ALVIN HANSEN AS A CREATIVE ECONOMIC THEORIST

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Much has been written about Alvin Hansen, the teacher and scholar — by others in this symposium and by me elsewhere.¹ My purpose here is to describe his contributions to the corpus of economic analysis: when all personal influences decay exponentially through time as they must, there remains imperishably locked in the developed corpus of a subject the value-added contributions of a scholar. Men are mortal. Their theorems and inductive inferences are permanent.

From the early 1930's on, Alvin Hansen had an international reputation among economists. He was also of renown to the general public, to governmental officials, and to international agencies. His oral and written testimony was widely sought; his tireless pen wrote not only for his academic colleagues and for students, but also for the wider public at large. At Harvard, in the policy areas of macroeconomics, despite his nonaggressive manner, he came to overshadow his colleagues in an almost embarrassing manner; considering the strategic importance of Harvard at that juncture in history, Hansen through his hold on students wielded a tremendous influence on the course of modern economic stabilization policy. (His colleagues included, to name but two scholars important in their own right, Joseph Schumpeter and Sumner Slichter: for different reasons, neither of these developed a coterie of followers to amplify his own influence. And the important influence of John Williams, both in his own person and through that minority of able students who did march primarily to his beat, was often by way of contrast and qualification to the bolder theses of Hansen and his circle. Gottfried Haberler provided a critical audit that was both creative and valuable.)

This public extra-academic stature of Hansen I particularly stress. Its bright light tends to obscure his analytical importance as an economist. Anyone who has studied the parallel career of Gustav Cassel will realize that, precisely because Cassel came to be overpraised by the public toward whom so much of his writing was ad-

dressed, he came to be underpraised by contemporary academics. The parallel ends here, in that Cassel was among the most egotistical of scholars and never underplayed his own worth. Hansen, on the other hand, though stubbornly insistent on the value of his own conclusions, was not by temperament one to blow his own horn. Schumpeter, Galbraith, and any historian of science could join with me in pointing out that the world makes the great mistake of taking you at your own claims: if Alfred Marshall insisted that he had done independently what Jevons and Walras had done earlier, the jury of history would fail to write this off to his discredit but rather would chalk him up as an original thinker.

There is still another minor reason why Hansen's originality may tend to be overlooked as the passing years obliterate personal memories. By 1935 economics entered into a mathematical epoch. It became easier for a camel to pass through the eye of a needle than for a nonmathematical genius to enter into the pantheon of original theorists. A kind of Gresham's Law operated, as those of us who benefited from it know only too well.

But by all odds the major reason why Hansen is in danger of getting less than his full share of recognition as an important analyst is the fact that he came to be known as "the American Keynes." There is much that is just about such a title. No one in America did as much as Hansen in shaping and applying the analysis of Keynes's *General Theory* to the American scene. To say this is to accord Hansen great praise. And that praise is augmented when one adds that, after 1936, it was Hansen and his circle that did the major work in spelling out the implications of the Keynes macroeconomic model for fiscal policy. (Turning the pages of the *General Theory*, we remind ourselves that in this work Keynes chose to say less about its various implications for expenditure and budget policy than he had said earlier in *Can Lloyd George Do It?* (1929) and in *The Means to Prosperity* (1933). Richard Kahn came to the nucleus of Keynes's theory of income determination, Kahn's famous 1931 article on the multiplier, by way of antidepression public works spending; but by 1936, the emphasis is on which schedules intersect to determine what, and not on which contrived shifts in the schedules might be used to realize prescribed full employment targets.)

Though Hansen was most generous in his acknowledgements of Keynes's influence, an influence he had resisted at first, Hansen was much more than the American Keynes, being an important creator in his own right.
To bring out this evaluation of the man, let me quote from a letter that I wrote a dozen years ago when asked to make nominations for a Nobel-like prize in economics. This was long before a proper Nobel Prize for economics was set up by the gift of the Bank of Sweden on its 300th anniversary. The effort to establish the prize in question, the Balzan Prize, was ended in a legal tangle before an award in economics came to be made; but the fact that Komolgorov in mathematics and Admiral Morison in history received Balzan awards made it a coveted honor.

