WHAT WAS THE PRIMARY FACTOR ENCOURAGING MAINSTREAM ECONOMISTS TO MARGINALIZE POST KEYNESIAN THEORY?

By Paul Davidson

This note will explain why it is that Paul Samuelson’s arrogance in claiming he alone had discovered, understood, explained and published in mathematical form the micro foundations of all economic theory [Samuelson, 1947] including Keynes’s general theory was the authoritarian force which induced mainstream economists to ignore Post Keynesian economic analysis. Any theory which rejected the Walrasian foundations specified by Samuelson was, according to Samuelson, not a valid economic theory. Nevertheless, as explained below, Keynes explicitly rejected Samuelson’s Walrasian foundation analysis – while a founder of Post Keynesian theory, Sidney Weintraub [1958], explicitly developed the Marshallian micro foundations underlying Keynes’s general theory.

Some economists have suggested that it is paranoia that makes Post Keynesians believe they have been ignored, or at best marginalized, by the economics Establishment. The dictionary defines paranoia as “a mental disorder characterized by systematized delusions and the projection of personal conflicts, which are ascribed to the supposed hostility of others” and “baseless or excessive suspicion of the motives of others.”

By using Samuelson’s own words we will demonstrate that the hostility of Samuelson and his “Keynesian” followers to both Keynes’s actual analysis and the Post Keynesian theorists’ explanation of Keynes’s analysis and its further development is not imaginary. Samuelson’s claim that Walras’s analysis must be the foundations of Keynes’s General Theory implies that the Marshallian microfoundations for Keynes’s Macroeconomics espoused by Post
Keynesians could, and should, be ignored.

Paul Samuelson is the founder of the American Keynesian school which he labeled “neoclassical synthesis Keynesianism” because of the classical Walrasian microeconomic theory that Samuelson believed was the foundation of Keynes’s macroeconomic theory. Samuelson’s introductory textbook has gone through 19 editions and is the most widely sold economics text ever [4 million copies]. No wonder most economists (and politicians) got their first exposure to what was called “Keynesianism” from Samuelson or one of his New Keynesian textbook followers. No wonder that mainstream economists believe that Post Keynesian theory does not fit into this Samuelson description of a valid economic analysis.

In their book The Coming of Keynesianism to America, Colander and Landreth (1996, p. 23) credit Paul Samuelson with saving the textbook pedagogical basis of the Keynesian Revolution from destruction by the anti-communist spirit (McCarthyism) that ravaged America in the years immediately following the second world war.

Lori Tarshis, a Canadian who had been a student attending Keynes’s lectures at Cambridge during the early 1930s had, in 1947, published an introductory textbook that incorporated Tarshis’ lecture notes interpretation of Keynes’s General Theory. Colander and Landreth noted that despite the initial popularity of the Tarshis textbook, its sales declined rapidly as it was attacked, by trustees of, and donors to, American colleges and universities, as preaching a “socialist” economic heresy. The frenzy about Tarshis’s textbook reached a pinnacle when William Buckley, in his book God and Man at Yale (1951), attacked the Tarshis analysis as communist inspired.

In August 1986 Colander and Landreth [hereafter C-L] interviewed Paul Samuelson, [C-L, 1996, pp. 145-178] about his becoming an economist and a “Keynesian”. Samuelson indicated that he recognized the “virulence of the attack on Tarshis” and so he wrote his textbook “carefully and lawyer like” [C-L, 1996, p. 172]. The term “neoclassical synthesis Keynesianism” did not appear in the first edition of Samuelson’s textbook, Economics An Introductory Analysis[1948], which published just before the
attack on Tarshis’s text. This neoclassical synthesis terminology, however, does appear prominently in the later editions of Samuelson’s textbook. From hindsight it would appear that Samuelson’s assertion that his brand of Keynesian macroeconomics is synthesized with (and based on) traditional neoclassical Walrasian microeconomic assumptions made the Samuelson version of Keynesianism less open to attacks of bringing socialist economic heresy into University courses on economics compared to Tarshis’s Keynesian analysis.

