

## Paper #3 - Revised Version

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A review of the 1948  
1st. edition version of:

### Economics: An Introductory Analysis

by Paul Anthony Samuelson

#### **Macroeconomics as a Problem in the History of Economics**

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## Opening Statement

In 1945, the head of the MIT economics department asked Paul Samuelson to “lighten teaching duties for a semester or two and write a textbook that will be both interesting and accurate.” He wanted it for the 800 MIT engineering students who were required to take economics, but hated it. Samuelson worked from 1945 to 1948, and then published the first edition of his classic Economics. To my great good fortune, McGraw-Hill recently re-released that original 1948 edition “in which every word, idea, phrase, even the typestyle remains unchanged from the original.”

## Argument, Context and Keynesian Elements

Economics is divided into three parts. The first is fundamentally an introduction and definition of terms. The second is the heart of Samuelson’s (Keynesian) argument, the analysis of national income and its fluctuations. The third is a return to fundamental economic concepts such as supply and demand, and value and distribution theory, etc.

Early in Chapter 26, Samuelson makes an off-hand statement that might be considered the cornerstone of Economics:

*“After World War II, the outlook is radically changed.”  
(Samuelson 1948, p. 584)*

That understatement provides the context not only for the ideas in this book, but also the context of the audience that read it for the first time. In 1948, the great depression and the wars were over. The economy was (at least temporarily) on solid ground. Aggressive fiscal and monetary policies were the norm during the previous fifteen depression/war torn years. England, France, Scandinavia, Italy and eastern Europe were under socialist governments. Russia threatened all of Europe with her sinister, non-free, non-democratic Communism. Samuelson seemed painfully aware that if the U.S. economy was allowed to lapse into yet another lingering depression, the consequences could be profoundly more grim than they were in the 30’s.

In addition to all this, technological and logistical evolution had carried with it an increase in the quality of data available regarding the minute details of economic statistics and measurement.

*“Only in the last decade or so have we had any adequate statistical data on these important concepts; (national income and net national product).”  
(Samuelson 1948, p. 225)*

In this historical context then, Samuelson presents his carefully constructed, pro-Keynes, pro-fiscal policy arguments. His style in doing so is at times overt and strong, and at other times, his craftsmanship so gentle and subtle that his arguments fade to near imperceptibility.

Literally from the opening page, Samuelson jars his audience into agreeing that *full-employment* is the primary objective:

*“When, and if, the next great depression comes along, any one of us may be completely unemployed - without income or prospects.”*  
(Samuelson 1948, p. 3)

He methodically explains the concepts of economic and financial life, gradually leading up to the introduction of “Lord Keynes” on the first page of Part II, with statements such as the following paraphrase of Jesus Christ:

*“There is a real possibility to be faced that it is as hard for wealthy nations to avoid unemployment without drastic action as it is for a camel to pass through the eye of a needle.”*  
(Samuelson 1948, p. 17)

He also persuades with a more subtle approach. While illustrating how three people might argue about economics without realizing they are actually in agreement, he writes:

*“Jones may call Robinson a liar for holding that the cause of depression is oversaving, saying “Underconsumption is really the cause.” Schwartz may enter the argument with the assertion, “You are both wrong. the real trouble is underinvestment...”*  
(Samuelson 1948, pp. 6-7)

Surely it is not a coincidence that these seemingly random examples are in fact a rather concise synopsis of Keynesian analysis.

In part II, Samuelson carefully explains consumption and savings as a function of the income of individuals, while showing that investment is a function of net capital formation for and by business enterprise. He shows the relationship between national income and investment and savings with his famous cross diagram. He outlines the impact of private investment into the economy, and provides a thorough explanation of how and why the *multiplier* affects the national income level in both directions - up when investments are increased, and down when they are decreased:

*“The multiplier is a two-edged sword. It will cut for you or against you. It will amplify new investment as we have seen. But it will also amplify downward any decrease in investment.”*  
(Samuelson 1948, p. 272)

He provides analysis of the paradox of thrift and why under depression conditions, thrift, while considered an individual virtue, becomes a social vice:

*“What is true for the individual -- that extra thriftiness means increased saving and wealth -- may become completely untrue for the community as a whole.”*  
(Samuelson 1948, p. 271)

Samuelson powerfully builds his case for the Keynesian analysis of *national income, consumption, savings and investment* in a smooth and straightforward manner. Ever so methodically he builds it, and then, suddenly, in an instant so brief that it might have been missed by even the most minor distraction, he flashes a single diagram that shows the effects of government expenditure on income determination and writes a scant few sentences of explanation, and then changes the subject to taxes. It is as if he wanted to draw the argument all the way to the logical conclusion, and not dwell there an instant longer.

