- Welcome once again, as MIT professor, Paul Samuelson, discusses the current economic scene. This series is produced by Instructional Dynamics Incorporated. Professor Samuelson, I understand from a recent article in the New York Times that mainstream economics is coming under attack. What is your opinion?

- My first reaction is: what else is new? I presume that you're referring to a recent Sunday magazine section article by an able young economist, David Gordon, of the New School for Social Research. Professor Gordon is analyzing what we've been analyzing on these tapes. The present situation with respect to what he calls capitalism and what I usually refer to as the mixed economy. I think this would be a good time to devote some thoughtful attention to his analysis and to the analysis of other people, because as he says, there are about 2500 members of the economics profession who called themselves radical economists and who are members of the union for radical political economy. URPEs, so called, which publishes a journal periodically. This is especially a good time because we're in a period of waiting. We're not waiting for lefty. We're not waiting for Gadeau. We are waiting for the turn. Perhaps it's happened already and we won't know it for a little while. However, Alan Greenspan who has no motive, one would suppose, for being pessimistic, recently spoke before the Institutional Investors Conference and said that the turn had not yet come, but, that, with considerable likelihood, it would be here by mid-year. Well, a word, then about the Gordon analysis. First, I might mention, for whatever elements it would have, that Professor David Gordon comes from a distinguished family of economists. His father is the President of the American Economic Association right now, I believe, Robert A. Gordon. And his mother, who was Margaret Shaughnessy and who married Robert Gordon, has been a respected writer in the field of Labor Relations. I suppose it's only because of the old rule that used to prevail at campuses of state universities like that of the University of California, Berkeley against nepotism so that two persons who are married could not both have tenure in the same department. It's only because of that archaic rule that Margaret Shaughnessy was not, herself, a professor in the Berkeley Department of Economics. She was, however, for many years, the Associate Head of their Labor Relations section. In addition, Professor Gordon has an older brother, Professor Robert J. Gordon, who, although he was not quoted in the magazine article, is a respected authority on the problems that David Gordon was addressing himself to. Namely the present malaise of capitalism or the mixed economy. And, in particular, the stagflation aspect of that problem. Those of you who have been reading, as I recommend you do, the Brookings papers which come out quarterly, will realize that some of the most valuable analysis of the post-Phillips Curve discussions have been the statistical and theoretical analysis by Robert J. Gordon. Robert J. Gordon was a Harvard Undergraduate trained at Oxford. He was a Marshall Scholar. Ph.D from MIT. He spent a sojourn at the University of Chicago and is now a professor at Northwestern University. David Gordon was also a Harvard Undergraduate and, I believe, has his Ph.D. from Harvard University and was connected, I think, with the urban center there. So, this may well be the wave of the future if within this family of mainstream economists, who, I think on the whole, would have been regarded by their colleagues as on the Liberal side. Robert A. Gordon was, for a long time, identified with the Berkeley Cooperative. Very prosperous and large supermarket operation. He was connected with the Americans for Democratic Action and has impeccable credentials as a typical economist of our epoch and like that typical chap, he is, perhaps, more closely to be identified with the majority democratic party than with the Republican Party. What David Gordon does is to analyze the present recession in terms of it's larger significance. And I think it's fair to say that a reader will infer from his analysis that the system is now in crisis and although he does not commit himself to flatfoot predictions, from the tone of the rhetoric, I would have to judge that the author believes that we will not have a near term upturn in the economy. He does not believe that we are on our way back to full employment as, certainty, he would define it. And he does not believe that we are back to full employment with stable prices. He believes that the root of our problem is the production for profit of the capitalistic system and that such a system must breed the kinds of problems which we are now going through. He is not rash enough or brave enough or loose enough to say that we are in the final death rows of the system, but he gives his reason for belief that we must move toward planning and he refers to the informal committee that was set up by Professor Wassily Leontief, Harvard's retiring originator of the input-output inter-industry flow. Robert Rosa of Brown Brothers Harriman and John Kenneth Galbraith and a number of economists who would be, perhaps, a bit to the left of the center of the economists who generally advise the Democratic Party. He thinks that such planning, I guess that is David Gordon thinks, is inevitable. I suppose he thinks it is desirable. One has to read between the lines, but he doesn't think that it's good enough and he doesn't think that the system, which is based upon profit, can survive and function effectively even with the kind of planning which the Leontiefs, Galbraiths, and Rosas would like to add to our present apparatus in the mixed economy. Now, many of the things that I've just reviewed and have attributed to the belief of David Gordon would also be the belief of almost any economist that you could name almost anywhere in the spectrum. Let's take me, for example. I am of the view that we are not able, in our modern mixed economy, to have full employment and price stability. I think there is a problem. When David Gordon says, "The real problem is that a recession or a depression must be contrived by the capitalist interests to keep the workers from being uppity, to keep the workers