In 1941, Samuelson’s Ph. D dissertation won the Wells prize for the best Ph. D. dissertation in economics at Harvard. Thus, at the very beginning of his career as an economist, Samuelson was already identified by the classical economic theorists’ Establishment as one of its upcoming great analysts. This dissertation was polished and finally published as *The Foundation of Economic Analysis* (1947). Based on this Samuelson’s view of the foundations of all economic theory, any branch of mainstream Keynesianism, e.g., neoclassical synthesis Keynesianism and New Keynesianism had to based on the Samuelson’s *Foundation of Economic Analysis* [1947] and its classical microeconomic Walrasian foundations. If the microfoundations of macroeconomics was not Walrasian, then it could not be either what Keynes meant or any valid theory of macroeconomics.

Samuelson proclaimed this belief despite the fact that Keynes, as a student of Marshall, had based The General Theory’s microfoundations on Alfred Marshall’s micro economic analysis and not Walrasian analysis. Moreover, Keynes [1936, p. 177, 179] had denounced Walras’s approach as wrong when he wrote “Now the analysis of the previous chapters [of The General Theory] made it plain that this account [in Walras] of the matter must be erroneous….this [Walrasian system] is a nonsense theory”.

Nevertheless as we will show below, Samuelson claims that Keynes’s analysis must be based on the rigidity of wages and prices in a Walrasian system. Weintraub [1958], on the other hand, developed Keynes’s principle of effective demand by demonstrating that Keynes’s aggregate supply function could be derived from Marshallian industry supply functions and the aggregate demand curve from Marshallian micro market demand curves even when wages and prices were flexible. (A textbook explanation of Weintraub’s derivation of Keynes’s aggregate supply and aggregate demand curves from Marshall’s micro
functions is specified in Davidson [2011, ch. 2].

In his 1986 interview with C-L Samuelson indicated that in the period before World War II, “my friends who were not economists regarded me as very conservative” [C-L, 1996, p. 154]. Samuelson graduated the University of Chicago in June 1935 and, as he explained to Colander and Landreth, were it not for the Social Science Research Council fellowship that he received upon graduation, he would have done his graduate studies at the University of Chicago [C-L, 1996, P. 154-5]. Consequently, it was the visible hand of a fellowship offer that placed Samuelson at Harvard when Keynes’s General Theory was published in 1936. What information about Keynes’s General Theory was Samuelson exposed to at Harvard?

Robert Bryce, a Canadian, had attended Keynes Cambridge lectures between 1932 and 1935. In a 1987 interview with Colander and Landreth [1996,pp. 39-48] Bryce indicated that in Spring of 1935 he [Bryce] spent half of each week at the London School of Economics and half at Cambridge. At LSE Bryce used his Cambridge lecture notes to write an essay on Keynes’s revolutionary ideas - without having read The General Theory --for the economists at the LSE. This essay so impressed Hayek that Hayek let Bryce have four consecutive weeks of Hayek’s seminar to explain Keynes’s ideas as Bryce had written them out in this essay. Bryce’s lectures were a huge success at the LSE [C-L, 1996, p. 43].

In the fall of 1935 Bryce went to Harvard and stayed for two years. During that time, an informal group met during the evenings to discuss Keynes’s book. Bryce, using the same pre-General Theory essay that he had used as the basis for his talks at the LSE, presented to this group what he believed was Keynes’s General Theory analysis -- although he still had not read the General Theory. So in 1936 Bryce’s essay became the basis of what most economists at Harvard, including Samuelson, thought was Keynes’s analysis – even though Bryce had not read the book when he made his presentations.

Even in 1987, Bryce stated that, “anyone who studies that book is going to get very confused. It was ... a difficult, provocative book” (C-L, 1996p. 44-46). The immediate question
therefore is: “Did Bryce ever really comprehend the basis of Keynes’s analytical framework?”.
And if he did not, how did that affect how the young Samuelson and others at Harvard in 1936 learn about Keynes’s analytical framework.

