Sizing up Samuelson

by Murray N. Rothbard

Reviewing another edition of Paul Samuelson's *Economics* is a task as impossible as reviewing in brief the present state of American economics itself. This spectacular best seller in the history of economic textbooks has inspired a flotilla of imitators. A new edition appears every triennium, replete with multi-colors, charts, diagrams, and the latest techniques in professional layout, and surrounded by satellite ships: instructors' manual, student workbook, readings, transparencies, test banks, you name it.

It is no accident that, in every succeeding edition, the colors get gaudier and, more important, the size gets bigger (868 pages in the eighth edition, 917 in the new ninth). For what the hapless undergraduate discovers in Samuelson and his flock of imitators is a vast *potpourri* (or kitchen midden, depending on one's point of view) of bits and smidgens of technique and of data, none of them integrated into any sort of digestible or comprehensible whole. Samuelson concluded the preface to his new edition by asserting, in his typically breezy style: "My envy goes out to the reader, setting out to explore the exciting world of economics for the first time. . . may I only say, *bon appetit!"* (p. xii). In contrast, 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. Instead, beginning by knowing next to nothing about the field, he can only hold on, memorize like mad, and pray for the course to be over and his six credits achieved. Not that the other major texts are much better; Samuelson's *Economics* differs from its rivals largely in being bigger, more indigestible, and filled with the flip and unsupported wisecracks with which Samuelson is wont to dismiss deviant economic views.

Samuelson and most other texts get larger each edition because they are written as compendia of received economic opinion at the time of publication. And so very little gets dropped; as new economic problems are faced in the society, more chapters—more problem areas—get added to the book, whether the new fashion be underdevelopment or unemployment or inflation or the New Left or ecology. Hence, by their very nature, it is almost impossible for these textbooks to lead the profession, or to lead the concerns of society, or, therefore, to prepare the student for the new problems he is bound to face in the world he will enter. Instead, these textbooks are always and necessarily bringing up the rear, adding yet another section or chapter on a "relevant" fashion at the time of revision, only to find the subject old hat shortly after publication. Yet, several more indigestible bits and pieces are added permanently to the stew. How much better it would be to stop trying to touch on every conceivable economic topic and to take the basic essentials of economic theory and develop them carefully and thoroughly (as, for example, Alchian and Allen do in their brilliant *University Economics,* although this too is far above the true level of the basic introductory course).[1]

Before turning to the specifics of the ninth edition, let it be said that, as in the case of the preceding eight, the text suffers from the standard major ills of contemporary American economics: notably 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. Finally, like its predecessors, Samuelson's ninth scarcely equips the reader for facing the real world of ever-accelerating inflation or of the recurring reality of inflationary recession. No cogent explanation of these burgeoning and unwelcome phenomena is offered.

The central feature of Samuelson's new ninth edition, as contrasted to the eighth, is his sincere attempt to dilute the aggressive and monolithic middle-of-the roadism that marked his previous editions. Here he attempts to introduce his students to other, contrasting approaches to economics: from the Marxists and New Leftists on his left to Milton Friedman and the Chicago school on his right. Letting the nation's undergraduates know of other serious forms of economics than his own centrism is, of course, all to the good, and will hopefully instruct the student that there is more to economics than one man's (or even the majority's) crotchets.

Much needs to be done, for we still learn of critical points of view not as integral to the body of economics, but as just a few more indigestible pieces to add to our ever more impossible stew. Take the way in which Samuelson handles the numerous and cogent critiques of the validity of the GNP as any sort of welfare criterion. GNP and its allied concepts have been central to Samuelson's brand of Keynesian economics since the inception of his text in 1948. After nearly four decades of deadly criticism from both Right and Left, Samuelson is compelled to do something to acknowledge and even incorporate these criticisms. Instead of gaining some much-needed humility, and acknowledging the GNP and allied concepts are flawed to the very core (as he would do, for example, if he took to heart the lessons of Alex Rubner and Oskar Morgenstern), Samuelson simply and aggressively keeps GNP and tacks on one more flawed and unmeasurable concept, "net economic welfare," taken from Nordhaus and Tobin. Instead of discarding or at least downgrading GNP, Samuelson thus simply adds an NFW which tries vainly, for example, to measure such unmeasurable concepts as leisure and the "disamenities" of life (pp. 195–97).[2]

In his new discussion of "sex discrimination" in the labor market, Samuelson does even more poorly, for he naïvely and uncritically accepts the simplistic charges of the women's lib movement that the lower earnings of women merely reflect discrimination and "exploitation" by employers. At some points, Samuelson's rhetoric is scarcely less hysterical than that of the embattled feminists: "Who is exploited? Women, of course. Who is the exploiter? In a sense, men, who are climbing, so to speak, on the shoulders of the downtrodden women" (p. 798). There is no consideration by Samuelson of the alternative possibility that female marginal productivity is lower than that of men. If that were not the case, then employers could reap extra profits by hiring only women at the lower wage rates. Why do they not do so? Nor does Samuelson mention the important empirical findings of Victor Fuchs that the earnings of women in self-employed occupations are relatively far lower, compared to men, than in employee occupations, which cuts directly against the idea of employer discrimination against females.[3]

In his attempt to give more weight to the views of the free-market economists to his right, Samuelson falls into the egregious error of including Friedrich A. Hayek among "Chicago school libertarians" and then compounds and reverses the error by including Frank Knight in the "Austrian school" (a term he leaves unexplained). Clearly, if Samuelson had granted to the libertarians a fraction of the care he has given to distinguishing between various brands and offshoots of Marxism, he would have taken the time to distinguish between these two very different variants of free-market economics.

