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## **Wassily Leontief [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

Wassily Leontief 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**

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[http://econjwatch.org/file\\_download/740/LeontiefIPEL.pdf](http://econjwatch.org/file_download/740/LeontiefIPEL.pdf)

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## Wassily Leontief

by Daniel B. Klein and Ryan Daza

Wassily Leontief (1906–1999) grew up in St. Petersburg, Russia. His father was a professor of economics at St. Petersburg University and traveled abroad, where he met his wife in Munich, who was of a rich Jewish family from Odessa. Leontief describes his immediate family as different from his grandparents who were Old Believers (Leontief 2006/1994, 347). He described his family's political ideology in a 1990 interview:

Our family was intellectual bourgeois with liberal views. When my father was young, he organized strikes at the factory of my grandfather. That, you know, is a typical Russian behavior. Later, when he was a professor, he seriously studied Marxism and did research on the economic situation of workers in Russia. This was the topic of his doctoral dissertation.

[My mother] was a well-educated woman, a *bestuzhevka*. She studied history of art. She knew four foreign languages. She was from a quite well-to-do family, but the young people from the family engaged in revolutionary activities. When my mother was young, at the beginning of the century, she was even arrested for participation in some activity against the Tsar. She was in prison, but it was not serious

imprisonment. She and my aunt told me that the governor of Odessa used to visit her in the prison and take her for a ride in his carriage. But then, her brother was a serious revolutionary; he was thrown in jail, and later was shot [for being a participant in a prisoner's rebellion]. (Leontief 2006/1994, 348)

Leontief spoke of the impact the Russian Revolution had on his family:

They did not get bitter. I never heard them complain about having lost everything they owned in the revolution, money and property. It was difficult for them. There was hunger, they had nothing to eat. There was nothing to heat the house with. And then, in 1919, we were evicted from our flat on Petrovskii Island. The flat was handed over to the hospital of the provincial training school for teachers. The University tried to help to keep the flat for my father, as one of its professors, but revolutionary sailors came and evicted us. We were given 24 hours to pack. And when it came to move our things, they told us, what clothes and furniture had to stay there, and which we could take. ... But my parents never complained and never talked with anger about what was going on. I recall only one time when they said to me: "Listen, we used to have enough money to educate you abroad. Now we do not. You must try to do it all by yourself". And that is what I did. (Leontief 2006/1994, 348-349)

Leontief was home schooled and went to the University of Leningrad in 1921, studying philosophy and sociology before settling on economics (Leontief 2006/1994, 349). He graduated with a degree in economics in 1925. He studied Marx in his undergraduate years, but he claimed he was "not a militant Marxist economist" and was "interested in Marx only as a classical economist," saying Marx "was always mixed up in math, and the labor theory of value didn't make much sense" (Leontief 1998, 117-118). His university studies were periodically interrupted by arrests for his criticism of communism. Leontief explained:

Students are students, always and everywhere. They always discuss world problems, they always dispute. And I disputed a lot with my student-comrades. Many of them were communists. ...

We argued about whether we needed freedom in our state or not, whether it should be limited or not. We argued about the situation in higher education. And I argued a lot with my communist colleagues. So when I said things that they found entirely impossible, I got taken to the Gorokhovaia, was held for several days, and then released again.

Thus my studies were interrupted from time to time. (Leontief 2006/1994, 349)

When asked if he was sure he was arrested for disagreeing with his communist classmates, Leontief responded:

Oh, there is no doubt of that, because the investigators knew absolutely everything I had said during those arguments. And then ... There was a student M. who had studied with me. He was a very convinced communist. We had argued a lot, but had friendly relations. I get angry quite rarely. Well, the investigators knew everything we had talked about face to face. I think M. was appointed to look after us because he understood the Bolshevik politics correctly. From the talks with the investigators I understood that M. gave a positive opinion about me. Maybe that was a reason why I was released. (Leontief 2006/1994, 349)

Leontief added:

At that time many professors, Pitirim Sorokin and others, were suspended from teaching. Later, in autumn 1922, they were all embarked on a ship and sent abroad. You know, much later Sorokin and I again met. That was already in America. We both taught at Harvard University in the 1930s. He told me much about this trip into exile, showed the photos of those who left Russia on the same boat with him. Well, at that time, in 1922, I together with two other students printed posters, and we went in the night to post them up. ...

We called for freedom: freedom of the press, freedom of expression, freedom in the state. We protested against the suspension from teaching of our professors. We went with the posters at three at night. But probably they knew about us in advance. We were followed almost from the very beginning. We went and stuck up the posters, but half a verst away some people followed us, then they overtook us and arrested us. We were sent to the Gorokhovaia. ...

At the beginning I was in a communal cell, but not for long, and then they transferred me into a solitary one. My cell was like a corner of this room. ... There were lots of cockroaches, which came in the night.