Samuelson has indicated that his first knowledge of Keynes’s General Theory was gained from Bryce [C–L, 1996, p. 158]. Moreover, even after reading the General Theory in 1936, Samuelson, perhaps reflecting Bryce’s view of the difficulty of understanding Keynes’s book, found the General Theory analysis “unpalatable” and not comprehensible [C-L, 1996, p. 159]. Samuelson finally indicated that “The way I finally convinced myself was to just stop worrying about it [about understanding Keynes’s analysis]. I asked myself: why do I refuse a paradigm that enables me to understand the Roosevelt upturn from 1933 till 1937? ... I was content to assume that there was enough rigidity in relative prices and wages to make the Keynesian alternative to Walras operative” [C-L, 1996, pp159-160, emphasis added].

If Walrasian classical theory were the correct theory of our economy, then this Walrasian ‘special case’ would, in fact, be the “general theory” and Keynes’s aggregative analysis not formally wrong, but empty, redundant. It is worth noting, at this point, that mainstream economists after the Second World War treated Keynes’s theory as a ‘special case’ of the classical [Walrasian] general theory, applicable only to conditions where money wages, prices, and interest were ‘sticky’.

Weintraub, on the other hand, following Keynes, argued that making Walrasian analysis the general theory and Keynes a special case robbed Keynes’s analysis of its theoretical bite.

Apparently Samuelson never tried to comprehend Keynes’s Marshallian analytical foundation and framework. For in 1986 Samuelson was still claiming that “we [Keynesians] always assumed that the Keynesian underemployment equilibrium floated on a substructure of administered prices and imperfect competition” [C-L, 1996, p.160]. When pushed by Colander and Landreth as to whether this requirement of rigidity was ever formalized in his work, Samuelson’s response was “There was no need to” [C-L, 1996, p. 161].
Yet specifically in chapter 19 of *The General Theory* entitled “Changes in Money Wages” and even more directly in Keynes’s published response to Dunlop [1938], Keynes [1939b] had already responded in the negative to this question of whether his analysis of underemployment equilibrium required imperfect competition, administered prices, and/or rigid wages. Dunlop had argued that the purely competitive model was not empirically justified, therefore it was monopolistic price and wage fixities that must be the basis of Keynes’s unemployment equilibrium. Keynes reply was simply: “I complain a little that I in particular should be criticised for conceding a little to the other view” [Keynes, 1973b, p. 411]. In chapters 17-19 of his *General Theory*, Keynes explicitly demonstrated that even if perfectly flexible money wages and prices existed (“conceding a little to the other side”), there was no automatic market mechanism that could restore the full employment level of effective demand. In other words, Keynes’s general theory—using Marshallian microfoundations—could show that, as a matter of logic, less than full employment equilibrium could exist in a purely competitive economy with freely flexible wages and prices.

Obviously Samuelson, who became the premier American Keynesian of his time, had either not read, or not comprehended, (1) Keynes’s response to Dunlop or even (2) chapter 19 *The General Theory* which was entitled “Changes in Money Wages”. In chapter 19 Keynes explicitly indicates that the theory of unemployment equilibrium did not require “a rigidity” in money wages [Keynes, 1936a, p. 257]. As Keynes put it:

“For the classical theory has been so accustomed to rest the supposedly self-adjusting character of the economic system on the assumed fluidity of money wages; and, when there is rigidity, to lay on this rigidity the blame of maladjustment..... My difference from this theory is primarily a difference of analysis “[Keynes, 1936a, p. 257].

Keynes [1936a, p. 259] indicated that to assume that rigidity was the sole cause of the existence of an unemployment equilibrium lay in accepting the argument that the micro-demand functions “can only be constructed on some fixed assumption as to the nature of the demand and
supply schedules of other industries and fixity as to the amount of aggregate effective demand. It is invalid, therefore to transfer the argument to industry as a whole unless we also transfer the argument that the aggregate effective demand is fixed. Yet, Keynes [1936, p. 259] argued this assumption reduces the argument to “an ignoratio elenchii.”

