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The Harvard-Circle

Paul A. Samuelson

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Abstract This brief note reflects on the times when Joseph A. Schumpeter was engaged at Harvard University in Boston/Mass, 1932-1950. A description of Schumpeter's interaction with friends and collaborators as well as opponents, of the intellectual struggles he was engaged in as well as the ideological dimensions of his life and approaches sheds an interesting light on a scholar whose oeuvre received full admiration only some decades after he passed away in 1950.

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I write briefly and only from undocumented memory. My arrival in 1935 at the Harvard Economics Graduate School accidentally coincided with the first year that Joseph Schumpeter took over Frank Taussig's legendary Ec11, the first course in economic theory. (It was also the first year for Leontief to teach his course in mathematical economics, which was great good luck for me.) In 1936 the Harvard scene was improved by the permanent coming from Vienna and Geneva of Gottfried Haberler. And after 1937, when the new Littauer School of Public Administration was founded, the arrival of Alvin Hansen at Harvard from the University of Minnesota consolidated a new era for Harvard economics.

Up until the summer of 1937 when Schumpeter surprised us all by marrying his Yankee third wife, Elizabeth Boody, widower Schumpeter lived with widower Taussig in Taussig's big Scott Road house. Schumpeter, along with economists Edward Mason, Seymour Harris, and Wassily Leontief, was an official economic

Paul A. Samuelson passed away on December 13, 2009.

P. A. Samuelson
Massachusetts Institute of Technology, Cambridge MA, USA

tutor at Harvard's Dunster House. That would have given him the option of living in a suite there—as Mason did before his 1935 marriage, and as Harris did in the long intervals when Ruth Harris's TB confined her to a sanatorium.

Taussig was then quite old so that Schumpeter's frequent party-giving took place primarily at the Harvard Faculty Club. Bachelor student Abram Bergson (nee Burk), who had been a star in Taussig's 1933-34 Ec11 class, was drafted to replace newly-wedded Schumpeter as Taussig's house companion. I think he found it no house of mirth and soon thereafter the venerable Taussig went to live with a neighboring daughter.

Wassily Leontief was the colleague Schumpeter admired most. Certainly it was Schumpeter who coaxed Harvard to steal Leontief from the New York National Bureau of Economic Research, back then in its Wesley Mitchell phase. What Schumpeter admired most about Leontief's early research was his alleged almost miraculous ability to identify both a dd demand curve and an ss supply curve from the same $[q(t), p(t)]$ time series sample. Ragnar Frisch in Norway was less admiring and that is why later I tried (unsuccessfully) to interest econometricians to do a post mortem on the polemics.

The Schumpeter couple's residence on Acacia Street bordered closely the Leontief residence on Ash Street. When Wassily and Estelle jumped ship from Cambridge, Massachusetts, in favor of New York University, the Leontief summer house shifted from Vermont to not far from Elizabeth Schumpeter's Connecticut country estate. And, later, when Leontief was Schumpeter's literary executor, there turned out to be more than enough room on the Schumpeter burial plot for the four of them to lie permanently together.

In the 1930's and 1940's the Harvard Economics Department was somewhat split between a sterile old-guard that lacked enthusiasm for foreign high-fallutin theorist newcomers not trained at Harvard. This helps explain why Schumpeter never achieved the departmental powers that later James Tobin did attain during Yale's economics renaissance.

Also, Schumpeter's influence in the wider Harvard community never reached the level to be expected for such a world famous scholar. I never heard that he spoke at a university-wide faculty meeting. Perhaps it was his temperamental lack of gravitas that helps explain this lack of university-wide prominence.

When a depressed Schumpeter was temporarily tempted to leave Harvard for a Sterling Professorship at Yale, I formed part of the young student group who helped persuade him to stay. (I digress to speculate that Yale of that day would have turned out to be significantly worse than Harvard for Schumpeter.)

Alan and Paul Sweezy were special friends of Schumpeter. Particularly Paul, the younger brother, who became Schumpeter's official assistant lecturer for Ec11. Paul gave up an assured career in neoclassical economics to become a Marxist and an authority on Marxian theoretical analysis. The Sweezy father had been a vice president of J.P. Morgan's New York Bank; the family had money and the boys went to the elite Exeter School. Paul was the American editor for the LSE group that founded *The Review of Economic Studies*. (Later I was his successor.) Alan was, I believe, one of the earliest Harvard graduates approved to live in John Harvard's rooms at Cambridge University.

