Reflections on the Current State of Political Economy

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Like most economics professors, I have spent my academic lifetime examining the economic and public policy effects of issues involving the production, distribution, and consumption of goods and services—political economy, if you will. There is, however, a “political economy” to the very act of producing and disseminating economic knowledge and examining public policies. And that political economy and my assessment of it has changed over a career spanning more than half a century. In this brief article, I will confine my attention mostly to the research dimension and look at five issues, most relating to the political economy of the study of political economy.

Diminishing Returns to Research

I have long been bemused by economists who profess to understand the principle of scarcity and the importance of opportunity costs, yet write so much trivia of little interest to anyone. They do so because of the nonmarket nature of most academic endeavors and the utter lack of incentives to be efficient. The fifteenth paper on a topic is not very likely to add as much to our stock of knowledge as the first or second. I think the nation as a whole has probably overinvested in higher education because of vast governmental subsidies...
(an argument best made by retired professors like me whose potential acquisition of economic rents by extolling higher education is minimal). That manifests itself in such phenomena as the overeducated Starbucks barista or in the more than 115,000 janitors with bachelor’s degrees. It also means roughly 1,000 academic papers are being written on William Shakespeare annually—three per day (Bauerlein 2009: 6). Who reads them? How much does a typical paper add at the margin to the insights that Shakespeare gave us 400 years ago?

The problem extends to the inputs as well as the outputs of higher education, and too many professors are writing too many words (and equations) that, to borrow from the Bard (Shakespeare to college graduates after 1990), “signify nothing.” What if professors wrote only one-third or one-half the number of papers they currently write, but taught one more class per year? My guess is that the net effects would be at least mildly positive, maybe even leading to smaller tuition increases and delaying a bit the demise of the current medieval way we do business. Related to all that, the U.S. Department of Education can probably tell you how many anthropology professors of Hispanic origin there are in South Dakota, but cannot tell you what the average teaching load of American professors is. But I am pretty sure it is minimally 25 percent less than it was when I began fulltime teaching in the year the Higher Education Act passed, 1965. Doing less (teaching) with more describes modern higher education.

Pseudo-Science and Ideology

Modern economics may be less ideologically driven than, say, sociology, but the notion that economists are scientists who objectively observe phenomenon and derive conclusions solely on the basis of empirical evidence is largely a myth, despite pretenses to the contrary. Nobel Prize winners like Paul Krugman and Joseph Stiglitz sometimes morph into almost pure ideologues, doing little or no truly serious work after receiving superstar academic recognition. And, as is oft-observed, the predominant ideological orientation is leftish, despite overwhelming evidence that many leftish policy prescriptions are failures or at least highly inefficient. Leftish intellectuals helped created the European welfare state that has been accompanied by declining growth rates for six decades, from around
5 percent annually in the 1950s to under 2 percent today. Yet, only a minority of economists uses this overwhelming evidence to suggest the nonmarket statist solutions of the welfare state are highly flawed.

Why is this? I think a big reason for this is that modern academic economics is funded predominantly by the state, even at so-called private schools like Harvard. Academics are wards of the state, so it is in their self-interest to have the state large and taxes high. It is ideological bias driven by rent seeking. Even conservative/libertarian scholars like the late George Stigler or Gary Becker often favored and even lobbied for governmental academic support. I once informally debated Becker, arguing that the alleged positive externalities of higher education were largely fiction, a view Milton Friedman was coming around to shortly before his death (Vedder 2004: 127). Becker kept saying college graduates committed fewer crimes, smoked less, and volunteered more, but made no rigorous attempt to relate these attributes to collegiate attendance as opposed to other character traits.