In other areas, Samuelson's ninth edition merely repeats the errors and fallacies of the eighth. Thus, on his final page, he tries to refute Hayek's brilliant and complex analysis and warning in *The Road to Serfdom* by simplifying it beyond recognition and then dismissing it in a totally spurious "regression" diagram between "economic freedom" and "political freedom." Apart from the absurdity of this sort of regression, and the impossibility of "measuring" such freedoms, what can one think of a regression diagram that grants Hitler's Third Reich virtually the same degree of economic freedom as the United States in 1973? Does Samuelson know that the Third Reich was a collectivized and planned economy? One wonders, too, why the Communist countries rate no inclusion in this diagram at all. Perhaps a glimmering of doubt has invaded the small world in which Samuelson can call for ever bigger government in the economic sphere while expecting to retain full civil liberties. For he has omitted from the current edition (p. 885) the eighth edition's note to the freedom-regression diagram (p. 834): "Since the 1953 witchhunting days of Senator Joseph McCarthy, political freedoms of American citizens have improved despite increased economic role of government." Perhaps Professor Samuelson had a prophetic inkling of the soon-to-be-revealed horrors of the Watergate!

Another unfortunate repetition of error is Samuelson's failure to devote more attention to the business cycle and theories explaining this phenomenon. Now that the business cycle has been shown to be still with us, we can no longer settle for the glib Keynesian assurance that the cycle is a thing of the past, abolished by fiscal policy, even if we add on Friedmanian monetarism as an extra tool in the planners' arsenal. Hence the inadequacy of the brief and misleading footnote taken from previous editions which sums up the various cycle theories. 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.)" (p. 256n). 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.[4]

Moreover, and still without presenting any evidence, Samuelson repeats the myth of ever-widening income differentials between the advanced and the underdeveloped countries. There is no hint of recognition by Samuelson of the subtle and sophisticated work that Peter T. Bauer has done over many years in demonstrating the mythology of this much-repeated assertion.[5]

Finally, Samuelson's eagerness to include every new development in the profession or in the economy has unaccountably overlooked what is perhaps the most important development in the economics profession in the past decade: the Coase-Demsetz analysis of the importance of property rights and of transaction costs and their use of property-rights concepts to analyze all the various problems of external economies and costs. The fact that there is not a single mention of transaction costs or of property-rights analysis in Samuelson demonstrates that perhaps our chef, of the economic mulligan stew has a blind eye to developments that occur among his free-market colleagues.

Samuelson's ninth, in short, is a considerable improvement over previous editions. There is at least an attempt, however feeble, to pay attention to different points of views in economics. But Samuelson has a long way to go, and not only in including important theoretic concepts and new empirical research. In what future edition will he rethink the central idea of the swollen and elephantine grab-bag textbook, ever adding bits and pieces of data and technique, and never discarding or concentrating on the fundamentals of economic analysis? And in what future edition will he seriously call into question, not such fashionable "relevant" worries as the "quality of life" or ecology or alienation-and-the-early Marx, but the very heart of contemporary economics: static equilibrium and the Keynesian model? When indeed?

Notes

[1] Armen A. Alchian and William R. Allen, *University Economics,* 3rd ed. (Belmont, Calif.: Wadsworth Publishing, 1972).

[2] The Nordhaus-Tobin discussion is in William Nordhaus and James Tobin, "Is Growth Obsolete?' *Fifteeth Anniversary Colloquium V* (New York: National Bureau of Economic Research—Columbia University Press, 1972). Rubner's critique of GNP is in Alex Rubner, *Three Sacred Cows of Economics* (New York: Barnes and Noble, 1970), pt 1. Also see Oskar Morgenstern, *On the Accuracy of Economic Observations,* 2nd rev. ed. (Princeton, N.J.: Princeton University Press, 1963).

[3] Victor R. Fuchs, "Difference in Hourly Earnings Between Men and Women," *Monthly LaborReview* (May 1971): 9-15. For an introductory textbook which *does* incorporate these finds, see Roger Leroy Miller, *Economics* (San Francisco: Canfield Press, 1973).

[4] We might mention here the *bizarrerie* of Samuelson's including in his ninth edition a discussion of the highly advanced and sophisticated "reswitching" theory of capital in an elementary textbook (pp. 615–16). Apparently, the inclusion of an alleged refutation of orthodox Austrian capital theory was too much of a temptation as a stick with which to beat free-market economics for Samuelson to resist.

[5] Thus, see Peter T. Bauer, *Dissent on Development: Studies and Debates in Development Economics* (Cambridge, Mass.: Harvard University Press, 1972). pp. 49–68.