My 1963 words included:

Of all living men, and here I measure my words, Professor Hansen has made the widest and most original contributions to the theory of income determination and macroeconomics generally. If Lord Keynes were alive, I should have to alter this judgment. . . . Hansen himself has always made acknowledgments to the macroeconomic contributions of Keynes. [Still] connoisseurs of income policy and modern fiscal economics realize that from shortly after 1936 there grew up in America a fruitful development of the subject; not only are most of the contributions originally due to Hansen himself, but in addition many done by others have been the direct or indirect result of his inspiration.

I ought to add here that one reason to explain Hansen's importance in carrying the post-1936 ball is that America, rather than Britain, was the natural place where the Keynesian model applied: the United States was largely a closed, continental economy with an undervalued dollar that gave ample scope for autonomous macroeconomic policies; Hansen's first Harvard years of the late 1930's, when gold was flowing into this country and, as Hansen said at the time, was providing a massive controlled experiment to show the weak elasticity responses to normal easing of credit, that was the era par excellence when an approximation to Keynes's liquidity trap prevailed. On those same Monday and Friday afternoons when Hansen and Williams were holding their famous Fiscal Policy Seminars, the banks down the road were earning only 3/8 of 1 percent on their marginal assets. A student like me, even armed with a letter from his pastor, could not get a Cambridge bank to take his deposit: in the end I had to settle for a Postal Account, which could not refuse to take my money. (Incidentally, the fruitful differences of opinion between Williams and Hansen in the seminar did not at that time revolve around any differences in view between the scholars on the potency of monetary policy: John Williams was even more skeptical about the stiffness of the string on which monetary policy was to push; he used to say, "even if I believed
completely in your credit worthiness and you offered me 10 per-
cent interest, I wouldn't make you a loan." A rhetorical exaggera-
tion, no doubt, but indicative of how badly burned bankers had
been in the earlier years of the great depression.)

EARLY SYNTHESSES

Keynes had Marshall and Pigou to teach him monetary theory.
I had Viner, Schumpeter, Leontief, Haberler, and Hansen to teach me
modern analysis. Hansen was not so lucky. The leap from a frontier
homestead to the University of Wisconsin was for him the strategic
quantum jump. Wisconsin was still in its most fruitful institution-
alist phase under John R. Commons, Richard T. Ely, and their
disciples. In terms of preparing himself for what was later to be-
come his primary field of interest, Hansen was lucky in happening
to pick business cycles as a thesis topic. This was perhaps the pri-
mary area of economic analysis in which the institutionalists were
able to make much of a contribution.

Wesley Clair Mitchell, who called himself an institutionalist
and who was indeed hostile toward economic theory (the only sure
badge identifying an institutionalist), wrote his great Business
Cycles in 1913, just as Hansen was getting enough money together
to go to graduate school. The subject of cycles was so new that
Mitchell's naive Baconian empiricism could play a useful role.
Hansen's Ph.D. thesis seems to have been a Mitchell-like survey
of monthly statistical movements here and in principal countries
abroad. Fortunately, Hansen did not follow Mitchell's example to
move down curves of diminishing returns in trying to let the facts
tell their own story about what sometimes happens in business
cycles and what sometimes does not happen.

Perhaps because of interest in his own Scandinavian back-
ground, Hansen moved away from the views fashionable in the
Anglo-Saxon literature of the trade cycle. He was attracted to the
Continental view that the great swings in economic activity have
been of quasi-exogenous origin, being associated with intermittent
waves of innovational activity, of population, and of over- and
undershots in the process of capital formation. He had seen with
his own eyes ordinary men on the frontier carried into prosperity
just by virtue of being in the right place at the right time; and
their brothers, no less worthy, by the luck of the draw plunged into
bankruptcy and ruin.

His mentors were writers like Arthur Spiethoff (a permanent
influence) and Wicksell (who too often is remembered only for his monetary analysis of secular price disequilibrium, and not for his view that the business cycle is like a rocking horse that is set into motion by the exogenous blows of innovation and growth and that responds endogenously to those cumulative shocks according to its own endogenous structure and resonance); Schumpeter, Tougan-Baranowsky, Marx, Cassel, and neo-Wicksellians generally influenced Hansen in the 1920's; Dennis Robertson was perhaps the sole important writer in English who, like Hansen, looked beyond the veil of money to explain the historic rhythms of capitalism.