Why did most economists apparently vote for Obama in both 2008 and 2012, when by any objective measure Obama’s policies have led to a severely underperforming economy? Why do economists support those politicians who promote policies that lead to less creation of goods and services, more inefficiency and, often, even greater poverty and income inequality? Measured income inequality is greater under President Obama than under, say, either George W. Bush or Ronald Reagan. Again, insights from the theory of public choice are in order: don’t underestimate the importance of rent seeking—the government has bought off many academics.1

The Rise of the Nonuniversity Research Centers

One thing students learn early in their first course in economics is that monopoly is inefficient and costly, and competition is good. As university faculty show their disdain for the power of markets and promote solutions shown to be inefficient and often poverty inducing, new intellectual competition has arisen, some via privately funded support for university teaching and research but also by independent

1On insights from public choice theory, see Buchanan, Tollison, and Tullock (1980) and Niskanen (1971).
research centers—think tanks. When I started in academia in the
1960s, we had the National Bureau of Economic Research, the
Hoover Institution, the Brookings Institution, and a nascent
American Enterprise Institute. Today, in the nation’s capital alone
there are at least half a dozen relatively important centers where eco-
nomic research is conducted at some level: Brookings and AEI, but
also the Cato Institute, Heritage Foundation, Competitive Enterprise
Institute, and the Urban Institute. A majority, although by no means
all, of them support and encourage research and writings pointing out
the failures of big government and the unintended consequences of
many public policies.

Equally important has been the proliferation of regional think
tanks, such as the Mackinac Center in Michigan, the Texas Public
Policy Foundation, the Manhattan Institute, the Commonwealth
Institute in Pennsylvania, and the Pacific Research Institute in
California. Important non-Washington-based nationally oriented
think tanks like the Heartland Institute, National Center for Policy
Analysis, and the Independent Institute have importantly con-
tributed to the creation and dissemination of important economic
research, almost all of it far less celebratory of the accomplishments
of nonmarket political solutions than that found in the universities.²

Some private philanthropists (e.g., the Charles Koch Foundation,
Searle Freedom Trust, and Bradley Foundation) have supported
academic work and even centers within the university environment.
I sense, however, that the “market share” of universities in the world
of ideas is in decline, and that decline will continue as extreme colle-
giate inefficiency and contempt for the real world will lead to declin-
ing governmental and possible private support. Without massive
subsidies, the universities decline. Massive public overinvestment
has already led to huge underemployment of graduates. The declin-
ing return on public investment in higher education is becoming
obvious to politicians and voters, if not to the professors who are
major beneficiaries of third-party largess. Adding to the woes of uni-
versities, sharply declining economic growth and rapidly rising
unfunded liabilities are reducing the capacity of governments and
private donors to fund operations.

²I have lectured, written, and advised for more than 30 of these organizations
over my career.
The Disconnect between Economic Reality and Public Policy

In my academic lifetime, three important conclusions have come about as a result of empirical observations and theoretical advances in economics. First, the Keynesian approach to stimulate economies through monetary and fiscal policy almost always results in failure. This was manifested empirically in the stagflation of the 1970s (despite continuous budget deficits and fiscal and monetary stimulus), as well as by theoretical advances by Milton Friedman, Edmund Phelps, and the rational expectations school (Robert Lucas, Thomas Sargent, and others). The Phillips Curve, all the rage in principles of economics courses in the 1960s, has been largely discredited.

Second, centrally planned economies without substantial private property rights are extremely inefficient and ultimately unsustainable. As late as the mid-1980s, Nobel laureate Paul Samuelson in his iconic textbook proclaimed that the Soviet planning system was a powerful engine for economic growth (Samuelson and Nordhaus 1985). That idea has been thoroughly discredited. The greatest empirical economic event of the 20th century, the fall of the Soviet Union (without a shot being fired), is the primary evidence. Similarly, the easing of central planning and the establishment of private property rights in China set off an economic growth of unprecedented proportions. The new institutional economics and the emphasis on the importance of property rights and business organization by economists like Ronald Coase, Armen Alchian, Harold Demestz, Oliver Williamson, Douglass North, and a host of others, enhances our understanding of the Chinese economic revolution. Indeed, as early as 1920, the great Austrian economist Ludwig von Mises ([1920] 1990) warned that efficient central planning was impossible, a point picked up empirically by several writers from 1950 to 1990, notably Soviet expert G. Warren Nutter (1968).

