Funding the Future

Economic questions: the Paul Samuelson question

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This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of political economy might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The origin of this series is noted here.

After the first two posts in this series, the topics have been chosen by me, and this is one of those. This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

Why have I included Paul Samuelson (1915 - 2009) in this series? Partly it is because he was the first American to win the Nobel Memorial Prize in Economic Sciences.

When awarded the prize in 1970, it was said that he "had done more than any other contemporary economist to raise the level of scientific analysis in economic theory". That, it was said, was his strength.

It is also why I question his legacy. That is why he is in this series. The relevance of what might most appropriately be called his quasi-scientific analysis in economic theory, and its legacy, requires that Samuelson's contribution to economics be considered.

Paul Samuelson was, in some ways, the most influential economist of the twentieth century after Keynes. That is because his economic textbook, Foundations of Economic Analysis, was first published in 1947 and was (and to some extent, still is) widely used to educate generations of economists. In it, he formalised what he thought of as Keynesian ideas into equations and models. As a result, he helped turn economics into a mathematically rigorous discipline, giving it intellectual prestige and policy influence across the post-war world.

Samuelson’s achievement in this regard was significant. He believed economics could become a science, capable of explaining behaviour, predicting outcomes and guiding policy. He did so based on two critical assumptions:

* That people are utility-maximising economic agents.
* The goal of economics is to establish a stable macroeconomic equilibrium.

Much of his analysis sought to explain why macroeconomic equilibrium is not achieved by conducting statistical analyses of issues that might produce supposedly suboptimal outcomes, thereby requiring policy adjustments.

His merger of Keynesian macroeconomics with neoclassical microeconomics created what became known as the “neoclassical synthesis”, the framework that dominated economics teaching and policymaking for decades.

Yet here is the paradox: economics has never been more technically sophisticated than in Samuelson’s wake, and yet:

* Governments have repeatedly failed to prevent crises.
* Inequality has deepened.
* Environmental collapse is accelerating, and
* Public policy seems chronically confused about what economies are for.

Hence The Paul Samuelson Question: ***If economics can be expressed with great mathematical precision, why does it so often fail to guide governments toward stability, equality and genuine prosperity?***

The prestige of formalism

Samuelson helped make mathematics the language of modern economics. This gave the discipline authority. Models became cleaner, assumptions clearer, and results easier to test, at least internally. Economics began to look like physics.

This transformation did, however, have a cost. Over time, mathematical tractability became more important than realism. Human behaviour was simplified into optimisation. Institutions were reduced to being considered constraints. Power relations that underpin the reality of political economy disappeared into parameters. The economy in these models became an elegant abstraction of the one seen in the real world. Economic formalism produced clarity, but all too fotne about an imaginary world.

The neoclassical synthesis: compromise or confusion

Samuelson’s great project was to reconcile Keynes with neoclassical economics. In the short run, markets could fail, requiring government intervention. In the long run, markets were assumed to work efficiently. This compromise stabilised post-war policy thinking. It justified welfare states, counter-cyclical spending and mixed economies. It was the foundation of what became known as neo-Keynesian

But the trouble was that the synthesis was built on an inherent contradiction. If markets were assumed to be fundamentally efficient, any government intervention an economist might recommend would have to be temporary. The consequence was obvious. If government spending were justified only in times of crisis, because markets would otherwise produce optimal outcomes, then any form of longer-term public provision would become suspect. If equilibrium is the natural state, and once a crisis is resolved, markets can always deliver it, then socially unacceptable outcomes, such as persistent poverty and inequality, must be seen as a structural feature of market models that governments and society should, in principle, always accept. The short-term thinking that justified welfare states, counter-cyclical spending and mixed economies disappeared in the long term. The resolution was to assume perpetual crises: the consequence was the neoliberal suggestion that the neo-Keynesian system was itself flawed.

Samuelson’s compromise was, then, politically powerful, but always analytically unstable and open to serious question that let the Keynesian thinking it supposedly promoted be swept away.

The textbook as a worldview

Samuelson’s introductory textbook did more than teach economics, though. It defined what counted as economics. As a result, generations of students absorbed a particular narrative. Economics was all about:

* rational actors,
* efficient markets,
* trade-offs framed as technical choices, and
* policy presented as optimisation.

This shaped policymakers’ instincts. Economics became a tool for managing scarcity rather than questioning distribution. It treated growth as a default good, inequality as a secondary issue, and ecological limits as external problems.

The textbook created a worldview that still governs debate, with negative consequences.

Precision without prediction

Modern economics can supposedly measure elasticities to decimal points, simulate equilibrium paths, and estimate complex models. Despite that:

* It failed to predict the 2008 crisis.
* It struggles to explain persistent inequality.
* It underestimates climate risk.
* It cannot resolve basic questions about productivity, stagnation or financial instability.

Samuelson would have recognised the irony. Mathematical sophistication has increased faster than explanatory power. The discipline knows more techniques than truths, and technical precision has become a substitute for economic understanding.

The disappearance of politics

Samuelson helped build a discipline that aspired to neutrality. Economics was assumed to be positive, and not normative, as a result describing what is, and not prescribing what should be. But policy cannot escape values. Decisions about taxation, welfare, investment and regulation are moral choices about distribution and responsibility. They are not technical.

By hiding behind technique, economics seeks to avoid these choices. It presents outcomes as inevitable, trade-offs as natural, and inequality as a technical constraint.

This is not neutrality. It is politics concealed in mathematics. The trouble is, mathematics is political in itself.

Why Samuelson still matters

It would be wrong to blame Samuelson for everything that followed. He believed in government action, public goods, and the social responsibility of economics. He was not a market fundamentalist. He helped legitimise Keynesian policy that improved millions of lives.

But his success made economics technically respectable and that respectability allowed the discipline to forget both humility and reality. Once economics looked like physics, it began to speak with unwarranted certainty. Policymakers treated models as maps, not approximations.

Samuelson’s legacy is therefore double-edged: he gave economics authority without ensuring it kept its self-doubt.

What answering the Paul Samuelson Question would require

To respond honestly to Samuelson's legacy would mean recognising that technique is not enough. Economics must recover its connection to reality, ethics and institutions. That would require:

*
Rebalancing mathematics with empirical humility. Economic models must explain observations of reality, and not replace them. Economics must remain a map and not seek to be the terrain.

*
Restoring political economy by recognising that power, distribution and institutions are central, and not peripheral.

*
Teaching the reality of uncertainty openly by abandoning the pretence of precise prediction in complex systems.

*
Integrating ecological limits by acknowledging that growth models without a planetary context are incomplete.

*
Democratising economic debate by ensuring policy is not determined solely by technical elites.

These changes would not weaken economics: they would both make it honest and enhance its status in society, and that matters.

Inference

The Paul Samuelson Question exposes a contradiction at the heart of modern economics. The discipline has achieved extraordinary technical (for which, read mathematical) refinement, and yet remains unable to answer the most important questions societies face, including:

* how to share prosperity fairly,
* how to prevent crises,
* how to sustain the planet, and
* how to ensure people live secure and meaningful lives.

Samuelson showed that economics could be technically elegant. The challenge now is to ensure it is also wise. The gap between technical economic knowledge and real economic understanding must be closed, and Samuelson's economics has not done that.

To answer his question is to accept that mathematics is a language, and not a guarantee of truth, and that political economy must be judged not by the beauty of its models, but by the well-being of the societies it helps create.

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