The Hansen of this period took on some of the faults as well as the virtues of these writers. Thus, like them, he sometimes wrote of the depression as being due to overinvestment — absolutely, or in relation to undersaving. Usually the authors were unclear on their time-period analysis, and one seemed to confront the paradox of too much investment as weakening contemporaneous aggregate demand! Readers had to struggle to arrive at the understandable commonplace that, if there is too much investment at one time, it may overdo things in terms of profitability and, in a regime of sticky wages, prices, and interest rates, usher in a period of low investment; it is this subsequent low investment that constitutes the contemporaneous depression.

His 1927 Business Cycle Theory is worth rereading today. It has verve and wisdom. But few readers realize that it is a redrafting of an essay submitted to win the prize offered by the Pollak Foundation for the best critique of the underconsumptionist writings of Foster and Catchings. An idiosyncratic work, inferior to Hansen's, won the first prize, but this origin of Hansen's 1927 book explains its lopsided character and overemphasis on Foster's views. Amusingly, the 1927 Hansen signs himself as a believer in Say's Law, stating that anyone who looks carefully into the debates between Malthus and Ricardo on the subject cannot fail to realize that Ricardo is the logical victor in his demonstration that unemployment due to too little purchasing power is an impossibility.2

2. A. H. Hansen, Business Cycle Theory (Boston: Ginn & Co., 1927), p. 101 says: "Say, Ricardo, and Mill were quite right in their insistence that overproduction is inconceivable." At the end of the work (p. 206) appears one of those famous-last-word proclamations, written just before the Great Depression set in:

... the character of the business cycle is changing. The violence of the oscillations of the business cycle during the last hundred and fifty years is the result of a rapidly growing capitalism. In the end it may well be that the cycle phenomenon itself, at least in its extreme manifestations, will be seen to have been a disease which came and passed in the few swift centuries during which the world was made over from a rural, local economy to a highly industrialized world economy.
By the time of his 1932 *Economic Stabilization in an Unbalanced World*, the realities of the great depression had taught Hansen to soften his view that overproduction is impossible.

He recognizes there, in Chapter X, that wage and price rigidities may enable structural unemployment to persist. Still, on the basis of his pre-1936 writings, Hansen would have to be graded as an important but not outstanding analyst. Lest this be judged a harsh verdict, let me add that what Keynes wrote up to and through his 1930 *Treatise on Money* was enough to make him the greatest economist of a nonvintage epoch in economics; but only on the basis of his subsequent, largely unpredictable, breakthroughs in analysis can the jury of historians declare Keynes to have been the greatest economist since Adam Smith and Leon Walras.

**The Scholar Reborn**

I have always hazarded the guess that Hansen received his call to Harvard by miscalculation. They did not know what they were getting. And neither did he. His 1936 review of the *General Theory* must have struck a Harvard committee as an unfavorable review; only Hansen remembered it as being among the most favorable reviews that Keynes received. (Viner, Taussig, Haberler, Pigou, and even Hicks wrote reviews and commentaries that are more amusing to read in retrospect than they seemed at the time.)

On the train from Minnesota, so to speak, Hansen must have seen the light. There followed a dozen golden years of important achievements. To illustrate the wave-like character of fertility in a scholar’s own life, let me mention the case of the 1948 Festschrift for Hansen’s sixtieth birthday. The other editors and I tried to enlist his Minnesota as well as his Harvard students. In the end, even though he had been as long there then as at Harvard, the few that we got had all followed him to Harvard. Later when I asked him to explain the discrepancy, he hypothesized that the best students tended to bubble off to the few leading places. With respect, this is only part of the story. It was because of the great depression and *General Theory* stimulus that Hansen, wherever he might have subsequently been, attained his full stride and stature as an important scholar.

