



POLICY SPOTLIGHT

Why Innovation Matters and How to Get More of It

ADAM THIERER | MAY 2022

Innovation and entrepreneurship have been the primary drivers of economic growth and human flourishing—the keys to greater opportunity, choice, and mobility throughout society. Yet they face mounting obstacles in the United States today. The future well-being of the nation may come down to a choice between two approaches. One is a precautionary approach that relies on a convoluted labyrinth of permits and red tape that often encumber entrepreneurial activities in the name of keeping Americans safe. The other is a permissionless approach, grounded in the notion that experimentation with new technologies and innovations should generally be permitted by default.

ATTITUDES ABOUT PROGRESS MATTER

The long-term prosperity of any nation depends on societal and political attitudes toward economic growth, risk-taking, and entrepreneurial activities—including entrepreneurial failures. A tolerance for “creative destruction,” or what might more appropriately be called “innovative dynamism,” has been the crucial factor propelling the invention and growth that gave rise to the Industrial Revolution and, more recently, the information revolution. It helps explain why, historically, so many US-based tech innovators became global powerhouses while firms from countries with a more precautionary attitude to innovation tended to flounder.

As a nation, the United States can set the defaults for public policy closer to the green light of the “permissionless innovation,” generally allowing entrepreneurial acts unless a compelling case can be made not to. Alternatively, the nation can set the defaults closer to the red light of the “precautionary principle,”

disallowing risk-taking and entrepreneurialism until some authority grants permission to proceed.

PROBLEMS WITH THE PRECAUTIONARY PRINCIPLE

The precautionary principle generally forbids trial-and-error experimentation by default. This kind of thinking and overregulation has stunted learning in several important technology sectors, especially energy and transportation. It manifests itself in government policies such as

- inflexible health and safety regulations;
- occupational licensing rules, which limit freedom in employment;
- cronyist industrial protectionist schemes, including inefficient (industry-rigged) tax schemes, which limit competition and increase costs for consumers and taxpayers;

- rigid zoning ordinances; and
- many other layers of regulatory red tape at the federal, state, and local levels.

Heavy-handed preemptive restraints on innovative acts produce harmful effects because they raise barriers to entry, increase compliance costs, and create more risk and uncertainty for entrepreneurs and investors. Progress is impossible without constant trial-and-error experimentation and entrepreneurial risk-taking. These unseen costs of forgone innovation opportunities make the precautionary principle such a troubling policy approach.

ADVANTAGES OF PERMISSIONLESS INNOVATION

Permissionless innovation presumes that entrepreneurs should be allowed to develop new technologies without legal interference. It is the superior default regime. Living in constant fear of worst-case scenarios—and premising public policy on them—means that the best-case scenarios never come about. When public policy is shaped by the precautionary principle, it poses a serious threat to technological progress, economic entrepreneurialism, social adaptation, and long-run prosperity.

Policymakers can help by promoting the institutions that encourage entrepreneurial efforts. These institutions include the following:

- rule of law and court systems
- property rights
- contracts
- free trade policies and institutions

- light-touch regulations and regulatory regimes
- freedom to travel
- various other incentives to invest

In recent times, technological innovation has increasingly come under attack from politicians, academics, and social critics. But their preference for the status quo comes at an enormous cost. Because the freedom to innovate allows people to constantly replenish the well of life-enhancing ideas and applications, it is essential to human betterment for each person individually and for civilization as a whole. Permissionless innovation is the best way to make sure that happens.

FURTHER READING

Adam Thierer, *Evasive Entrepreneurs and the Future of Governance: How Innovation Improves Economies and Governments* (Washington, DC: Cato Institute, 2020).

Adam Thierer, “Innovation and the Trouble with the Precautionary Principle,” *Daily Economy*, American Institute for Economic Research, April 20, 2020.

Adam Thierer, *Permissionless Innovation: The Continuing Case for Comprehensive Technological Freedom* (Arlington, VA: The Mercatus Center at George Mason University, 2016).

Adam Thierer, “Defending Innovation against Attacks from All Sides,” *Discourse*, November 9, 2021.

Adam Thierer, *Governing Emerging Technology in an Age of Policy Fragmentation and Disequilibrium* (Washington, DC: American Enterprise Institute, 2022).

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