If I were to drop names conscientiously, I ought to mention Redvers Opie, who did the 1934 English revised edition of the 1911-12 German Theory of Economic Development. Opie also was for a time son-in-law of Frank Taussig. Arthur Smithies, Australian scholar at Oxford's Magdalen College and Commonwealth Fellow visiting America, was a Schumpeter devotee. Surely Schumpeter was one who helped him become a tenured Harvard professor.

Another Schumpeter favorite was Richard Goodwin, who from Indiana farm country had landed in Harvard College and later became a Rhodes Scholar at Oxford. At the 1949 Christmas AEA convention, a few nights before Schumpeter's January death, I was the last economist to talk to him. The main subject of our bar room conversation was on how to find for Goodwin the good job that he deserved and would accept. (Prior to Stalin's 1939 pact with Hitler, Goodwin had been in a three-person Oxford communist party cell—not then an illegal U.S. act. One never knew whether a Paul Sweezy or a Piero Sraffa did ever officially become a CP member. Certainly Paul Sweezy and Paul Baran invariably did follow every Stalinist wigggle.)

Returning to a more chronological ordering, before my 1935 Cambridge arrival in the Schumpeter circle were Abe Bergson and Alice Bourneuf (maybe the only woman Taussig ever gave an A rather than a C, and the only female academic at the Bretton Woods conference that created the IMF and the World Bank), Wolfgang Stolper and Richard Musgrave. Shigeto Tsuru, I, Robert Triffin, Sidney Alexander, David Rockefeller and Marion Crawford (Samuelson) were followed by Joe Bain, John Lintner, Lloyd Metzler and Bob Bishop. And of course, after 1945 a slew of war veterans swamped the Harvard Yard: James Tobin, Jim Duesenberry, Carl Kaysen, Bob Solow, Richard Ruggles—the list is endless. From my perch three miles down the Charles River, I recognized that an Elizabethan Golden Age coincided with the late Age of Schumpeter.

However, factually it had been globally more the Age of Keynes than the Age of Schumpeter. Graduate students imitated Alvin Hansen's green eye shade rather than Schumpeter's imported tweeds and pigskin gloves. Was Schumpeter jealous of Keynes? How could it be otherwise?

Tom Kuhn's (1962) *The Structure of Scientific Revolutions* explains why a Schumpeter could not understand the defection of the young. A quite false explanation gave him some cold comfort. The young could be Keynesians only because they were leftist socialists—so he thought. What Schumpeter never quite understood was that there could be another paradigm than the classical Say's Law paradigm of Alfred Marshall—one that could give a handle to understanding the Great Depression and how to ameliorate it by spending newly created currency.

The young deserted Schumpeter mainly because he was such a bad depression macroeconomist. Indeed he was a very bad one, as bad as 1931 Hayek. At the prime age of 51, in the ludicrous book by several Harvard senior professors Schumpeter praised the great depression as a "healthy catharsis" of the economic system. This was a garish "uncreative" version of what 1942 Schumpeter later called "creative capitalistic destruction."

Actually, in the 1929-1934 epoch, AT&T's Bell Laboratory, along with General Electric, Westinghouse and Dupont Labs decimated their research efforts. Schumpeter's beloved entrepreneurial innovators were in fact paralyzed and aborted during

Schumpeter's epoch of healthy catharsis. Like all of us, Schumpeter contradicted in some writings what he had proclaimed in others. He should have remembered his own words that depressions and booms unnecessarily go too far under capitalism.

For every thing there is a season. That fame which came to Keynes from his 1936 *General Theory* eclipsed Schumpeter's hope for fame.

But lo and behold. Decades later, when unemployment moved to the back burner, Schumpeter's elucidation of how innovation is the well-spring of improved total factor productivity, moves him front and center in the Valhalla of great economic thinkers.

Underneath Schumpeter's gay Viennese demeanor, one sensed a sad person. His posthumous biographers found in Harvard's Schumpeter archives how very depressed he had become after that month in the early 1920's when his mother died and soon after his beloved second wife died while trying to give birth to their stillborn son.

