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## **Leonid Hurwicz [Ideological Profiles of the Economics Laureates]**

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*Econ Journal Watch* 10(3), September 2013: 377-381

### **Abstract**

Leonid Hurwicz is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills [the September 2013 issue of \*Econ Journal Watch\*](#).

### **Keywords**

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

### **JEL classification**

A11, A13, B2, B3

### **Link to this document**

[http://econjwatch.org/file\\_download/732/HurwiczIPEL.pdf](http://econjwatch.org/file_download/732/HurwiczIPEL.pdf)

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## Leonid Hurwicz

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Leonid Hurwicz (1917–2008) was born in Moscow to Jewish parents who had fled Poland because of World War I (Grimes 2008). His family returned to Poland in 1919, and Hurwicz grew up there, going on to earn a law degree in Warsaw. His political views were somewhat abstract and do not seem to have changed over his adult life. They were, however, influenced by his experience with war: “Hurwicz translated the lessons of oppression into a now global belief system that is equal parts economics and philosophy, and that helps solve specific

problems in the real world. Among the many things he's learned: People can rise above their self-interest" (Bauer 2008).

After earning his law degree, Hurwicz was intrigued by an economics course and began work on his Ph.D. in economics at the London School of Economics, learning from, among others, Nicholas Kaldor and Friedrich Hayek. In 1939 he moved to Switzerland, and while there he attended the seminar of Ludwig von Mises in Geneva (Hurwicz 1984, 419). World War II prevented him from completing his degree (Grimes 2008). In 1940 he came to the United States after Hitler invaded Poland. Hurwicz continued his studies at Harvard University and the University of Chicago (Hughes 2007). In the 1940s he worked as Paul Samuelson's research assistant at MIT, taught electronics to the U.S. Army Signal Corps at the Illinois Institute of Technology, taught statistics in the economics department at Chicago, served as a researcher with the Cowles Commission, and was an economics professor at Iowa State and the University of Illinois.

"In early 1951," his Nobel Prize biographical sketch reports, "with McCarthyism rampant on college campuses, his politically liberal colleagues in the economics department were targeted, and Hurwicz resigned in protest" from Illinois (Bauer 2008). Hurwicz moved to the University of Minnesota that year, and there he taught economics for more than a half century.

In 1968 Hurwicz was a pledged delegate for Eugene McCarthy at the Democratic Party national convention, where he also served on the platform committee. Hurwicz was described as a "lifelong Democrat" in a *Telegraph* obituary, which noted his participation, at age 90, in a Democratic caucus during the 2008 election (Telegraph 2008).

Hurwicz focused on aligning incentives to improve outcomes, emphasizing the institutional strength of democracy, yet he also believed that moral leadership can be effective. The Nobel biography, summarizing this point from Hurwicz (1998, 12; 2008a, 287), says: "[I]n a truly democratic society, corrupt politicians can be halted by concerned and selfless individuals—he calls them 'interveners'—who act to right the system. The same is true, Hurwicz postulates, in business, where a handful of righteous individuals can rebalance an equation thrown off kilter by dishonest peers" (Bauer 2008).

But we do not have to rely on the presence of intervenors. ... The voters as "guardians" of top guardians is an essential aspect of democracy. This type of structure is also closely related to (but not identical with) the notion of separation of powers. (Hurwicz 1998, 12-13)

Roger Myerson sees Hurwicz as developing themes advanced earlier by F. A. Hayek, although the ideological drift is not necessarily like Hayek's:

In an influential paper, Hayek (1945) argued that a key to this new economic theory should be the recognition that economic institutions of all kinds must serve an essential function of communicating widely dispersed information about the desires and the resources of different individuals in society. From this perspective, different economic institutions should be compared as mechanisms for communication.

Hayek also alleged that the mathematical economists of his day were particularly guilty of overlooking the importance of communication in market systems. But questions about fundamental social reforms require fundamental social theory, and in a search for new fundamental theories, the abstract generality of mathematics should be particularly helpful. So the failure that Hayek perceived should not have been attributed to mathematical modeling per se, but it was evidence of a need for fundamentally new mathematical models. Among the mathematical economists who accepted this challenge from Hayek, Leo Hurwicz has long been the leader.

Over many years and decades, Leo Hurwicz has worked to show how mathematical economic models can provide a general framework for analyzing different economic institutions, like those of capitalism and socialism, as mechanisms for coordinating the individuals of society. Hurwicz (1973) noted that, in late nineteenth-century economics, the institutionalists were economists who avoided analytical modeling. Today, all this has changed, since Leo Hurwicz set the standard for mathematical economists to study institutions as coordination mechanisms.

The pivotal moment occurred when Hurwicz (1972) introduced the concept of incentive compatibility. In doing so, he took a long step beyond Hayek in advancing our ability to analyze the fundamental problems of institutions. ... By learning to think more deeply about the nature of incentives in institutions, we have gained better insights into important social problems and policy debates. But as Hurwicz (1998) has observed, there are still basic questions in the theory of institutions that we need to understand better. (Myerson 2006, 2)

In a comment on Israel Kirzner published in the *Cato Journal*, Hurwicz shows how his thinking about the desirability of free markets is bound up with results in different models of market equilibrium, and with whether "optimality" or

“efficiency” is or is not achieved in such models. Since few, if any, markets operate under what he terms the “classical economic environment,” of perfect competition, constant returns, no externalities or public goods, etc., “it is difficult to see how one could justify ... the claim of efficiency of ‘free markets’” (Hurwicz 1984, 420). Hurwicz concludes his comment with the following words:

The problem of the appropriate role of markets and of government intervention is complex, and, in my view, panaceas are not to be found at either end of the spectrum. Dispassionate analysis—to which Professor Kirzner’s paper is a valuable contribution—shows the merits as well as the deficiencies of polar solutions; it points to the strengths of the market process as well as those imperfections which justify the search for supplementary institutional devices involving public intervention. It is likely that the answers will not please the ideologues of either persuasion. (Hurwicz 1984, 424)

As late as 2008, the conversation was still alive with Hurwicz:

Some of the most basic contemporary policy issues involve choice of institutions: Markets versus central planning, the scope and structure of social insurance (unemployment, old age, health), “property rights” as solutions to problems posed by externalities, world free trade, and the degree of economic integration of independent nations are obvious examples. The question is whether the role of institutions can be captured by appropriate analytical tools and incorporated into economic models—metaphorically, whether institutions can be introduced into models as variables, even as unknowns, rather than as fixed parts of the landscape (as is, for instance, perfect competition in so many mainstream models). If we can construct such models, then we can also consider incorporating implementation devices, with their limitations and potentials. (Hurwicz 2008b, 578)

Still, Hurwicz recognized that intervention has limits: “Depending on the participants in the game (i.e., composition of the society) and their preferences/values, a given mechanism may or may not be implementable within that society. The history of prohibition, namely, that it was never effectively enforced, may illustrate the negative case. Clearly, implementability depends on the nature of the goal and attitudes towards likely outcomes” (Hurwicz 2008b, 584). He continues: “The validity of Samuelson’s...conjecture (that is, that there may be no successful implementation for public goods under decentralization) remains, in my opinion, an open question. The example of voters removing a corrupt official from office

suggests that successful decentralization is possible. But the answer may depend on how we define decentralization” (ibid.; also at Hurwicz 2008a, 290).

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## Daniel Kahneman

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Daniel Kahneman (1934–) was born in Tel Aviv and raised in Paris and Palestine. Kahneman and his family moved to Palestine in 1946. He attended