An ignoratio elenchii is a fallacy in logic of offering a proof irrelevant to the proposition in question. Unfortunately Samuelson invoked the same classical ignoratio elenchii when he argued that Keynes’s general theory was simply a Walrasian general equilibrium system where, if there is an exogenous shock to effective demand, rigid wages and prices created a temporary disequilibrium that prevented full employment equilibrium from being restored in the short-run.

As Keynes went on to explain, “whilst no one would wish to deny the proposition that a reduction in money wages accompanied by the same aggregate effective demand as before will be associated with an increase in employment, the precise question at issue is whether the reduction in money wages will or will not be accompanied by the same aggregate effective demand as before measured in term of money, or, at any rate, by an aggregate effective demand which is not reduced in full proportion to the reduction in money-wages” [Keynes, 1936a, pp.259-60]. Keynes then spent the rest of chapter 19 explaining why and how a general theory analysis must look at the relationship between changes in money wages and/or prices and changes in aggregate effective demand – an analysis that, by assumption, is not relevant to either a Walrasian system or Samuelson’s neoclassical synthesis Keynesianism.

At the same time that Samuelson became a Keynesian by convincing himself not to worry about Keynes’s actual analytical framework, Tarshis had obtained a position at Tufts University, a mere half-hour of travel from Harvard. Tarshis would often meet with the group at Harvard, including Bryce, who were discussing Keynes. Tarshis notes that “Paul Samuelson was not in the Keynesian group. He was busy working on his own thing. That he became a Keynesian was laughable.” (C-L, 1996, p. 64).
Yet, Paul Samuelson has called himself a “Keynesian” and even a “Post Keynesian” in several editions of his famous textbook. Nevertheless, Samuelson’s theoretical “neoclassical synthesis” axiomatic foundations is logically not the general theory spelled out by Keynes. At the same time that Samuelson was developing his neoclassical synthesis Keynesianism, he was working on cleaning up his masterful *Foundations of Economic Analysis* [1947]. In his *Foundations* Samuelson asserts explicitly (or implicitly) certain specific classical axioms are the basis of both classical theory and, therefore, his neoclassical Keynesian macroeconomic analysis. For example Samuelson noted that “in a purely competitive world it would be foolish to hold money as a store of value as long as other assets had a positive yield” (Samuelson, 1947, pp. 122-4). This statement means that (1) any real producible capital goods that produce a positive yield are gross substitutes for money as a form to hold one’s savings and (2) money is neutral. Thus at the same time Samuelson was promoting his pedagogical brand of Keynesianism in his textbook he was arguing that the gross substitution axiom and the neutral money axiom are part of the foundations upon which all economic analysis must be built. (We have indicated [Davidson, 1972, 2007, 2009, 2011] that Keynes specifically rejected these two classical axioms as a foundation for his *General Theory*.)

Furthermore in an article published in 1969 Samuelson argued that the “ergodic hypothesis [axiom]” is a necessary foundation if economics is to be a “hard science”.[Samuelson, 1969, p. 184]. (As we have also explained [Davidson,1982-83, 2007, 2009, 2011], Keynes also rejected this ergodic axiom.)

What is the ergodic axiom? If one conceives of the economy as a stochastic (probability) process, then the future outcome of any current decision is determined via a probability distribution. Logically speaking to make statistically reliable forecasts about future economic events, the decision maker should obtain and analyze sample data from the future. Since that is impossible, the assumption of an ergodic stochastic process permits the analyst to assert that samples drawn from past and current data are equivalent to drawing a sample from the future. In
other words, the ergodic axiom implies that the outcome at any future date is the statistical shadow of past and current market data. Probability distributions based on past data will, under the ergodic axiom, provide statistical reliable information about future events.

