SAMUELSON'S *ECONOMICS*: THE CONTINUING LEGACY

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Men with vision walk in the middle.
Tosefta: Baba Kama, 2.12

Paul A. Samuelson's legendary textbook, straightforwardly titled *Economics*, most famously exemplifies Samuelson the writer. To mark the release of the eighteenth edition of the textbook in July 2004, this paper briefly considers the textbook, and the celebrity (and criticism) it attracted. Economists and academics in general don't have much difficultly appreciating Samuelson's extraordinary contribution. Simply reading Samuelson's text *Foundations of Economic Analysis* (1947) or browsing through the plethora of intellectual jewels displayed in the many volumes of *The Collected Scientific Papers of Paul A. Samuelson* (1966–86) makes these contributions self-explanatory. But one of the most compelling characteristics of Paul Samuelson is his ability to communicate equally well to all audiences, whether academics, students forced to take an economics class for the first time, or the average individual. If you limited your reading to Samuelson's academic writings, which are characterized by an unyielding surge of theoretical rigor, one might get the impression that one was dealing with an alien of sorts; a creature simply too brilliant to communicate with the average human, and whose ideas could only be understood by a select few academics. Yet Samuelson's true brilliance is his ability to flawlessly tune his writing to any audience, whether mathematically inclined economists and graduate students,

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introductory students reading his textbook *Economics*, readers of his past *Newsweek* magazine column, or the government agencies and politicians he advised, including John F. Kennedy.[1] Indeed, one can argue that this is Samuelson's most important virtuosity.

Samuelson's textbook presented Keynesian thought to generations of American and foreign economics students—a fact that made many unhappy. In *Economics*, Samuelson developed original methods of conveying Keynes's ideas. For example, Samuelson's *Keynesian Cross*, which graphically relates total spending to measures such as the Gross Domestic Product (GDP), represented an easy-to-understand explication of the source of the key problems, such as unemployment, that plagued the United States during the Great Depression—and suggested that government spending might be the solution. Samuelson's advocacy of the use of government spending led him to be categorized as a fiscal Keynesian in the same school of thought as one of his professors at Harvard, Alvin Hansen. The Keynesian Revolution stimulated Samuelson, like most economists. But as scholarship progressed, so too did Samuelson's thinking. Samuelson argues that to him, "Keynesianism was never a religion. 'What have you done for me lately?' was always the battle cry. Besides, the American Keynesians . . . were evolving beyond Model T Neanderthal Keynesianism. I race along with the *avant garde* (Samuelson 1997, p. 155). When a new movement developed that attempted to synthesize Keynesian and neoclassical thought into equilibrium models, known as the neoclassical synthesis, Samuelson embraced it as well. This new movement is attributed to the English economist John R. Hicks, the 1972 Nobel laureate, whose ideas were published as early as 1937 (Hicks 1937, pp. 147–59). These ideas became popular in American economic circles, somewhat belatedly, after Alvin Hansen presented them in his 1953 book *A Guide to Keynes*, with Samuelson following suit (Hansen 1953).

Indeed, Samuelson remarks that there are very few "Keynesians" anymore. Says Samuelson, "Few of my MIT students will call themselves 'Keynesians' as Solow, Modigliani, and I might. They are 'neo-Keynesians,' 'neo-neo-Keynesians,' and even 'anti-Keynes Keynesians.' But make no mistake about it. Their writings and views are light-years away from the macro I learned at the University of Chicago. And the common core of their beliefs is scarcely

[1]It is not only Samuelson's writing that are well tuned. Laurence J. Kotlikoff of Boston University recalls a recent speech that Samuelson gave at Boston University.

> I had him give a talk to BU students last year and 500 students showed up. He was amazing. He spoke for an hour and, as is his way, engaged in digressions within digressions to the point that I was wondering when and if he'd get back to the main point. But sure enough, he brought everything back to square one in the last five minutes, tying each and every one of the links and loops together. (Private correspondence, 2004)

country miles away from the vulgar IS-LM diagrammatics that Harrod, Hicks, and Hansen distilled out of Maynard's intuitive explorations" (Samuelson 2004a).