Along with discovering the incidence of tax and expenditures and other fiscal parameters upon a Keynesian system built around the multiplier, the marginal efficiency of capital, and the schedule of liquidity preference, Hansen was the first to develop the interactions between the multiplier and the accelerator. (The Minnesota visit
of Frisch in 1931 was important for Hansen’s quick integration of the acceleration principle into the Keynesian system; his review of Harrod’s 1936 *Trade Cycle* shows the prepared mind at work.) I have recorded elsewhere how my own early reputation received much too much credit for merely analyzing mathematically what was essentially Hansen’s own system. Hansen was able to resist even my harmful influence. I kept insisting, rightly but misleadingly, that there was no net stimulus from the accelerator in a multiplier model that oscillates around a horizontal trend. Hansen, like Keynes in his famous *Eugenics Review* article,3 realized what Harrod and Domar were later to formalize, that in an economy of growth the accelerator was an important factor in the genesis of net spending stimulus or multiplicand.

Hansen’s famous doctrine of impending long-term maturity or stagnation, in consequence of declining growth rates in population, of the exhausted frontier of abundant land and other natural resources, of possible decline in vast new capital-using innovations, and of possible enhanced internal corporate saving—this was an important doctrine that I never felt it necessary to make up my mind about. When the birth rate began to rise beyond any rational basis for prediction, Hansen early recognized the fact of it. And it is interesting to note that such famous “refutations” of Hansen, as that by the able George Terborgh, accepted his logic of the incidence of growth trends but denied his implicit projections of how those trends were likely to continue to work out.

Those who have not read Hansen carefully have often misinterpreted him. He was never pessimistic about the growth potential of the system. Hansen believed productivity trends were as good as ever, and perhaps even better. Hansen never believed we had to stagnate: he believed that any tendency toward ineffective demand could be offset by macroeconomic policy. Paul MacCracken, Richard Bissell, S. Morris Livingston, and others in the wartime Department of Commerce who used Hansen’s analysis without accepting his conclusions, helped provide the intellectual basis for the new Committee for Economic Development. That Hansen’s view of the post-World War II world was the correct one—even though he did not win the $25,000 Pabst competition—can be seen by comparing what happened in the postwar period to what a typical National Bureau publication thought was going to happen.

Already in 1945 Hansen, like Beveridge, saw the need for an incomes policy and the likelihood that full employment would bring

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with it creeping price inflation. He was uncannily accurate in his back-of-the-envelope estimates of our potential GNP in the 1945–1970 epoch. Hansen correctly predicted no end-of-the-war stagnation, correctly foreseeing that inventory restocking and inherited backlogs of demand and liquidity would ease the conversion period. (Some of his disciples were not so prescient!)

But on this occasion, my emphasis is on his analytic contributions, not on his superlative judgments in political economy. When any schoolperson today uses the familiar CC and C+I+G schedules of income determination, he is merely employing a watered-down version of what Hansen was creating in the late 1930's and what some of us in his circle formalized and packaged for educational use. A good indicator of Hansen’s importance to the theory of income determination is a review of the many persons who contributed to the balanced budget-multiplier theorem. Of the dozen odd persons recently shown to have played a key role, some two thirds were directly connected with Alvin Hansen. And if none of them had ever written, Hansen would in any case have been sufficient to alert the world to the crucial point involved.

CONCLUSION

Time must call a halt. But I should not like to end without paying a tribute to two fine men. The times were such that Alvin Hansen and John Williams could understandably have engaged in ideological and personal battle over the important issues of the time. It is much to their credit that courtesy, civility, and friendship persisted throughout. In a sense, Hansen’s capacity and opportunity for undercutting the less popular doctrines of his colleague might have been the greater; students of that day could have been turned against any more conservative analyst. Neither in face-to-face confrontation nor in separate lectures did either snipe at the other.

I saw a lot of Alvin Hansen outside the classroom, but I never heard him utter a critical word about a colleague. Only years later when he was in retirement did Hansen respond to a commendatory remark I made about still another colleague, but even then the most this gentle scholar could say was that he had always regarded the person in question as in effect a “closet” Keynesian.

Hansen did not regard economics as an ego trip. To him it was the fascinating study of how to improve the lot of humanity.

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