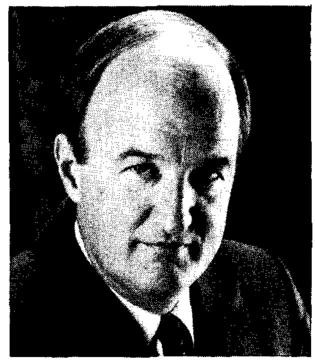
by Mark Skousen



Econ 101: Do We Really Need Another Samuelson?

"Every economics editor in the business has been looking for the new Samuelson since the 1970s."

—*The New York Times*, March 14, 1995

The economics profession is all abuzz with the news, recently announced in *The New York Times,* that N. Gregory Mankiw, a 37-year-old economics professor at Harvard, was paid an incredible $1.4 million advance by Harcourt Brace to write the next "Samuelson" textbook.

What Harcourt Brace is hoping for is a blockbuster textbook that will shape the thinking of the 1.5 million college students who take Economics 101 each year. Paul Samuelson, the Nobel Prize-winning MIT economist, set the standard when his new Keynesian-style textbook took colleges by storm following World War II. Since its first edition in 1948, Samuelson's *Economics* has sold over 4 million copies and been translated into an estimated 41 languages. But Samuelson is 80 years old and his textbook, now in its 15th edition, is no longer considered *avant garde.*

Can the youthful Professor Mankiw fill his shoes? Frankly, I doubt it. Anyone who named his dog Keynes is not likely to write a breakthrough textbook reflecting the new realities of a market-driven global economy. The next breakthrough textbook must be post-Keynesian, if not anti-Keynesian, in tone.

A Short Review of Samuelson's Textbook

But do we really want another Samuelson textbook? I think not. His textbook may have been a bestseller, but it fails miserably on a number of counts to teach sound economics. As part of an independent study at Rollins College, one of my students and I systematically reviewed all 15 editions of *Economics* and found numerous errors of commission and omission.

Among the sins of commission, Samuelson stressed time and again that the key to economic stability and growth was to encourage big government and a high propensity to consume. Saving, he said, was only beneficial at times of full employment. But full employment was historically exceptional, which meant that most of time saving was "perverse" because it caused money to "leak" out of the system. According to Samuelson's "paradox of thrift," higher savings means lower economic growth, a conclusion that flies in the face of all historical evidence.[1]

In introducing the Keynesian "balanced-budget multiplier," Samuelson argued that federal spending was more stimulative than a tax cut of equal size (because part of a tax cut would be saved).

He accepted at face value Soviet growth statistics, declaring in his 12th edition (1985)

Dr. Skousen is an economist at Rollins College and editor of Forecasts & Strategies, *an investment newsletter.*

that the Soviet economy since 1928 "has outpaced the long-term growth of the major market economies," including the U.S., the U.K., Germany, and Japan. In his 13th edition, written a year before the collapse of the Berlin Wall, he boldly declared, "The Soviet economy is proof that, contrary to what many skeptics had earlier believed, the socialist command economy can function and even thrive." Not surprisingly, the word "thrive" was dropped from the next edition.

In my reading of his textbooks, I found that Samuelson failed repeatedly to anticipate the major economic problems and issues of the future: he failed to foresee the inflationary recessions of the 1970s, the banking crisis of the 1980s, and the collapse of socialist central planning in the 1990s. In addition, he has been an unwavering apologist for the Welfare State, the Federal Reserve and the current Social Security system, a grossly expensive and inefficient way to finance old-age retirement.

Sins of Omission

One of the great tragedies of Samuelson's textbook is his failure to include adequate references to the free-market schools of economics. In his Family Tree of Economics, no mention is made of the Chicago school of Friedman, Stigler, Knight, or Simons until 1985. In earlier editions, Samuelson discusses the Quantity Theory of Money but omits any references to Irving Fisher, the father of the Quantity Theory, or to Milton Friedman. One of his first citations of Friedman is a misquote ("We are all Keynesians now"). The Austrian school of Mises, Hayek, and Rothbard is never mentioned at all in the Family Tree of Economics. Schumpeter, his own teacher at Harvard, is given only a cursory reference.

Samuelson devotes one paragraph to the post-war German economic recovery. He says virtually nothing about the Japanese economic miracle, or the incredible growth of Hong Kong, Singapore, Korea, and Taiwan (the four tigers). No mention is made of the Chile Model, which more and more Latin American nations are emulating. There's no discussion of the exciting new worldwide trend of privatization (or Chile's successful privatization of its Social Security system). Meanwhile, Samuelson has always devoted numerous pages to the failed socialist economics of the Soviet Union and China.

I could go on and on, but you get the point. The economics profession desperately needs a new textbook in economics, but not one that simply imitates and emulates Samuelson.

Desperately Seeking a New Textbook

Slowly but surely, free market economists are making headway in the textbook field. College textbooks with a free-market bent have been written by Gwartney and Stroup, Dolan and Lindsey, and Roger Leroy Miller, among others. Unfortunately, they all suffer from unsound macro sections. For example, these authors don't believe in aggregate supply and demand (AS-AD), but they are forced to include them. Paul Heyne's *Economic Way of Thinking* (Macmillan, 1994) omits AS-AD diagrams in its 7th edition, but it is considered primarily a micro text.