How did *Economics* come to be written? Samuelson recalls how the department head of the department of economics at MIT, Ralph Freeman, beseeched Samuelson to write an economics textbook. For Freeman had a problem: MIT forced its juniors to take a compulsory course in economics. "They hate it," moaned Freeman, "We've tried everything. They still hate it" (Samuelson 1997, p. 154). Freeman made Samuelson an offer he couldn't refuse: "Paul, will you go on half time for a semester or two? Write a text the students will like. If they like it, yours will be good economics. Leave out whatever you like. Be as short as you wish. Whatever you come up with, that will be a vast improvement on where we are" (ibid.). As we know, Samuelson accepted, and took the task seriously; three years later the book was ready for publication, "after night and summer slaving and following up on uncountable mimeograph handouts" (ibid.).

Samuelson published the first edition of the textbook with McGraw-Hill in 1948, though there was extensive interest by other publishers.[2] The original McGraw-Hill representative assigned to Paul Samuelson was an individual named Basil Dandison. Harold W. McGraw, chairman emeritus of McGraw-Hill, recalls that Dandison first met Samuelson at Harvard seven years earlier on December 8, 1941, after being introduced by a Harvard professor, Seymour Harris (McGraw 1999). The Dandison-Samuelson relationship was quite amiable. In 1999, at the age of 97, Basil Dandison was still praising Samuelson: "It was a great thing for McGraw-Hill when Paul Samuelson decided to sign up with us."[3] And to this Samuelson replied, "What a gentleman!"

Now, the amiable relationship between Samuelson and McGraw-Hill should come as no surprise: *Economics* was a huge success. The first edition (1948) sold 121,453 copies and the second edition (1951) sold 137,256.[4] The high water mark was the sixth edition, which sold 441,941 textbooks. The eleventh edition (1980), the last that Samuelson sole authored, sold 196,185 textbooks; and sales remained strong for the twelfth (1985) and later editions,

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[2]Samuelson describes how two dozen publishers were "clamoring" for his text, yet he choose McGraw-Hill for the following reasons: "Reason 1: Macmillan and Prentice-Hall, the other giants back then, already had best-selling textbooks; McGraw-Hill did not. Reason 2: What clinched the deal was that McGraw-Hill had published the scholarly 2-volume treatise *Business Cycles* by my Harvard teacher Joseph Schumpeter and had also published the 15-volume compendium on what had been learned at the MIT Radiation Laboratory where I had spent the War" (Samuelson 1999, pp 353–55).

[3]As recollected by Samuelson (1999) in his contribution to "Samuelson's *Economics* at Fifty: Remarks on the Occasion of the Anniversary of Publication."

[4]All figures provided in this paragraph are from (Skousen 1997a). Skousen bases the annual book sales figures on Elzinga (1992, pp. 861–79).

which were co-authored with William D. Nordhaus, a leading professor of economics at Yale University.[5] In total, *Economics* had sold more than 4 million copies, and was translated into 41 languages. The book remains popular today, or as Nordhaus enthusiastically puts it, "The book is alive. Long live the book!" (Nordhaus in Samuelson 1999).

Interestingly, Samuelson never received an advance—an idea that most textbook authors would consider preposterous today.[6] And while Samuelson enjoys the considerable wealth that the success of his text brought, he's discovered that one is rich "if you have a little more money than those around you" (Samuelson 1999). On his decision to accept lower royalties for international English-language editions, Samuelson explains, "My interest was not so much in dollars as in influencing minds (ibid.).

The huge success of *Economics* turned Samuelson into a celebrity. "A new layer of fame that I never dreamed of evolved," Samuelson reveals,

> I was besieged by groupies reminiscent of Talmudic students crowding around famous rabbis. The policeman at the door of the White House whispers, "I am using your book at Georgetown night school." The chap who sells me a newspaper at Harvard Square confides that at Northeastern he studied my book. . . . Wherever I go in Europe, Asia, or Latin America, strangers greet me as an old friend or old tormenter. I have never been to India, Russia, or China, but in my MIT office, I am asked to autograph copies of translations. (Samuelson 1999, p. 354)[7]

Economics grew into something more than just another obscure textbook; its wide popularity meant that it strongly influenced the way that economists, the American public, and the entire world perceived economics.[8] This also meant that Paul Samuelson faced a tremendous amount of pressure to stress one issue over another, and faced significant criticism by those who disagreed

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[5]The latest edition as of this time is the sixteenth edition. See www.mhhe.com/economics/samuelson/.

