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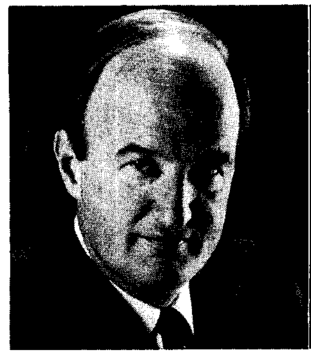

Samuelson's Last Hurrah

"Ours is the 'ruthless economy.'"
—PAUL A. SAMUELSON,
"Valediction," *Economics* (1998)

Paul A. Samuelson, the MIT professor and Nobel laureate who introduced Keynesian economics to millions, has just published the 50th anniversary edition of *Economics* (Irwin/McGraw-Hill, 1998, 16th edition). It is the most popular textbook of any kind ever written: it has sold over 4 million copies and has been translated into 46 languages. The new edition may be his last.

Back to the Future: From Keynes to Adam Smith

As readers of *The Freeman* know, this column has documented the dramatic changes in Samuelson's thinking over the past few years.[1] Along with the rest of the economics mainstream, he has shifted gradually from standard Keynesian analysis to the Classical model of Adam Smith. In the new edition, Samuelson replaces the old anti-saving doctrine known as the "paradox of thrift" with a major section bemoaning the low saving rate in the United States. Deficit spending, a perennial policy recommendation in earlier editions, is now anathema. Today monetary policy dominates fiscal policy. "The growing orientation toward the market," writes Samuelson, "has accompanied widespread desire for smaller government, less regulation, and lower taxes" (p. 735).

The 16th edition is remarkable in many ways. Samuelson and his coauthor, Yale professor William D. Nordhaus, cite free-market economists Gary Becker and Julian Simon. They include a major biographical sketch of Joseph A. Schumpeter, an Austrian-born economist who later became one of Samuelson's valued professors at Harvard. (Schumpeter is best known for his emphasis of the role of the entrepreneur, criticism of the welfare state, and defense of big business.) And Samuelson finally admits that lighthouses were originally privately owned in Great Britain, after long maintaining that they were public goods that the free market could not provide.

Not Enough Friedman

However, his conversion to Classical free-market economics has often been grudging and incomplete. Take his treatment of Milton Friedman, the most influential free-market economist of the twentieth century. While Samuelson's new edition contains biographies of Adam Smith, John Maynard Keynes, Karl

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Marx, and even his colleague Robert Solow, there's none on Milton Friedman. Friedman cannot be ignored, of course, and he is cited briefly for his contributions to monetarism, the Phillips Curve debate, the natural rate of unemployment hypothesis, and the negative income tax. But nowhere does Samuelson credit him for his most important contribution, for which he won the Nobel Prize: his monumental work (coauthored with Anna J. Schwartz), *A Monetary History of the United States, 1867–1960* (Princeton University Press, 1963). In particular, Friedman demonstrated that government (the Federal Reserve), not free enterprise, caused the Great Depression by permitting the money supply to decline by one-third from 1929 to 1933.

Why did Samuelson deliberately omit Friedman's vital contribution? Because the old Keynesian cannot break with his mentor, Keynes, whom he proclaims as "this century's greatest economist" (p. 734). Samuelson still clings to the old-fashioned Keynesian view that blames the Great Depression on unbridled laissez-faire capitalism. His newest edition gives only the Keynesian interpretation of the 1930s. In his introductory remarks, "A Golden Birthday," he asserts: "The Great Depression of 1929–1935 had finally been licked by forceful programs that threw out the window the old orthodoxies of do-nothing monetary and fiscal policies" (p. xxiv). I'd hardly call tight-money deflation of the Fed, massive tax increases, and Smoot-Hawley tariffs as "do-nothing" policies!

Friedman and other economic historians have demonstrated quite powerfully that inane government policies, not the free workings of the marketplace, are the cause of the debacle of the 1930s.

Classical vs. Keynesian Models: Which Comes First?

Samuelson and Nordhaus have also kept the Keynesian model first and foremost ahead of the Classical model. The Keynesian short-term model of business cycles (aggregate supply and demand or AS-AD) is introduced in Part 5 of *Economics,* and the Classical long-term model of economic growth is in Part 6. I have pointed out that long-term growth is more important than short-term business cycles (see *The Freeman*, August 1997), but Samuelson and Nordhaus are determined to stick with this traditional approach. Gregory Mankiw's new popular textbook, *Economics* (Dryden Press, 1997) does just the opposite—it puts the Classical model first as the "general" theory, and the Keynesian model last as the "special" case. By making this counter-revolutionary change, Mankiw, who considers himself a New Keynesian, has essentially betrayed Keynes.[2] But Samuelson and Nordhaus refuse to do so.