Creatively his fifties were wasted on producing *Business Cycles*, a disappointing treatise whose taxonomy of economic cycles—short Kitchen-Crum cycles, intermediate Juglar cycles, and long Kondratief waves—attracted few readers.

Wisely during his isolated World War I years in Cambridge and Connecticut, he turned to the much cited *Capitalism, Socialism and Democracy*, maybe his best work since 1912 and also worked away on his magisterial *History of Economic Analysis*.

I believe his ghost must be appreciating the twenty-first century fame that his personality lusted for and would have savored.

Who were the contemporary economists Schumpeter admired most? From his young days he singled out a surprising trio of greatest economist. They were Léon Walras (for his original general equilibrium), Cournot (the younger) for his 1838 mathematical masterpiece and, surprisingly, Quesnay for his tableau of multi-sectoral dynamic equilibrium.

Schumpeter's popularity in Vienna probably suffered when he came to praise J.B. Clark and Irving Fisher. A discernible pattern was Schumpeter's admiration for technicians whose mathematical nuances he did not fully understand.

I recollect in this regard, Schumpeter's particular admiration for Norway's Ragnar Frisch, Holland's Jan Tinbergen and Romania's Nicholas Georgescu-Roegen.

His was a fulfilled life. He died, so to speak, with his boots on, after a productive day split between preparing an important University of Chicago invited lecture and planning penultimate drafts for his *History of Economic Analysis*.

Not afraid to formulate bold conjectures that might be wrong, he earned high grades as a creative economist. His wrong guesses—as for example his diagnosis that capitalism decayed because of its very successes—are easily forgotten. What will ever be remembered was his now century old emphasis on entrepreneurial innovation as a cardinal catalyst for economic progress.

* * *

In this memoir I am purposely only touching on Schumpeter's ideology. Both in his night thoughts and occasional verbal utterances, his view of the world was definitely "politically incorrect" in modern parlance. No wonder. By the time he was 35 in 1918 his preferred outer world had been killed off by the unnecessary World War

I. From early on Schumpeter had been an Austrian who was anti-German and pro-British. Quixotically, late in World War I he seriously proposed that Austria should make a separate peace with the Allies—as if Kaiser’s Germany would have permitted that.

By the time Schumpeter was 40, his inner world of wife, son and mother had also died. These were enough to explain his hidden inner melancholy. We can add to them the familiar trap that youthful brilliance or maidenly beauty can engender. This can leave one with a Napoleonic lust for fame, generally an insatiable ambition.

World War II did not add to his joy. He feared that Hitler would win that struggle. (In the dark days of 1940 that was not a rash guess.)

After 1941 Pearl Harbor when America joined the Allies, the Schumpeter couple was rather isolated in an emptied-out Cambridge. That helps explain why, until a very, very late date Schumpeter expected that Hitler would end up the winner. Better informed analysts, after Germany’s debacle at Stalingrad and Japan’s fiasco at Midway, had earlier come to realize that both Germany and Japan were doomed.

For Joseph Schumpeter the Allies’ victory may have seemed a mixed blessing. Throughout the conflict it was his conviction that the war was being fought against the wrong enemy—not a belief that could go down well in the Senior Common Rooms of U.S. universities.

Leaving psychoanalytical babble and ideology aside, I return to basic political economy. Earlier I wrote that Schumpeter was a poor depression economist. Longer lived was a related serious fault. The Schumpeter I knew lacked sophisticated deep understanding of the Mixed Economy. On the day before he died, if an omniscient spirit had told him that the mixed economy (which he disparagingly called “capitalism in an oxygen tent”) was to accomplish in the 1950-2008 epoch what it did accomplish, he would have dismissed that as a fairy tale fashioned out of wishful thinking.

Do I exaggerate? Consider his flippant answer when asked in 1936 whom he would vote for in the U.S. presidential election. “Madam, if my choice were between Franklin Roosevelt and Ghengis Khan, I would vote for Ghengis Khan.” Only a Viennese conceit? I wish it were so. In vino veritas does hold. But also there often holds too: One’s jokes may betray one’s visceral and mental beliefs.

The house of economics has many diverse occupants. In my own life and that of my contemporaries, Joseph Alois Schumpeter was one who played a leading role.

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