

I am grateful to the Russian Academy of Natural Sciences for awarding me the Wassily Leontief Medal, for contributions to the theory of market economy development. But be aware, perhaps as an old-fashioned Russian, Leontief believed in planning. At the beginning of World War II the U.S. economy had to be redirected, to produce military hardware instead of household consumption goods, and the input-output model was used to guide the transition. In theory the Americans could have relied on the market mechanism, with excess demand for aircraft and other military equipment driving up their prices and making large-scale production profitable, but they did not. And they had good reasons.

As Leontief liked to point out, it is reasonable to assume that firms have U-shaped average costs—initially falling because of indivisibilities such as overhead and eventually rising because of capacity problems—and that the market mechanism drives firms to the point of minimum cost. At the level of the industry, average costs tend to be constant. The economy features constant returns to the scale and a peculiar phenomenon occurs. The market prices are such that profits will be zero irrespective the quantities supplied. In other words, market prices are not enough to determine the quantities supplied. Some guidance of the quantities demanded would be welcome.

Leontief regretted that these ideas became out of fashion during the Cold War, when input-output analysis was perceived as a Soviet tool, as well as during the more recent transition to a market economy in Russia.

I have been greatly influenced by his ideas, particularly when I was his research assistant at New York University. Like his, my inclination is towards theory, but he urged me to apply new ideas to data, if only to show that they work. He told me to study the Canadian input-output accounts. "They are much better." I got hooked to the Canadian economy for years. And the confrontation with data has posed challenging problems.

There is a very recent resurgence of input-output analysis. Three reasons explain this phenomenon. In the theory of international trade the neoclassical paradigm, that relative factor abundance explains the comparative advantages, is augmented. Technology differences are factored in and that requires input-output analysis. Moreover, technology spillovers—a very hot globalization issue—are analyzed with the same tool. Last, but not least, the OECD in Paris has organized and maintains a consistent international input-output database. It is a pity that Wassily died just too early to witness the resurgence.

So many memories cross my mind when I think of him. Perhaps one is worth sharing with you. Wassily could never keep his mouth shut. At an NYU seminar a distinguished MIT Professor asked trivial questions for the sake of a pedagogic presentation. However, Leontief would answer them quickly, and not once but each time! The situation became embarrassing and Professor Bever observed: "Of course your answer is right, Professor, but the question was meant for the students." Leontief rebuked: "Here we are all students."

Thank you for your attention.