Samuelson ends his 50th anniversary edition on a sour note. He senses that his view of economics has gradually lost out to the new dynamic forces of the global marketplace. He lashes out at the "ruthless" economy characterized by the "relentless pursuit of profits." He complains of the "growing" inequality of incomes and the "harsh" competitive environment where "old-fashioned loyalty to firm or community counts for little." I guess he's never read David Packard's *The HP Way* or noticed the growing number of firms offering profit-sharing and 401(k) plans. He admits there's a "silver lining behind this ruthlessness"—millions of new jobs in the dynamic U.S. economy versus rising unemployment in welfare-statist Europe. But does this new competitiveness generate "good jobs, adequate income, and a safe environment"? He doubts it.

Throughout his career, Samuelson has always praised the glories of the "mixed economy," free-market capitalism with a heavy dose of government interventionism. Now he must be content with what he unenthusiastically labels the "*limited* mixed economy." □

1. See my columns in *The Freeman*, March 1994; October 1995; February 1996; September 1997. See also my article, "The Perseverance of Paul Samuelson's *Economics,*" *The Journal of Economic Perspectives* (Spring 1997).

2. See my article, "Keynesianism Defeated," *Wall Street Journal*, editorial page, October 9, 1997.

BOOKS

Halfway to Anywhere:
Achieving America's Destiny in Space

by G. Harry Stine

M. Evans and Company, Inc. • 1996 • 304 pages • $21.95

Reviewed by Raymond J. Keating

Not all that long ago, if someone mentioned NASA to me, my guilty conscience would scream "Warning, warning, warning," like that robot from the old television show "Lost in Space." You see, when it came to the space program, I kept a scurrilous secret.

As a free-market economist, I naturally have argued for the elimination of a wide range of government measures, from capital gains taxes to welfare programs. As a classical Lutheran, I also possess some understanding that we can all succumb on occasion to the sinfulness of human nature. In fact, the Lutheran in me recognized that the weaknesses of human nature had crept into one tiny area of my economics. My dirty little secret was hidden support for a government space program. I actually liked NASA—that big pork project to the stars. I had given up on my free-market, limited-government philosophy when it came to NASA. Fortunately, I finally repented of my sin, came back to my principles, and gave up on NASA.

In speaking with, reading, and listening to various individuals in the free-market community over the years, I detected that I was not the only one facing this dilemma. For those still suffering from this government space-program affliction, I heartily recommend G. Harry Stine's *Halfway to Anywhere: Achieving America's Destiny in Space*. It offers redemption.

Much of the first two parts of *Halfway to Anywhere*—covering 20 chapters and 200 pages—reads as a fairly straightforward look at recent developments in spaceships and related public policy. Unfortunately, the author even seems to lend a little credence to the misguided notion that government military and space ventures can spur private-sector opportunities. (It actually works the other way around.) However, sprinkled among these early pages, the reader finds a few strands of hope.

For example, although Stine has been involved with analyzing, writing about, and consulting on the space program over the years, he reveals a sound skepticism about NASA. He derides NASA as "a huge nationalized jobs program," and "a high-tech jobs program." Regarding the space shuttle, he writes: "The government owned it. The government operated it. It was historically equivalent to the initial attempts of the United States Post Office to fly the airmail in 1919. Within a year, the Post Office had lost 31 of its 40 pilots."

Most important, he sets straight the mistaken notion that government funding is essential for there to be a space program. Since 1960, NASA and the major aerospace companies have perpetuated the idea that "space travel is so difficult, dangerous, and expensive that only the government can afford it." Stine counters: "Actually, space access was difficult, dangerous, and expensive *because* it was a government monopoly."

The author goes on to mention a few entrepreneurs looking to capitalize in space using private investor dollars rather than tax dollars. Strikingly, he notes that as of 1995, 15 telecommunications companies had plans to launch at least 1,385 satellites before 2005. The author observes that such opportunities have "not gone unnoticed by numerous private firms," with practically all entrepreneurial firms shying away from government funding and support. Stine writes, "If those new companies wanted anything at all from the government, it was for the government to get out of the way." This is the critical message that dominates the final 75 pages of *Halfway to Anywhere* and makes the book well worth reading.

Stine projects dramatically lower costs and considerable profit opportunities for private firms looking to launch what are known as single-stage-to-orbit (SSTO) vehicles, especially compared with bloated, visionless