In other words, the ergodic axiom therefore assures that the outcome associated with any future date can be reliably predicted by a statistical analysis of already existing data. The future is therefore never uncertain - it can always be reliably predicted by a sufficient statistical analysis of already existing data. Future outcomes, in an ergodic system, are probabilistically risky but reliably predictable. (In a nonstochastic deterministic orthodox economic model, the classical ordering axiom plays the same role as the ergodic axiom of classical stochastic models. )

In an ergodic world, in the long run, the future is predetermined and can not be changed by anything human beings or governments do. It follows that any government market regulation or interference into normal competitive market (assumed ergodic) processes, may, in the short run, prevent the system from achieving the full employment level assured by the axioms of a classical Walrasian system. In an ergodic system where the future can be reliably predicted so that future positive yields of real assets can be known with actuarial certainty, and where the gross substitution axiom underlies all demand curves, then as long as prices are flexible, money must be neutral and the system automatically adjusts to a full employment general equilibrium. If, on the other hand, prices are sticky in the short run, then it will take a longer time for the gross substitution theorem to work its way through the system but, at least in the long run, a full employment general equilibrium is still assured. In Keynes’s general theory analysis, on the other hand, a full employment equilibrium is not assured in either the short-run or the long-run.

Samuelson [C-L, 1996, p. 163] has stated that in his view Keynes’s analysis is a “very slow adjusting disequilibrium” system where the “full Walrasian equilibrium was not realized” in the short-run because prices and wages do not adjust rapidly enough to an exogenous shock. Nevertheless the economic system would, if left alone, achieve full employment in the long run.
In contrast, on the very first text page of The General Theory, Keynes [1936a, p. 3] explained “that the “postulates of the classical [Walrasian] theory are applicable to a special case only and not to the general case.... Moreover the characteristics of the special case assumed by the classical theory happen not to be those of the economics society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience”.

In the preface to the German language edition of The General Theory [1936b, p. ix] Keynes specifically noted ”This is one of the reasons which justify my calling my theory a general [emphasis in the original] theory. Since it is based on fewer restrictive assumptions ['weniger enge Voraussetzunger stutz'] than the orthodox theory, it is also more easily adopted to a large area of different circumstances”. In other words, Keynes argued that what made his analytical system more general than the classical (or Walrasian general equilibrium) analysis is that Keynes’s general theory requires a smaller common axiomatic base (fewer restrictive axioms) than Walrasian theory. Alternative theories then are special cases that impose additional restrictive axioms to the common axiomatic foundation of the general theory. The onus is therefore, on those who add the restrictive axioms to the general theory to justify these additional axioms. Those theorists who invoke only the general theory axiomatic base are not required, in logic, to prove a general negative, i.e., they are not required to prove the additional restrictive axioms are unnecessary.

SidneyWeintraub’s [1956] interpretation of Keynes’s General Theory is derived directly from Keynes's revolutionary approach to analyzing a money using economy where money was never neutral even if a hypothetical pure competitive market conditions including instantaneously flexible wages and prices exists. Keynes [1936a, p. 26] argued that even if such a purely competitive market existed it would not automatically achieve a full employment general equilibrium in a money-using economy.

Keynes compared those economists whose theoretical logic was grounded on the classical special case additional restrictive axioms to Euclidean geometers living in a nonEuclidean world
"who discovering that in experience straight lines apparently parallel often meet, rebuke the lines for not keeping straight--as the only remedy for the unfortunate collisions which are taking place. Yet, in truth, there is no remedy except to throw over the axiom of parallels and to work out a non-Euclidean geometry. Something similar is required today in economics” [Keynes, 1936a, p. 16].

To throw over an axiom is to reject what the faithful believe are "universal truths". Keynes’s revolution in economic theory required economists to “throw over” three restrictive classical axioms from its theoretical foundations. The classical axioms that Keynes threw out in his revolutionary general analysis were [1] the neutrality of money axiom, [2] the gross substitution axiom, and [3] the axiom of an ergodic economic world.