The subject of government (public) investment is not really emphasized again until Chapter 18: *Short-Run and Long-Run Fiscal Policy*. In the following quote Samuelson reveals a possible motive for backing away from his conclusion so quickly, and it foreshadows an awareness of what was to come regarding his carefully constructed argument:

*“By a positive fiscal policy, we mean the process of shaping public taxation and public expenditure so as (1) to help dampen down the swings of the business cycle and (2) to contribute toward the maintenance of a progressive, high-employment economy free from excessive inflation or deflation.*

*The war years have shown fiscal policy to be a very powerful weapon. Indeed, some would argue that it is like the atomic bomb, too powerful a weapon to let men and governments play with; that it would be better if fiscal policy were never used. However, it is absolutely certain that, just as no nation will sit idly by and let smallpox decimate the population, so too in every country fiscal policy always comes into play whenever depressions gain headway. There is no choice then but to attempt to lead fiscal policy along economically sound rather than destructive channels. Every government always has a fiscal policy whether it realizes it or not. The real issue is whether this shall be a constructive one or an unconscious, stumbling one.”*  
(Samuelson 1948, p. 410)

## Closing Statement

The 1948 classic edition of Economics is the perfect ending to this macro economics class. It's a veritable treatise on national income, savings, investment, and other factors related to the "modern theory of income analysis" as developed by the "many-sided genius," Lord Keynes (as Samuelson calls him in this edition). At the outset of this class, I purchased a 1998, 16th edition of the Samuelson/Nordhaus Economics. I hoped it would renew my understanding of basic economic principles and methodology. Unfortunately, the magazine-slick, highly produced book does not resonate with the excitement and clarity that the simple, unpretentious first edition delivers.

On a practical level, the holiday schedule provided ample time to read the entire 608 pages of Samuelson's patient exposition. I was genuinely surprised at what a pleasure it was to read. I often found myself thoroughly engrossed in this fifty-year old economics text! It has an intrinsic, straightforward, understandable quality that exceeds any economics textbook I have ever encountered. The thirty-year-old Samuelson certainly seemed fresh and excited about the prospect of crafting his well-explained foundation of economic understanding. He carefully wove in the ideas and analytical conclusions that he had seen emerge in the preceding turbulent years. He carefully argued why those ideas must be employed to prevent another U.S. depression. Samuelson's audience was likely matured by a combination of the G.I. bill, survival of a great depression, and by the instant and irrevocable passage into adulthood that surely must accompany the horrors of a war. It is doubtful that a textbook written in Samuelson's 1948 style would even be attempted today, much less embraced.

I think it is for this reason that I found the book so remarkably good. It is written in the style of a grown man patiently explaining difficult concepts while sitting around a campfire with other grown men. He wrote at patient, long length, not only about economics, but about basic accounting principles, labor issues and law (with case history explanations that were captivating). He wrote about central banking practices, about monetary and fiscal policies and about the various "ism's" (Socialism, Communism, and Fascism) that in 1948 cast an increasingly menacing shadow across the lone democratic, free, capitalist stronghold of the U.S. economy.

I once read a book by Mortimer J. Adler entitled How to Read a Book. Adler suggested that the highest honor a reader can pay to an author is to devour their book. To challenge the table of contents. To argue out loud about where the author is going and why. To ravage the pages, and when complete, to leave the book dog-eared and scarred, with the spine cracked and the pages marked with vigorous commentary.

In that sense, I have indeed extended the greatest honor to Paul A. Samuelson and his 1948 Economics, and I had fun along the way.

## Reference List

Samuelson, Paul A., Economics, York, PA: The Maple Press Company, 1948