

Samuelson, Paul. Economics
New York: McGraw-Hill (1976)

When the Harvard Business School was founded more than half a century ago, President A. Lawrence Lowell described business as “the oldest of the arts, the newest of the professions.” Almost the same words can be used to describe political economy: the oldest of the arts, the newest of the sciences—indeed the queen of the social sciences.

As a scholarly discipline, economics is just two centuries old. Adam Smith published his pathbreaking book *The Wealth of Nations* in 1776, a year notable also for the Declaration of Independence. And the nearness of timing is no coincidence: Political freedom from the tyranny of monarchy was closely related to emancipation of free-market pricing from the interfering hand of state regulation.

Adam Smith, of course, represented only a beginning. In more than a century and a half that elapsed from the appearance of *The Wealth of Nations* to the publication of John Maynard Keynes’ *The General Theory of Employment, Interest and Money* (1936), economics—or political economy, as it is more traditionally called—has gone through many stages of development. Almost at the halfway point, there appeared the massive critique of capitalism by Karl Marx: *Das Kapital* (1867, followed by two posthumous volumes). A billion people, some third of the world’s population, view *Das Kapital* as economic truth.

And yet, without the disciplined study of economic science, how can anyone form a reasoned opinion about the merits or lack of merits in the classical, traditional economics? Or about the achievements of the so-called “New Economics” that has evolved since 1929? Or about problems yet unsolved by mainstream economics?

FOR WHOM THE BELL TOLLS

Few study economics merely to judge the merits in the grand debates concerning historic capitalism, the modern mixed economy, or the collectivist economic systems of the East. We study economics to answer many, diverse questions. Here are some common ones.

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INTRODUCTION

The Age of Chivalry is gone; that of sophisters, economists, and calculators has succeeded.
EDMUND BURKE

Poverty, development, and affluence America is a prosperous nation. We have grown more prosperous over a long period, and our present affluence is an outgrowth from the lower standard of productivity prevailing in past generations. Look at the front flyleaf: Contrast the Western world's affluence with the poverty of India, whose growth curve barely shows on the chart; and note the success story of Japan in its bare century of contact with the modern world. All over the world, men have become preoccupied with economic development.

How can preindustrial economies, teeming with masses of people and poorly endowed with natural resources, break through the vicious circle of poverty and backwardness? How can policies be formulated and programs be promulgated that will speed the pace of *economic growth and development*?

In the affluent West, "Zero Population Growth" and "Zero Economic Growth" are new goals set by concerned people who are alarmed at the exhaustion of the globe's irreplaceable resources and at deterioration of environmental ecological balance.

How can a modern economy manage—if it should want to—to raise the *quality* of its economic life and forgo mere *quantitative* growth, and do so without bringing on itself a great depression with mass unemployment?

Undoubtedly, this new interest in development and humane growth has made economics an exciting and vital subject in the capitals of the world, and on Main Street as well as Wall Street.

Personal stake in economics An even more immediate reason for studying economics is that it deals with many of the matters that will most concern each one of us:

What kinds of jobs are available? What do they pay? How much in the way of goods will a dollar of wages buy now, and how much in a time of galloping inflation? What are the chances that a time will come when a trained man won't be able to get work? Are the black days of the depressed 1930s ever likely to return? Will automation and scientific discovery make man obsolete? How can one make a killing in the stock market? Or best run a business?

Economics is relevant to these diverse questions. But, as will be seen, they are not the prime target of an introductory course.

Economics for the citizen Beyond personal family matters, economics deals even more importantly with decisions each citizen must face. Here are a dozen vital problems:

Will the government tax me to help unemployed miners, or are there other things it can do to help mitigate the problem of unemployment?

Should I vote to build a new school and a road now, or vote to put this aside until business slackens and cement prices come down and jobs are needed? Should I vote to keep married women out of public employment, so there will be more jobs for men?

What about antitrust legislation that purports to fight monopolies?

If you are a humanitarian, deeply concerned to improve the lot of the poor, the disadvantaged, black, and the aged, will legislating a good, stiff, high minimum wage serve to help or hinder the good cause for which you fight?

Why not "fair-shares" rationing?

What consequences will follow if the federal budget is not balanced in every year? Is it true,

as Moscow no longer claims, that American prosperity is dependent on cold-war military expenditures? If "peace breaks out," are we in for a recession? Can the government wash its hands of the matter, knowing that we can rely on the spontaneous forces of private markets to convert the swords of war into the plowshares of peace?

Is old-fashioned poverty from niggardliness of nature extinct?

And what about "poverty midst plenty" as in the post-1929 Great Depression, when factories lay idle and people couldn't find jobs? Has this given way to the modern pockets of poverty in the ghetto and rural slums?

As Adam Smith said, security is even more important for a nation than opulence. Survival itself can depend on economics.

Can a modern nation afford expensive military expenditures (as, for example, in Vietnam or NATO)? Is it true, as ex-President Hoover once warned, that "inflation is worse than Stalin"?

WHAT ECONOMICS IS

Beginners often want a short definition of economics; and in response to this demand, there is no shortage of supply. Here are a few such definitions:

1. Economics, or political economy, is the study of those activities which, with or without money, involve exchange transactions among people.
2. Economics is the study of how people choose to use scarce or limited productive resources (land, labor, capital goods such as machinery, technical knowledge) to produce various commodities (such as wheat, beef, overcoats, yachts; concerts, roads, bombers) and distribute them to various members of society for their consumption.
3. Economics is the study of people in their ordinary business of life, earning and enjoying a living.
4. Economics is the study of how human beings go about the business of organizing its consumption and production activities.
5. Economics is the study of wealth.
6. Economics is the study of how to improve society.

The list is a good one. Yet a scholar can extend it many times over. It is always hard to compress into a few lines an exact description of a subject, one that will differentiate its boundaries from those of other disciplines and convey to the beginner all the things it is. Economics certainly does involve all the elements stressed in these various definitions—and all those implied in the larger list that could be compiled.

Economists today agree on a general definition something like the following:

Economics is the study of how people and society end up *choosing*, with or without the use of money, to employ *scarce* productive resources that could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various persons and groups in society. It analyzes the costs and benefits of improving patterns of resource allocation.

QUALITY OF ECONOMIC LIFE

An introduction can serve as a preview. Even before studying economics, everyone will have heard of the *Gross National Product*. This, as Chapter 10 will discuss, purports to measure the total of all goods and services produced each year in a nation. Although