[6]For example, Harvard economics professor Gregory Mankiw, who was appointed as Chairman of the Council of Economic Advisors in 2003, received a $1.4 million advance in 1997 for his *Principles of Economics*. See Mankiw (2004).

[7]The degree to which Samuelson's textbook influenced students internationally should never be underestimated. Elhanan Helpman, the Israeli economist, recalls how, as a young man, he discovered

> a thick volume that was the Hebrew version of Samuelson's textbook. The translation was terrible. It employed convoluted Hebrew terms for simple economic concepts. Nevertheless, I fell in love with the book's content. What struck me most was the realization that one can in fact think systematically about complex social phenomena and describe them in precise language. All this was new to me, and my fascination grew with every page. (Helpman 1998)

[8]For one academic's reflection on how *Economics* influenced his life, see Brady (2002).

with his slant. Indeed, one cynical way of measuring the importance of a book is through observing the degree of criticism it receives. Interestingly, criticism of *Economics* began before the textbook was even published. Samuelson never forgot how a preliminary version of the textbook, distributed to his students before publication, faced a tremendous amount of opposition from some MIT alumni and board members—two groups that no academic can easily ignore (Samuelson 1997, p. 159). One of these critics even listed 100 "heresies" in the text, and waved off Samuelson's attempts to respond, griping, "The whole tone is wrong. You do not inculcate sound economics. That is your trouble" (ibid.). The same critic wanted the textbook vetted before publication occurred. Eventually, the president of MIT at the time, Karl Compton, stepped in, threatening to resign if Samuelson was censored. He was successful, as you know, and *Economics* was put to sea.

As *Economics* grew increasingly popular, the criticism amplified.[9] Samuelson remarks, "In one lifetime, while adhering to the same eclectic liberalism, I have been at first denounced as *avant garde* and later castigated as a running jackal of capitalism" (Samuelson 1999, p. 354). But Samuelson understands the game. In the introduction to the fifteenth edition of *Economics*, Samuelson writes,

> People differ about economic policies. Tempers flare out, arguments are shrill, and different schools and ideologies grow up—each convinced that its view of the simple truth is the one-and-only correct version. After a lifetime in the trenches, my advice to beginning students when you contemplate any such hot debate is this: Hang on to your wallet. Economic laws are truly complicated. (Samuelson and Nordhaus 1995)[10]

One fascinating example of criticism is the 1977, 2-volume book *Anti-Samuelson*, written by Marc Linder, who is currently a professor of law at the University of Iowa. *Anti-Samuelson* represented "an attempt to follow S in his presentation of bourgeois theory" (Linder and Sensat 1977 p. x). "S," of course, refers to Samuelson; and the criticism is from the left wing of ideological thought, and clearly heartfelt—it's a very long book. The book is

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[9]Samuelson's fame has grown to the point where even his personality has been placed under the academic microscope. See Price (2002).

[10] As another example of this aspect of Samuelson's character, Perry Mehrling of Columbia University relates how Samuelson:

> mentioned that he had heard about a piece I had written on Irving Fisher. I have no idea how he heard about it, but I offered to send him a copy and within a few days I got back a letter, dated 27 May 2003. . . . He had read the paper and wanted to set down his own interpretation, but then he closes the letter with a remarkable line that I treasure: "Do disregard my heresies and follow your own star." (Private correspondence 2004)

organized in direct relation to specific chapters of Samuelson's text. The following is characteristic of the criticism:

> His attention is focused on the "problems" of the present and their possible solution *within* capitalism. This is S's unspoken value judgment: as a practical man, a "citizen," he supports capitalism and opposes socialism. Accordingly, he tries to foist these values on his reader. That, of course, is his prerogative, but it would be nice if he would at least warn the unwary reader. However, matters change when he disseminates these views in the guise of scientist. . . . But S's theory is not simply demagoguery. By far the more significant aspect of the ideological role of bourgeois economic theory is its unconscious refusal to recognize the possibility of the existence of problems serious enough to cause the demise of the capitalist mode of production. (Linder and Sensat 1977, p. 5)

As active participants in a capitalist society, it is dangerously easy for us to discard this criticism as radical. Yet it is also true that Samuelson's coverage of Marx and socialism has evolved over time, and it is no wonder that leftists experienced a sense of abandonment.