from being unproductive, to keep the workers from asking for higher money wages, then the system can pay at preexisting prices." When he says those things, a conservative economist, not a member in good standing of URPE might also say the same thing. He might put it differently in terms of the editorializing and the between-the-lines normative commentary that goes along with the description of the facts, but economists of very a conservative stripe, indeed, have been arguing that we do have a problem of stagflation. That you do have a problem when the labor market is too tight of accelerating price inflation and such economists might say to David Gordon, "Well, welcome to the club. Now you, too, recognize this particular problem." Indeed I find it interesting, and it's worth commenting on as a matter of methodology, that two people of opposing political views can be describing the same phenomena, and in terms of the substance of that empirical process being described, they can be in complete agreement, and yet, it sounds completely different. I'll illustrate. I'll come back to the David Gordon argument in a moment. Recently I received from a friend at another institution a little article which he sent to me and said, "Since you're a contributing editor of Newsweek, I wonder if you would submit this under the category that Newsweek runs of My Turn. Newsweek, presumably, ought to be interested in representing my viewpoint," I'm quoting him, "which is the viewpoint of a radical economist." And I don't particularly mean to identify him since I can't go into the matter in detail in the fair way that's needed. Let me simply say that he is a person of reputation and, as a matter of fact, is one of the few radical economists who has tenure in this country. That'll practically identify him for sophisticated listeners. And I wrote back to him and said, "Well actually I'm a columnist for Newsweek. The title Contributing Editor is only honorific. I have no function or influence particularly in that regard, but I shall be glad to forward to the editors for whatever action they shall care to take your manuscript. And I shall tell them, as I tell you, that I'm forwarding this prior to having read the manuscript so there'd be no prejudice one way or the other. I'm neither sponsoring it nor am I being critical of it. So that was done. The article has never appeared, as far as I know. So, that's the last that I know about the matter, but perhaps it's in the long pipeline and one of these days I will see it under the My Turn category in Newsweek. After I had done my duty in this respect, I read the article and it was very interesting because I had read, just that same day, a very short extract from a speech or some writing of Friedrich Hayek. This appeared on the editorial page of the Wall Street Journal. It was just a short quotation in that column which they often run of short and notable quotations. Well, the Hayek quotation, in substance, was almost identical in it's analysis with the My Turn column by my radical friend. What did Hayek say? What Hayek said was that we are in a recession. The caged in thinking of our times will undoubtedly cause us to overact--overreact to that recession. We will come out of that recession temporarily, but only at the cost of reintroducing the inflation probably in accelerated form and then, the public, displeased with the new inflation, would insist upon having, or their legislators would insist upon putting on them, comprehensive wage and price controls. And then, civilization as we have known it, would be over. We would have lost our liberties. Doctor Hayek went on in rather eloquent, if pathetic vain, to say, however, this was not of consequence to him because in ten years he would be dead. Indeed, he hoped that he would be dead. I suppose that Professor Hayek is now 75 years of age. According to actuarial tables, in ten years time, he might well be dead, but it's rather sad that he finds the world so displeasing to a person of his philosophical temperament that, without regret, he leaves this veil of tears and governmental misdeeds. Well, what did my self entitled radical economist friend say? He said that the system could not go on the way it has been going on handling stagflation. That it would inevitably have to have price and wage controls. That it would inevitably have to have planning. That it would inevitably find itself, moved, I suppose, by inescapable forces of history and destiny towards a more Socialist solution. And, in his case, if I read him correctly, he regarded this as a great, good thing. It was the end of civilization, perhaps, as we had known it, but bad cess to that civilization, in his view. And, as a younger man, he looked forward, I'm sure, with pleasure and relish, to the period ten years from now, when the joint prophesy of Proessor Hayek and himself were realized. Well, my function here is to analyze and let me say what my reaction was to the Hayek piece, and then, by implication, it applies in a considerable degree to what my reaction would be to the My Turn column piece. First, it seemed to me, quite within the realms of possibility if not preponderant probability that the populous democracy in which we live would be impatient about the persistence of the high rates of unemployment which will persist at very high rates as I have reviewed on these tapes before. Even if the upturn comes this spring and even if it is quite vigorous and even if it precedes for several years with an election year coming up, it's quite likely that the populous democracy will be impatient. It is quite within the realm of possibility and probability that, as a result, the government will overdo things. Overdo things in its budgetary deficit and fiscal policies and overdo things with respect to monetary policy. So, it may well be that the abatement of inflation, which I've talked about, and which we can sense, will come to an end and there again will be a re-acceleration of inflation. I would not, myself, at this time, on the basis of my appraisal of the political forces I've been talking about, like to be on the side of the bet that we'll be back to 20% price inflation by, lets say, the end of 1976. I shouldn't say "back to it." We've never been there in recent