The interrogations were also at night, between three and four o'clock. I had long discussions with the chekists. At that time the chekists were not simple policemen, but intellectuals. Yes, yes, they were *intelligent*—in the 'All-Russian Cheka' there were intellectuals,

and even sincere, convinced intellectuals. Of course, they all told me: ‘We may still shoot you’. But they did not do it. We quarreled a lot, and I was not afraid of them. These were not at all such interrogators as they had later. And they released us. (Leontief 2006/1994, 349-350)

Leontief said he viewed these “episodes” as merely distracting:

I was absent from my studies only during the days I was under arrest. But it did not cause more serious problems. Don’t imagine, please, that I was an active fighter, a politician. For me, all I told you about amounted to insignificant episodes. And I was absolutely not afraid. But my parents—they worried about me a lot. I myself was not afraid, no. May be I did not quite understand, I was young, only 16 in 1922. The most important in life for me was always science. ... Even on the Gorokhovaia, in the solitary cell, I kept this up. At the university I was then preparing a paper on the economic views of Rodbertus. Now then, Rodbertus I read while sitting in the cell. ...

After getting out of jail, I went on arguing with the same people and on the same topics. But I was interested in other things. Science was the most important for me. It was science I took seriously. (Leontief 2006/1994, 350-351)

Leontief then emigrated, not because of his arrests for challenging communism, but in response to a censor’s ban on an innocuous article he had authored:

It was an historical-analytical article. It was very far from any politics or ideology. If they forbade even such an article ... I understood that it was not possible to work as a scientist here. Well, maybe to do partial work, but not to work normally. (Leontief 2006/1994, 351)

Leontief left for Berlin in 1925 (Leontief 2006/1994, 351). He earned his Ph.D. in 1928 before working his way to the University of Kiel’s Institute of World Economics, where he developed his idea of the input-output approach (Leontief 1998, 118; Kaliadina and Pavlova 2006, 340). Leontief was invited to the United States by the NBER in 1931. A year later he moved to Harvard and remained there for 45 years. In 1975 he relocated to New York University (Kaliadina and Pavlova 2006, 341).

Leontief received the Nobel Prize in economics in 1973 for developing the input-output method and applying it to important economic problems. The entry on Leontief in the *New Palgrave Dictionary of Economics*, authored by Robert

Dorfman, illuminates the nature and political use of Leontief's input-output analysis:

Leontief has insisted that the task of a theorist only begins with the proposal of a well-formulated theory; the central task is to show that the theory can be applied to real economies, that it leads to interesting predictions about the behaviour of those economies, and that those predictions can be checked and found to be reasonably accurate. This radically operational point of view led Leontief to his critical contribution: the perception that the coefficients that express the relationships among the sectors of an economy can be estimated statistically, and that they are sufficiently stable so that they can be used in comparative static analyses to give quantitative estimates of the effects of different economic policies, taking into account their reverberations throughout the economy along with their effects on the industries affected in the first instance.

It is almost impossible now to appreciate the task of confirming these conjectures in the early 1930s. Input-output computations depend on inverting large matrices; the most powerful computing machines in existence then were punch-card machines that could multiply, after a fashion, but could not divide. Solving a half-dozen simultaneous linear equations was a formidable calculation; Leontief envisaged systems that numbered in the hundreds.

Input-output analysis also required data of an unfamiliar type—coefficients specifying the amounts of various raw materials and intermediate goods required per unit of product in each sector. The US Census of Manufactures included many of these coefficients, but by no means all. The remainder had to be compiled laboriously from trade journals and scattered sources . . .

Beginning around 1933–4, Leontief concentrated on overcoming these difficulties by compiling coefficients for a 44-sector input-output table—about 2,000 coefficients—and making plans for their analysis. Since the solution of 44 simultaneous equations was far beyond the realm of the possible, the 44 sectors were consolidated into a scant ten for computational purposes. . . .

The importance of such tables for economic planning was recognized almost immediately. Within a few years, the US Bureau of Labour Statistics, with Leontief as a consultant, constructed a 400-sector table for projecting post-war employment by major indus-

tries, and the method was being applied all over the world for constructing economic development plans.

Leontief remained in the forefront of these developments. By 1944 he had calculated a table of input coefficients for 1939, comparable with the earlier two tables, and found a satisfactory degree of stability for most of the coefficients extending over two decades. ...