In short, there is no real sensible college textbook on the market today offering a sound theory of macroeconomics. I am attempting to fill this gap with my forthcoming textbook, *Economic Logic*. This is a revolutionary new approach to teaching economics, integrating the concepts of business, finance, and economics in both micro and macro. So far I've written six chapters, and hope to finish the first draft this year. Several major publishers are interested, but they need evidence that other professors will adopt it. I will send a copy of the manuscript to any college professor who would be willing to make comments to improve the contents. Send your inquiry to me at P.O. Box 2488, Winter Park, Florida 32790. □

1. For a critique of Samuelson's infamous "paradox of thrift," see my work, *The Structure of Production* (New York University Press, 1990), pp. 244–59, and *Economics on Trial* (Irwin, 1991), pp. 47–62. Also, James C. W. Ahiakpor, "A Paradox of Thrift or Keynes's Misrepresentation of Saving in the Classical Theory of Growth?", *Southern Economic Journal*, July, 1995.

BOOKS

Free to Try

Introduction by Hans F. Sennholz

The Foundation for Economic Education, Inc. • 1995 • 156 pages • $14.95 paperback (special price until October 31: $11.95)

Reviewed by William H. Peterson

Where else in America but in law-passing, tax-imposing, and regulation-issuing Washington, D.C., is private success so roundly condemned? And where else is it so punished, especially when it involves entrepreneurship and "the rich"?

(A measure of U.S. "capital" punishment is seen in the climb of the top income tax rate from 28 percent in 1987 to 39.6 percent today. Said President Clinton in his 1994 State of the Union Address: "Only the top 1—yes, listen—only the top 1.2 percent of Americans, as I said all along, will face higher income tax rates.")

I ask: Where? But perhaps the sharper question is: Why?

Back in 1966 German sociologist Helmut Schoeck gave one answer to why in his pathfinding book, *Envy*. Envy is a major force shaping—really distorting—man and society, history and politics, says Schoeck. He finds it rearing its ugly head from Greek democracy 2,500 years ago to Western democracy today.

How good then to get this FEE collection of essays from *The Freeman* glorifying future-oriented entrepreneurship, justifying the rich, and excoriating the politics of envy.

Such politics can be seen in the progressive income tax—a tax called for, by the way, in Marx's 1848 *Communist Manifesto* as a means of undermining capitalism. It can be seen again in the current opposition to a flat tax or a cut in the entrepreneur-strapping capital gains tax—a cut which opponents unjustly and counterproductively brand a "handout" to the rich. (A handout to the nonrich, including the poor, is closer to the mark.)

Indeed, entrepreneurship along with capital investment is the secret of American prosperity. More often than not, the rich gain their wealth through entrepreneurship. In a brief but pungent essay here, Ludwig von Mises portrays the entrepreneur as indispensable to a free society, as one who enriches that society, as the driving force behind the whole market system, as a kind of an unsung hero who in a sense shares his wealth with society through what Mises called "social liability," his recognition that investments have to be monitored scrupulously, that they can and do fail.

In his introduction to this volume, FEE's Hans Sennholz hails futurists and visionaries like John D. Rockefeller, J. P. Morgan, and Henry Ford. These giants bequeathed capital investment, industrial might, and labor productivity to succeeding generations of Americans.

The rub is that Americans are largely ignorant of this bequest, are apt to snap at "robber barons," and vote anticapitalists into office. A deadly business. Cautions Dr. Sennholz in punchy terms: "The future is purchased today. We have a number of choices. But all sales are final."

In a refreshing essay, contributor Jane Shaw of the PERC research center in Bozeman, Montana thanks the entrepreneurship behind Bozeman eateries for gastronomic delights. She calls attention to George Gilder's idea that entrepreneurs are "givers"—altruistic people who give first and get rewards later, *if* profits kick in.

Contributor Israel Kirzner of New York University says the glory of free enterprise lies in its ability to attract vigorous and imaginative individuals who establish long-run capital-conserving *profitable* firms—profitable to themselves and, of at least equal importance, profitable to their customers, i.e., to the American consumer.

Wal-Mart is such a firm and its founder Sam Walton was such an entrepreneur, notes David Laband of Auburn University's economics department in his contribution. Dr. Laband sees Wal-Mart giving significant benefits to its customers and a hard time to its big competitors such as Sears and K-Mart and to its local, small competitors such as independent drug and hardware stores.

But that competition is anything but "unfair," as charged by many of Wal-Mart's rivals. As he writes: "It is true that Wal-Mart's competitors lost business. However, let's get the cause and the effect straight: Wal-Mart never put anybody out of business, *American consumers* (his emphasis) did."

Chinese consumers in Beijing's big 500-seat, fast-food Kentucky Fried Chicken restaurant also exercise quite a degree of sovereignty, observes contributor Lawrence Reed of Michigan's Mackinac Center. But that sovereignty and Kentucky Fried Chicken's entrepreneurship are