wealth buys not merely comfort, but gatekeeping power.

This is the point where inequality stops being a description of variation and becomes an indictment of institutions. When housing is scarce by law, jobs are gated by licences, skills are replaced by credentials, and markets are captured by complex rules, the ladder is not merely removed. It is sold back to the public at interest.

A society like that will grow angrier. Not because people cannot tolerate difference, but because people cannot tolerate entrapment.

²⁰ **Stigler (1971)**, “The Theory of Economic Regulation,” *Bell Journal of Economics*. The seminal text proving that regulation is supply-and-demand driven; industries demand regulation to control entry, and the state supplies it in exchange for political support.

The correct target: restore ladders, punish corruption

If the scandal is a removed ladder, the corrective is not levelling outcomes. It is widening entry.

That means building housing, not subsidising scarcity. It means licensing only where safety truly requires it, and otherwise letting competence be demonstrated in open markets. It means de-credentialising roles where skill can be proven through work. It means simplifying rules and limiting discretionary power that invites capture. It means enforcing property and contract while preventing fraud and monopoly.

In short, it means a system where the poor are not romanticised as permanent victims, but respected as potential builders.

The popular moral language says: “Take from the top.” The harder, more useful moral language says: “Open the bottom.”

The Lesson Line

A society does not become just by flattening outcomes; it becomes just by widening entry.

Chapter 4 Notes

[1] Zoning Limits: The Cost of Scarcity Hsieh & Moretti, "Housing Constraints and Spatial Misallocation," *American Economic Journal: Macroeconomics* (2019). Estimated that restrictive zoning in high-productivity cities (like NY, SF, San Jose) lowered aggregate US growth by 36% (1964–2009) by effectively banning workers from moving to where the most productive jobs were located.

[2] Occupational Licensing: Exclusion over Quality Kleiner & Soltas, "A Welfare Analysis of Occupational Licensing in U.S. States," *Review of Economic Studies* (2023). Found that licensing raises wages for incumbents by ~15% but reduces employment in those professions by ~20%, transferring wealth from consumers to practitioners without observable improvements in service quality.

[3] Credential Inflation: The Degree Gap Fuller et al., "Dismissed by Degrees," *Harvard Business School Publishing* (2014). Documented the phenomenon of "degree inflation," where 60%+ of job postings for roles like supervisors or executive assistants required a degree, despite the fact that the majority of current, efficient employees in those roles did not possess one.

[4] Regulatory Capture: The Theory Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics* (1971). The seminal paper establishing that regulation is often "acquired" by the industry and designed for its benefit, prioritizing incumbent protection over consumer welfare.

Governing Claim Inequality is a description, but immiseration is the indictment; the true scandal is not that outcomes differ, but that the "ladder" of mobility has been removed by policies that ration entry, turning a dynamic economy into a closed cartel.

The "Hazlitt" Examples (Primary)

1. Zoning Limits (Housing as Cartel):

- o *Claim:* Restrictive zoning protects community character and prevents harmful development.
- o *Hidden Assumption:* The benefits of preservation outweigh the costs of exclusion and scarcity.
- o *Mechanism:* Incumbents vote to restrict supply, artificially inflating their own asset values while forcing new entrants into scarcity or long commutes.
- o *Lesson:* Blaming "capitalism" for housing costs under zoning is like blaming a bakery for a famine caused by ration cards.

2. Occupational Licensing (Producer Protection):

- o *Claim:* Licensing ensures quality and protects public safety.
- o *Hidden Assumption:* The only way to ensure quality is a state-mandated barrier to entry.
- o *Mechanism:* Incumbents use safety rhetoric to raise entry costs, reducing competition and creating a "culture of permission" rather than merit.
- o *Lesson:* If the skill can be demonstrated without a license, the license is likely a cartel toll.

3. Credential Inflation (The Expensive Filter):

- o *Claim:* Requiring degrees for more jobs creates a more skilled workforce.
- o *Hidden Assumption:* Credentials act as a perfect proxy for competence.
- o *Mechanism:* Employers use degrees as lazy filters for roles that don't require them; this forces youth into debt and displaces apprenticeship with compliance.

- o *Lesson:* A credential that replaces demonstrable skill is an exclusion device, not a standard.

4. **Regulatory Capture (Institutional Advantage):**

- o *Claim:* Complex regulations protect the public from corporate malfeasance.
- o *Hidden Assumption:* Regulators remain neutral and immune to industry influence.
- o *Mechanism:* Large incumbents lobby for complex compliance regimes that they can afford but which bankrupt small challengers, effectively legalizing monopoly.
- o *Lesson:* A regulatory state that favors scale creates the very oligarchs it then denounces.

Part II — The Moral Economy

"The market economy is not everything. It must find its place in a higher order of things which is not ruled by supply and demand, free prices, and competition... It must rely on a strong moral reserve."

— **Wilhelm Röpke**, *A Humane Economy* (1958)