Research Needed!

BY DONALD J. BOUDREAUX

If you're an economics graduate student looking for a good dissertation topic, this is your lucky day. Here are two topics that I sincerely believe are worthwhile, challenging, and—if done well—could launch you into academic stardom.

The first topic is best expressed as a question: how much of our material standard of living do we owe to research funded by the government? Nobel-laureate economist Joseph Stiglitz asserts that we owe a great deal to government funding:

> While free marketers rail against industrial policy, in the US the government actively supports new technologies, and has done so for a long time. The first telegraph line was built by the US federal government in 1842; the internet was developed by the US military; and much of modern American technological progress is based on government-funded research in biotechnology or defense. ("Do as the US Says, Not as it Does," *Guardian*, October 29, 2003.)

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But how much is "much"? Does 1 percent of our material standard of living spring from government-funded research? Or 10 percent? Maybe 50 percent? More? It's an impossible question to answer theoretically, and a very difficult one to answer empirically.

Stiglitz is correct that we can point today to many useful technologies that first sprung into existence because of government encouragement. But how would the resources marshaled by the government to promote these specific technologies have been used had they remained in private hands? Would all of these resources have been consumed frivolously—say, on extravagant lawn parties for the idle progeny of the superrich—so that they would forever have been lost to research? Or would they instead have been directed to research that, because these resources were in fact confiscated by government, was never undertaken or was undertaken later than otherwise?

And what of the trillions of dollars worth of resources confiscated over the years by government and spent in ways that no one regards as research-oriented: programs such as farm subsidies, foreign "aid," and welfare? Even if you think these programs to be justified, they take resources away from the possibility of being used on research.

Finally on this topic, we must ask to what degree has the expansion of government's power prompted firms to transfer resources from efforts aimed at making better mousetraps into efforts aimed at making political hay? A government that refuses to pander to special-interest groups gives firms no incentives to spend resources lobbying for goodies such as tariff protection or subsidies. Resources that might otherwise have gone into lobbying are instead spent by firms on R&D and other efforts to lower production costs and improve product quality.

But because government today routinely doles out subsidies and monopoly privileges to firms and industries that lobby for such artificial entitlements, government's actions on this front reduce private-sector research efforts. But by how much?

Bottom line: any proper reckoning of government's contribution to the scientific research that makes our opportunity costs of *all* resources confiscated and divert-

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ed over the years by government. A careful, thorough empirical investigation of this question would be most welcome.

Workers and Wages

My second candidate for much-needed research poses an even greater challenge. It is to develop a more complete and correct *elementary* analysis of the effects on wage rates of changes in the supply of labor.

The standard analysis, I'm sure, is wrong. That analysis is one of simple textbook supply and demand (a tool, I hasten to add, that I generally find enormously helpful). According to this standard analysis, if the supply of labor increases, wages fall, just as a greater supply of anything causes its market value to decline. So, according to this textbook tool, a larger labor supply makes workers worse off. More immigrants, more women entering the work force, a higher birth rate—all should reduce real wages.

And yet, even the most casual observation belies this textbook prediction. Real wages in the United States today are at an all-time high, despite continued immigration of new workers and despite the massive entry, since the 1960s, of women into the workforce. Likewise, real wages in New York City are much higher than real wages in New Orleans, even though New York's working-age population is larger than New Orleans's.

Why? I have some hunches.

Workers are not always substitutes for each other. Instead, workers often *complement* each other. Consider the simple example of the teamwork necessary to lift a 400-pound boulder onto a truck bed. Worker Jones can't perform this task alone. But if worker Smith shows up, then the two of them working together—as a team, complementing each other—can lift the boulder into the truck.

Much more fundamentally, however, is an insight that I regard to be among the most important and pioneering of the twentieth century, and yet one that has not even begun to be incorporated into economics. This insight is the late Julian Simon's understanding that the ultimate resource is human effort and creativity.

A greater supply of workers means far more than additional backs and hands available to perform existing tasks. It means a greater supply of human initiative to discover how better to organize work so that each worker is more productive; it means an increased flow of creative ideas about what new goods and services might better satisfy consumers; it means more human ingenuity at figuring out how resources and capital can be used in previously unimagined ways to lower production costs and expand output.

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Of course, mainstream economics can qualify and contort its textbook theory into consistency with the observed fact of steadily rising wages. But the result is artificial and not compelling. I have a powerful hunch that thoroughly reworking labor economics so that it rests squarely on Julian Simon's insight will revolutionize this important branch of economics. This Simonesque reformulated economics will then be a broad platform from which insights that are impossible today will pour forth.

So, to you graduate students out there, get to work!