In 1935 Keynes explicitly noted that in his analytic framework money matters in both the long and short run, i.e., money is never neutral. Money affects real decision making. In 1935 Keynes wrote:

“the theory which I desiderate would deal...with an economy in which money plays a part of its own and affects motives and decisions, and is, in short, one of the operative factors in the situation, so that the course of events cannot be predicted either the long period or in the short, without a knowledge of the behavior of money between the first state and the last. And it is this which we mean when we speak of a monetary economy” [Keynes, 1935, pp. 408-9].

As Keynes's developed his theory of liquidity preference he recognized that his theory of involuntary unemployment required specifying "The Essential Properties of Interest and Money" [1936a, ch. 17] that differentiated his results from classical theory. These “essential properties” assured that money and all other liquid assets are never neutral. These essential properties [Keynes, 1936a, pp. 230-231]are:

[1] the elasticity of production of all liquid assets including money is zero or negligible, and

[2] the elasticity of substitution between liquid assets (including money) and reproducible
goods is zero or negligible.

A zero elasticity of production means that money does not grow on trees and consequently workers can not be hired to harvest money trees when the demand for money increases. Or as Keynes wrote: “money...cannot be readily reproduced; labour cannot be turned on at will by entrepreneurs to produce money in increasing quantities as its price rises” [Keynes. 1936a, p. 230]. In other words, when the demand for money (liquidity) increases, private sector entrepreneurs can not hire labor to produce more money to meet this increase in demand for a nonreproducible (by the private sector) good.

In classical Walrasian theory, on the other hand, money is a reproducible commodity. In many neoclassical textbook models as well as in the Walrasian system, peanuts or some other reproducible product of industry is the money commodity or numeraire. Peanuts may not grow on trees, but they do grow on the roots of bushes. The supply of peanuts can easily be augmented by the hiring of additional workers by private sector entrepreneurs.

The zero elasticity of substitution, assures that portion of income that is not spend on by the products of industry for consumption purposes, i.e., savings, will find, in Hahn's [1977, p. 31] terminology, "resting places" in the demand for nonproducibles, i.e, liquid assets. Some forty years after Keynes, Hahn rediscovered Keynes's point that a stable involuntary unemployment equilibrium could exist even in a purely competitive system with flexible wages and prices whenever there are "resting places for savings in other than reproducible assets"[ Hahn, 1977, p. 31].

Hahn rigorously demonstrated what was logically intuitive to Keynes. Hahn [1977, p. 37] showed that the view that with “flexible money wages there would be no unemployment has no convincing argument to recommend it .... Even in a pure tatonnement in traditional models convergence to [a general] equilibrium cannot be generally proved” if savings were held in the form of nonproducibles. Hahn [1977, p. 39] argued that “any non-reproducible asset allows for a choice between employment inducing and non-employment inducing demand”. Accordingly, the existence of a demand for money and other liquid nonreproducible assets (that are not gross
substitutes for the products of the capital goods producing industries) as a store of "savings" means that all income earned by households engaging in the production of goods is not, in the short or long run, necessarily spent on the products of industry. Households who want to store that portion of their income that they do not consume (i.e., that they do not spend on the products of industry) in liquid assets are choosing, in Hahn’s words “a non-employment inducing demand” for their savings.

If the gross substitution axiom was universally applicable, however, any new savings that would increase the demand for nonproducibles and therefore would increase the price of nonproducibles (whose supply curve is, by definition, perfectly inelastic). The resulting relative price rise in nonproducibles vis-a-vis producibles would, under the gross substitution axiom, induce savers to increase their demand for reproducible durables as a substitute for nonproducibles in their wealth holdings. Consequently nonproducibles could not be ultimate resting places for savings as they spilled over into a demand for producible goods [Cf. Davidson, 1972].