The libertarian and Austrian economist Murray Rothbard heavily criticized *Economics* as well (Rothbard 1997, pp. 518–22). Stylistically, Rothbard found the text to be a "*potpourri* . . . of bits and smidgens of technique and of data, none of them integrated into any sort of digestible or comprehensive whole." Rothbard writes that

> my heart goes out to the poor bewildered undergraduate, confronted with this gigantic stew, ranging from opinionated wisecracks to the Giffen Paradox to marginal productivity analysis to Harrod-Domar-Modigliani growth models to notes on economists past and present to the latest ultrasophistication in reswitching analysis. What in the world can he make of all this? It is no wonder that economics is almost universally the most disliked subject in the college curriculum. The undergraduate is presented with no clear and coherent picture, no cogent guidelines on what economics is all about. (Rothbard 1997, pp. 254–55)

To Rothbard, Samuelson's textbook typified what Rothbard believed to be the "major ills" of American economics:

> the sterile emphasis on the conditions of a static equilibrium which never can (and never should) exist, and the repeated sonorities of the Keynesian model presented without so much as indicating its major flaws and fallacies. (Rothbard 1997, pp. 255–56)

The text, according to Rothbard, "scarcely equips the reader for facing the real world of ever-accelerating inflation or of the recurring reality of inflationary recession" (p. 256).

Rothbard is particularly troubled by Samuelson's coverage of theories related to business cycles. Writes Rothbard, the Austrian theory is almost scandalously treated as follows (in its entirety):

> The *over*-investment theory . . . claims too much rather than too little investment causes recessions (Hayek, Mises, et al.). Here it is at least Samuelson's responsibility to explain the theory at some length, and to point out (a) that the "over-investment" is caused by continuous monetary inflation by the banks, and (b) that the result of the bank credit expansion is overinvestment in the "higher orders" of capital goods, matched by underinvestment in the consumer-goods industries. (Rothbard 1997, p. 258)

The main difference between Samuelson and the Austrian School is one of methodology. Samuelson explicated the difference when he wrote that the Austrian economists believe that "by thinking in one's study one could arrive at the basic immutable laws of political economy" (Samuelson 1947, vol. 5, p. 7). To illustrate, it is well-known that Mises started his economics from the Action axiom and that Hayek started his economics from abstract laws such as the love for self interest. Samuelson contrasted his position with the statement that "my first and last allegiance is to the facts" (ibid.). So for Samuelson, reality is the paradigm. He applied this against the overinvestment theory of Hayek thus:

> Hayek's 1931 *Prices and Production* did pique analysts' curiosity. But its author never could tie up his metaphors concerning artificial lenghtenings of the period of production through overissue of M, followed by a resultant shortening of the period, with the actual depression process taking place in the real world. (Ibid., p. 288)

Also consider Mark Skousen, whose extensive review of the evolving nature of *Economics* was published in a 1997 article (Skousen 1997a). Wrote Skousen,

> In reading Samuelson's earlier editions, a student might reasonably conclude that there are no other schools of thought, at least in the mainstream. In fact, of course, Keynesian thought was the subject of furious debate in economics departments across the country through the 1940s and into the 1950s, as young economists steeped in Keynesian thinking entered professorial jobs and collided with the old guard. In the late 1950s and 1960s, as economists explored how certain modeling structures could express either Keynesian or monetarist insights, it was fair to claim broad acceptance of the "neo-classical synthesis" as a modeling strategy. (Skousen 1997a, pp. 139–40)

In an article in *Forbes Magazine*, Skousen continued the attack:

> Samuelson spent whole chapters in serious discussion of the socialist economics of the Soviet Union and China, while writing little or nothing on the success stories of West Germany, Japan, the East Asian Tigers or Chile. . . . He had numerous sections on "market failure," while offering little on "government failure." He criticized laissez-faire, favored progressive taxation and endorsed the pay as you go Social Security program. (Skousen 1997b, p. 198)[11]

[11]See also William F. Buckley, Jr.'s seminal book, *God and Man at Yale* (1978).