In 1948, Leontief established the Harvard Economic Research Project as a centre for applying and extending input-output analysis. He became director of the Project, and headed it for the next 25 years. He was particularly active in developing interregional input-output analysis and in introducing capital-coefficient matrices to derive the investment implications of changes in final demand and, thereby, to use input-output analysis to generate growth paths as well as static equilibriums of economic systems. (Dorfman 2008)

Leontief described how his aspiration to provide an empirical depiction of the economy differed from the approach of Keynes:

My attitude was rather critical because I felt that he developed his theory to justify his political advice. Keynes was more of a politician than an analyst. I never became a Keynesian, although I wrote some of the first criticisms of Keynes. If you look at my bibliography you'll find them. But I tried to do it systematically, that is, not so much the political side but just the approach, which was for me too pragmatic. Now, you improve the system, all right, but first describe the system in order to improve it. (Leontief 1998, 119)

In 1997 he said:

They [those who translated neoclassical economics into mathematics] would have made more progress if they really had good, very detailed, empirical information. For example, it would be very interesting to see how modern technological change has affected the demand for labor. It might reduce the demand for labor, and even create a social problem, because labor isn't just one more factor of production. Then you will have to support labor. My speculative intuition is that the government now has to support a large part of income through education expenditure, health expenditure, and of course social security—and possibly a kind of welfare—but social security is more important. My feeling is that ultimately the transfer of income so as to provide people money to buy consumers' goods will become part

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of social security. It's already very large—I'm amazed how large my family social security is. (Leontief 1998, 127)

In the same interview, Leontief spoke about where he thought American society was headed:

I think problems of income distribution will increase in importance. As I mentioned before, labor will be not so important, and the problem will be just to manage the system. People will get their income allocated through social security—already now we get it through social security, and we try to invent pretexts to provide social security for people. Here, I think, the role of the government will be incredibly important, and those economists who try to minimize the role of the government, I fear, show a superficial understanding of how the economic system works. (Leontief 1998, 130)

Leontief was throughout his career a proponent of government economic planning (see Leontief 1974). In a 1976 interview, Leontief stated:

I think that the economic concerns of today are a sufficient incentive to justify the need for planning. Planning is possibly the most difficult enterprise a society can undertake and, being difficult, it may produce all kinds of troubles. However, I believe its time has come. I've found recently that a very large proportion of various groups in the population are now ready, in favor of, and pressing for planning. ... Businessmen are now suffering from depression, shortages, and other troubles, and they clearly see that to have profits, along with social progress, there must be a rational approach to the economy. This calls for planning. (Leontief 1976a, 12)

He continued:

[R]adical economists who attack me and say, "What are you doing Leontief, putting terrific power in the hands of the powerful?" My answer is that I think transferring real power from one strata to another is an incredibly difficult process. I think if planning is introduced, the power structure will remain the same and planning will be done by the same people who are now running the country. Essentially, they are doing it anyway, so to my radical friends, my answer is, "Look, since it is being done, why shouldn't it be done more efficiently?" (Leontief 1976a, 13-14)

Leontief argued that the Soviet approach to planning had some merit:

For example, it's said that planning in Soviet Russia is a failure. However, some people find it quite remarkable that a country which is so terribly inefficient has been able to build a powerful economy second only to that of the United States. How did it happen? My explanation is this. It's a miracle that inefficient farms, inefficient offices and inefficient factories have been welded into a very powerful machine. Why? Because they do not make very *big* mistakes.

The difference between the Russian economy and ours is this. We are terribly efficient on the bottom, but we completely mess up the solutions to basic problems: energy, the cities, and so on. The Russians are terribly messy on the bottom, but compensate by not making really big boners. My hope is that American planning, having the advantage of efficient operations on an individual-plant level, will also avoid big mistakes. (Leontief 1976a, 15)

Leontief published an article on “National Economic Planning” in 1976, explaining:

The notion of national economic planning that I have in mind is meant to encompass the entire complex of political, legislative, and administrative measures aimed at an explicit formulation and practical realization of a comprehensive, internally consistent plan there can be, in this sense, no planning. But the preparation of a script is not enough; the play has to be staged and acted out. (Leontief 1976b, 6)

In 1980, Leontief spoke of “planning” in the context of a response to high energy prices:

After the last world war, French planning made a major contribution to the reconstruction of Western European economy. It can and should play an especially decisive role in mitigating the dramatic rise in the price of oil by meeting the challenge of “new technology” coming from within and of vigorous competition of the new third world industries from without. A carefully planned and skillfully managed response should permit the OECD countries to carry out the necessary readjustments and thus secure continuous economic and social advances. (Leontief 1980, 820)

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Speaking to the *Christian Science Monitor* in 1984, Leontief advocated more government planning in America:

“The problem of guiding the economy is like sailing,” [Leontief] says. “You need the wind and a rudder. The wind is the private profit motive. The rudder is government influence.”

The New York University professor continues: “The Russians have a big rudder, but have completely lost the wind.” In contrast, President Reagan has put a big sail on the American economy and the wind is blowing hard. “But if he doesn’t use the rudder he will end up on the rocks.”

With that image, Dr. Leontief supports some modest degree of state planning.