Third, even economies that blended private property rights and some protection of market activity with a huge income redistributionist welfare state have been shown to have troubles sustaining material advances. The much-hyped eurozone has been mired for at least a generation in stagnation, most prevalent in the areas where fiscal insanity and redistributionist schemes were the greatest—countries like Greece and Spain. From 2010 through 2014, 25 of 36 European nations I examined had average annual growth rates below
2 percent, and the high-growth (2.7 percent a year or more) nations were the Baltic Republics, Poland, Turkey, and Moldova, former Communist countries that have eschewed excessive welfare state policies or, in the case of Turkey, a non-EU nation that never has had a vast welfare state with high tax levels. The supply-side revolution of the 1980s established that “taxes matter,” and economic incentives influenced by public policy are important in the efficient and plentiful provision of resources for economic growth.

While theoretical advances and empirical work demonstrated clearly that market-oriented, competitive economies outperformed heavily statist ones with much centralized direction, why did much of the world seemingly ignore that advice, moving to ever-larger governmental command over the economy? In part, the answer lies in that both the scholarly and popular media are still dominated by people on the left. It also reflects, however, a public choice insight: special interest groups, concentrated minorities of the population, can often overcome the interests of the majority—concentrated benefits (the special interests) win over the disbursed costs incurred by the general public, which lobbies less because individually they have less at stake (although not collectively).

The War on Work

Let me turn to my own areas of scholarly interest. A large portion of my own work, especially with Lowell Gallaway, relates to labor markets. I think modern economists have understated the importance of labor, which by most measures accounts for nearly two-thirds of production. I will go to my death believing the single most important factor in causing the Great Depression was discoordination in labor markets (too high wages) caused in large part by government policies such as the Hoover–Roosevelt “high-wage” policy (Vedder and Gallaway 1997). And probably the centerpiece of the Great Slowdown after 2000 has been what could be called a government-led War on Work. From 1960 to 2000, the proportion of Americans working increased, but that was entirely the result of greater female labor participation. Edward Prescott (2004) has shown how American economic supremacy over Europe grew in the 1980s and 1990s simply because Americans worked more, and work effort in Europe was in significant decline. Since 2000, however, the European Disease has come to America, and the
proportion of Americans working has fallen sharply. Not coincidentally, the American natural rate of economic growth (to perhaps coin a term) has gone from above 3 percent to about 2 percent a year, with tragic consequences for future generations.

Why? Again, this is the unintended consequences of the welfare state. Disability insurance claims have roughly tripled in the last generation (despite greater inherent safety in the workplace because of the declining relative importance of manufacturing and mining); government-subsidized student loans and grants have lured younger Americans away from working; extended unemployment benefits prolonged unemployment; and food stamps now go to nearly 30 million more Americans than 15 years ago (Vedder 2013). The government has provided much more income that is only available if people do not work. So fewer do.

The Decline in Historical Consciousness

As George Santayana (1905) told us over a century ago, “Those who cannot remember the past are condemned to repeat it.” Modern economists shower themselves with lots of mathematics and use ever-more sophisticated econometric techniques to analyze economic phenomena. But they are increasingly abysmally ignorant of the past. That leads economists to overconfidence (thinking everything important was discovered recently, and past generations were therefore ignorant), further leads them to ignore the context that past events provide in shaping the present, and, therefore, sometimes leads us to repeat mistakes made in the past. The ahistorical nature of modern economists is demonstrated by the near disappearance of courses on the history of economic thought, as well as the sharp decline in the study of economic history (the evolution of modern economies). Why did 19th-century America surpass Britain and other heretofore larger and more powerful European economies to become the richest nation in the world? Why did we go from 4 percent growth in the 1920s to 0 percent growth in the 1930s, in the process leading to a peaceful political revolution that shapes America to this day? How are the “Black Lives Matter” movement and related phenomena partially related to slavery that ended 150 years earlier? How did our current understanding of “value” come about, and why did economists for centuries puzzle over things like the difference between “value in use” and “value in exchange”? Economic history
and the history of economic thought give insights into these and many other questions. A little dose of that would do all serious students of economics some good.

Conclusion

If economics is on the decline, why do I continue to teach and do research after more than 50 years? The answer is I like doing my bit to correct the wrongs discussed in this article. Above all, I live for seeing the results of my labors a decade or even several decades later, in terms of opening the minds of young men and women to the logic of the price system and the importance of private property and other institutions for freedom and prosperity. Helping my students understand the unintended consequences of public policies and seeing those students become successful teachers and scholars is itself rewarding.

References