years. Certainly not in peacetime years, normal peace time years. And, as you know, there are authorities who predict that. Perhaps professor Hayek himself had numbers like that in mind. Perhaps the My Turn columnist had numbers like that in mind if his preferred prescription of Galbraithian wage and price controls were not followed. I think that that's excessive in terms of what's likely. But that we should, sometime in 1976, be moving back into two digit price inflation or seem to be moving back, it seems to me, is quite possible with depreciable probability. Now will that result in our having a wage price freeze and price controls? I think that's a more difficult issue to appraise. But, let's, for the sake of the argument, go along with the view that just prior to the election, say, in order to keep the lid on, just during the election period we have one of those comprehensive wage price freezes that, experience tell us, worked pretty well in the short run. They certainly could make the period just before the election look dandy. The real economy would be growing, the employment opportunities would be improving even though the level of unemployment was still woefully high, and prices seem to be behaving themselves. Let's suppose all this happens. Is that the end of civilization? Well it's not the end of civilization as I have known it. It's not the end of civilization as a historian will record civilization has been in Western Europe, Japan, and similar affluent countries of the post-World War II period. On the contrary, this is part of the normal Brownian movement, you might say, of our times. And I wanna remind you that is precisely, in decades, puncuated by occasional episodes of the sort that we're describing that we have had the real GNP growth for the world and particularly for the industrial world. That goes beyond anything in recorded history, whether of pure capitalism, pre-captalism, or post-capitalism. The miracles of the 1950s, 1960s let's say in Western Germany and Japan, just to give examples, have not been miracles which were performed under the auspices of a Hayekian nineteenth century whig state economy set of relations. On the contrary, they have been what Schumpeter would have called capitalism in an oxygen tent. They have been, what some critics would call, paternalistic capitalism. They have been directed economies. They've economies as, for example in the case of Western Germany, where a very large fraction of the total GNP passes through the hands of government using the term "government" for all the different levels of German government. So, I would not, myself, Hamlet-like, wish to opt out of such a world. Moreover, I don't believe that the next time we go into wage price control will be the last irreversible coup representing the death of our liberties never to revive again. Because the history of our times has been history of episodic flirtations with wage and price controls which work well only in the short run and which the peoples and their governments tire of and dispose of after an interval. So, I would, myself, be willing to give heavy odds that if we went into such an episode of price wage control at the time of the next presidential election that long before the next presidential election. In fact, at even odds before the next congressional election we would dispose of that. Well, now, when I read an article by a critic of mainstream economics, I am looking for assistance. It's much more important for a person like myself to read the counter arguments of his opponents or critics than to read the arguments of his friends because he can fabricate for himself the arguments of his friends. He knows only too well how those arguments goes. If I could do a better job of explaining what's going to happen to the modern American system, call it what you wish, by getting help from the Devil I would welcome help from the Devil. I would hang by my heels, although I don't particularly relish that position if that would enable me to have a smaller squared error of prediction as to what's going to happen and what would happen under different policy prescriptions. Alas and alack when I read very carefully the David Gordon article from this point of view. When I removed from the souffle, you might say, the err of rhetoric which tells me something about how young David Gordon feels about the world and about the economy and shows me some contrast between, let's say, how young Robert J. Gordon would feel or how elder Robert A. Gordon would feel. Those are interesting to read about, but not really of very much help to me in my task of understanding the future of the American economy. When I remove that souffle, I did not find very much in the way of guidance. There was, for example, a few lines in which the author said that capitalists in this country cannot make extra profits on machinery because they are checked and balanced by other capitalists who can buy machinery. But where the capitalists can make their extra profits is on their hiring of labor. Now, I think that Doctor Gordon has somewhere read about the labor theory of value and I think that these cryptic lines are supposed to be an application to the real world of today of that labor theory of value. But, I was tempted to write to him and ask him, "in what sense, in what refutable or confirming sense can you specify a competitive model in which you make extra profit that one way and not the other way?" What is there, for example, in the writings of Piero Sraffa, who could never be called a neo-classical economist which would give comfort to that particular hypothesis? Well, I think the answer is, and I say this on reflection having thought about it a good deal and read about it a good deal that there really is nothing in that line of argument that is informative to somebody who wants to understand the real world. Mainstream economics is, quite obvious, is not good enough, but alas and alack, we must still wait in this period of waiting for useful, interesting innovational improvements upon what it is that we seem now to have.

- If you have any comments or questions for Professor Samuelson, address them to Instructional Dynamics Incorporated, four fifty (450) East Ohio Street, Chicago, Illinois, six oh six one one (60611).