“Planning,” he says, “can never replace initiative, but initiative can never replace planning.” (Francis 1984)

Leontief said that the Reagan administration was taking “a Darwinian approach to economics” (Francis 1984).

In a 1985 op-ed in the *New York Times*, Leontief contributed some ideas on tax and social policy:

Large and steadily increasing Government spending on Social Security, medical care, education and other services contributes more to the reduction of inequality than the “progressiveness” of the personal income tax. This crucial point must not be overlooked in the debate on tax reform and Government spending.

When the progressive income tax was introduced in 1913, it represented the first attempt by our Government to redistribute income by correcting the automatic operation of free-market forces. Our economy is now much more complex and the role of the Government incomparably greater than it was in 1913. The Government now affects income distribution much more by how it spends than by the way it collects its revenues.

A strong argument can thus be made for replacing the system of personal and corporate income taxes, riddled with inefficiencies and fraud, by a much simpler general sales or value-added tax. One can make it “progressive” by imposing higher tax rates on luxury goods such as high-priced apartments, large pleasure boats and stretch limousines, and lower, possibly zero, rates on such necessities as staple foods and ordinary clothing. (Leontief 1985)

He concluded:

What all this means is that the maintenance of economic and social equity within the framework of a dynamic free-enterprise system will increasingly depend on properly directed and, of necessity, costly Government action. It also means that, as time goes on, we will need increasingly efficient means of raising taxes. (Leontief 1985)

In 1990, Leontief lamented the impact of budget cuts under Reagan:

Drastic cuts in public spending (except for military purposes) left the physical infrastructure of this country in ruin. City streets and transportation facilities, water supply and sewage systems, particularly in large metropolitan areas, are collapsing; the once glorious interstate highways are crumbling, and cramped airports are incapable of handling the rapidly increasing traffic. Despite the valiant effort of the underfinanced, underpowered Environmental Protection Agency, our lakes, rivers, and forests are succumbing to deadly acid rain.

What is even worse, the intellectual, cultural and social infrastructure of the country has suffered even more during the greater-than-ever boom than its physical counterpart. Primary and secondary schooling have been so weakened that a whole generation of boys and girls can hardly read, write or count, while the soaring price of higher education (which, in contrast to the United States, is free in most other advanced countries) makes it impossible for many young people to take advantage of it.

No wonder the competitiveness of the United States is rapidly declining; many of our high technology industries are losing one battle after another in the struggle for their share of the foreign market. At the same time, the rich are getting richer, and the poor are getting homeless. (Leontief 1990, E22)

In 1992, Leontief wrote an op-ed titled “Forget the Free Market” that summed up his previous statements on economic intervention and advocated a new New Deal:

Despite [the successes of the New Deal reforms], the debate on the role Government should play in a free market continued unabated. Opponents of “Government meddling” argued that a competitive market system automatically advances the economy’s productivity by eliminating the less competent in favor of more efficient producers.

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Advocates of an active Government argued that the simple picture of an ideal competitive market economy is unrealistic. They maintained that pursuing private economic goals often leads to undesirable repercussions like environmental damage; moreover, the process of natural selection, in which corporate dinosaurs can end up bankrupt and their workers unemployed, can be very costly.

The lively debate of these critically important issues came to a stop when, in the wake of a sharp political sea change during the Reagan years, Government was declared the enemy of the people, public servants were turned into idle bureaucrats and planning became a dirty word. Ten years have gone by and our deregulated economy is not only losing its competitive edge but also its ability to satisfy the material and cultural needs of society. (Leontief 1992)

He concluded by asking:

Why shouldn't our Government rehabilitate our demoralized and tattered Civil Service, and, using its expertise, again take a leading role in solving the difficult economic and social problems facing our country? (Leontief 1992)

In 1993, Leontief was asked if he believed President Clinton's economic plan would succeed. He responded:

President Clinton and his economics team as well as congressional leaders supporting them should realize that without massive and very costly rehabilitation the under-staffed and under-budgeted government agencies will not be able to carry out these necessary data-gathering and analytical tasks. Since major, quite legitimate business interests are bound to be affected by government actions, these tasks cannot be safely subcontracted to independent research organizations. The danger is that after the package is accepted, the planning process will inevitably be reduced to the usual sequence of uncoordinated interventions. (Leontief 1993)

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## Arthur Lewis

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

W. Arthur Lewis (1915–1991) was born on Saint Lucia in 1915. Having kept ahead of his classes, he worked in civil service from age 14 until 1932, when he was eligible to compete for a scholarship. He won the scholarship and went to the London School of Economics to study business administration and law although, as he put it, he “wanted to be an engineer, but this seemed pointless since neither the government nor the white firms would employ a black engineer” (Lewis 1992/1980).

Lewis was a self-described “social democrat” and a member of the Fabian Society, which he termed “the thinking arm of the British Labour Party” (Lewis