Samuelson’s assumption that all demand curves are based on an ubiquitous gross substitution axiom implies that everything is a substitute for everything else. In Samuelson’s foundation for economic analysis, therefore, producibles must be good gross substitutes for any existing nonproducible liquid assets (including money) when the latter are used as stores of savings, Accordingly, Samuelson’s Foundation of Economic Analysis denies the logical possibility of involuntary unemployment as long as all prices are perfectly flexible.

Samuelson’s brand of Keynesianism is merely a form of the classical special case analysis that is “misleading and disastrous”[Keynes, 1936a, p. 3] if applied to the real world. In the absence of a restrictive universally applicable axiom of gross substitution, however, income effects (e.g., the Keynesian multiplier) can predominate and can swamp any hypothetical classical substitution effects. Just as in non-Euclidean geometry lines that are apparently parallel often crash into each other, in the Keynes-Post Keynesian non-Euclidean economic world, an
increase demand for "savings" even if it raises the relative price of nonproducibles, will not spill over into a demand for producible goods and hence when households save a portion of their income they have made a choice for “non-employment inducing demand”.

Finally, Keynes argued that only in a money-using entrepreneur economy where the future is uncertain (and therefore could not be reliably predicted) would money (and all other liquid assets) always be nonneutral as they are used as a store of savings. In essence Keynes viewed the economic system as moving through calendar time from an irrevocable past to an uncertain, not statistically predictable, future. This required Keynes to reject the ergodic axiom.

In sum, Samuelson theoretical foundations requires three classical axioms that are the equivalent of the axiom of parallels in Euclidean geometry. Clearly then Samuelson’s macroeconomics is not applicable to the “non-Euclidean” economics of a money-using entrepreneurial system that Keynes developed in his General Theory. Samuelson’s rejection of Weintraub’s analysis and the Post Keynesian developments is merely a display of arrogance.

Furthermore, as one who attended the Kings College, Cambridge conference celebrating the 100th anniversary of Keynes’s birth, I can provide further evidence of Samuelson’s arrogance. At this conference, I challenged Samuelson on his claim that Walras was the microfoundations of Keynes’s General Theory. Samuelson responded with derogatory words for the analysis of what he called “unreconstructed Keynesians”. Samuelson specifically named Joan Robinson and Sidney Weintraub as “unreconstructed Keynesians”. whose analysis was faulty. Samuelson claimed that he and his followers are “reconstructed Keynesians” who are the only ones who correctly reconstructed Keynes’s principle of effective demand.

Paul Samuelson saved the term “Keynesian” from being excoriated from post second world war textbooks by the McCarthy anti-communist movement at the time. But the cost of such a saving was to sever the meaning of Keynes’s theory in mainstream economic theory from its General Theory analytical roots that demonstrated that, in a money using economy, flexible wages and prices and pure competition are neither necessary nor sufficient conditions to assure full employment equilibrium, even in the long run.
Samuelson’s view of Keynesianism resulted in aborting Keynes’s revolutionary analysis from altering the foundation of mainstream macroeconomics. Consequently what passes as conventional macroeconomic wisdom of mainstream economists at the beginning of the 21st century is nothing more than a high-tech and more mathematical version of 19th century classical theory. Sidney Weintraub development of Post Keynesian theory was fighting against Samuelson’s false and misleading macroeconomic analysis. As a student of Weintraub, I can declare that Weintraub believed that Samuelson’s Walrasian version was not only wrong – but encouraged poor policy decisions when recession and significant unemployment reared its ugly head.

Current economic policies, such as “austerity” and fears of government deficits, adopted in the United States and the Eurozone demonstrate the real world economic damage that Samuelson’s arrogant proclamation that his “reconstructed” Keynesianism provided the correct analytical foundations for understanding the economic world in which we live. Instead, had Sidney Weintraub’s Post Keynesian explanation of Keynes’s General Theory been taken up by mainstream economists and politicians, the world we live in would be a more prosperous and civilized economic society.

REFERENCES
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