Indeed, Samuelson takes clear positions in the ideological battles, and some positions were later modified.[12] While Samuelson remains proud of the early editions, he recognizes that, in hindsight, he may well have made some changes. Rereading the 1948 edition fifty years after publication, Samuelson was quite impressed. "To my surprise, it read much better than I could ever have suspected. No wonder it was an instant bestseller, which set a new pattern for all the late twentieth-century economic textbooks" (Samuelson 1999). Yet he was also self critical, admitting that he had to

> wince at various nonoptimalities that are obvious from hindsight. Fiscal policy was given too much emphasis at the expense of monetary policy. Yes. Can this be excused by the fact that not until the 1951 Accord did the Federal Reserve get back its freedom to exercise an autonomous monetary policy? Admittedly, that is an excuse in part. But is it not a duty for the economics writer to pound on the table and nag against bad institutional policies? (Samuelson 1999, p. 353)[13]

What critics fail to recognize, Samuelson argues, is the era in which the early editions of the textbook were written. The key question to ask is not whether the text overemphasized one stream of thought over another. After all, Samuelson reminds us, Milton Friedman's early writing never incorporated Friedman's own later work. Instead, the question that Samuelson poses is "Was the Samuelson elementary text lagging behind the plethora of emerging intermediate macroeconomic textbooks in the 1948–1985 era or a pioneering engine in evolutionary progress?" (Samuelson 1997, p. 155). As an inexact science, economic thought evolves in response to new developments; perception of reality today may well be perceived as unrealistic tomorrow. "Funeral by funeral," argues Samuelson, "economics does make progress. Darwinian impact of reality melts away even the prettiest of fanciful theories and the hottest of ideological frenzies. But there are fits and starts along the way." Or more briefly, as Samuelson puts it, "be wrong, but don't stay wrong."[14]

Why was *Economics* so successful? There was, after all, significant competition, as Samuelson recalls, such as *Principles of Economics* by Frederic Garver and Alvin Hansen (1938); *Economic Principles, Problems and Policies* by William Kiekhoffer (1936); *Modern Economic Society* by Sumner Slichter (1931); and *Elementary Economics* by Fred Fairchild, Edgar Fumiss, and Norman Buck (1936); among several other textbooks in the running. Samuelson

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[12]One position that has been attacked repeatedly by the right was Samuelson's evaluation of the Soviet economy. The following quote, from the thirteenth edition of *Economics* (1989, p. 837), is perceived as particularly bothersome: "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, the socialist command economy can function and even thrive."

[13]More broadly, Samuelson notes that present day economists have shifted to the right (Private conversation 2004).

[14]Ibid.

attributes the success of *Economics* to "book content," noting that competing texts failed to address the compelling problems of the day. "When 5,000 banks failed and mortgage delinquencies were in the millions, the bestselling texts limned the certainties of Say's Law!" (Samuelson 1997, p. 154). And many attribute the coverage Samuelson gave to the Keynesian revolution as *Economics*' most important characteristic. But Robert Solow disagrees, arguing,

> the introduction of Keynesian ideas was not the major innovation. Paul's was probably the first truly postwar textbook, in the sense that it represented economics as it was in the postwar period and as it became, largely because of Paul's other career as a writer of economics for economists. (Solow in Samuelson 1999)

Indeed, the success of *Economics* likely flowed from a combination of these factors discussed above. And the fact that Samuelson was a leading economist with a reputation as *wunderkind* must have also influenced professors to assign *Economics* to their students. But what is undeniable, regardless of one's ideological perspective, is that *Economics* is wonderfully written. As the economist Stanley Fischer, President of Citigroup International and a former MIT economist, magnificently puts it,

> To read *Economics* is to have a glimpse of the extraordinary mind that created it: undogmatic, generous to predecessors and contemporaries, encyclopedic, of course brilliant, and, most remarkably, skeptical, not inclined to take itself too seriously. Those are not properties that come in that combination very often, least of all in a textbook. (Fischer in Samuelson 1999, p. 363)

And from this, we all continue to benefit.

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