

ECONOMICS OF PLANNING

Vol. 14, No. 3, 1978

BOOK REVIEWS

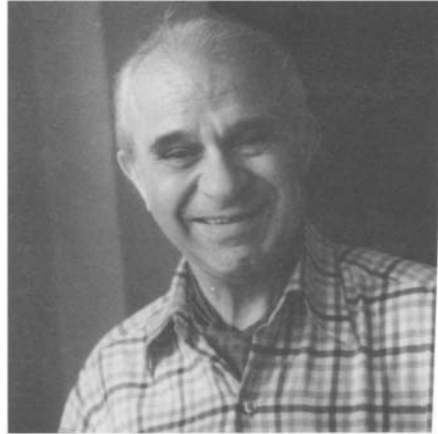
Wassily Leontief

Essays in Economics:

Theories, Facts and Policies.

Vol. II

M.E. Sharpe, Inc.,
New York, 1977,
US \$15.00



This collection of eleven previously published papers is a sequel to a similar volume which appeared in 1966. While the first volume included Leontief's contributions in a wide range of fields, the essays of the second volume are thematically much closer to each other with input-output economics as the central theme. Apart from the first two essays they are all works from after 1966.

The first essay is more than fifty years old. It is reprinted from Spulber's selection of articles from Soviet economic journals in the 1920's with the original source given as the journal *Planovoe Khozyaistvo*, 1925. In his *Political Economy* (p.185), Oskar Lange says about this article that it was the first outline of the basic concepts of input-output and that it was written by Leontief while he was an employee of the Gosplan. In the article Leontief comments in a generally laudable way upon the efforts of Soviet statisticians to present their data in the form of a tableau economique but with critical remarks pertaining to the neglect of non-material production, the treatment of intermediate costs et al. The article is interesting for whatever light it might throw on the origin of input-output analysis, but it can hardly be called an outline of the basic concepts of that method of analysis. (Lange was mistaken also on the other count as Leontief was never an employee of Gosplan. For the historical record it should perhaps have been mentioned in the book that the article which appeared in *Planovoe Khozyaistvo* in 1925 was pirated in a slightly edited version from the German journal to which Leontief submitted his article).

The second essay is also fifty years old. In addition to a criticism of the German industrial statistics at the time, it outlines a theory of concentration in industry based on indivisibility as the explanation of the optimal size of firms.

Four of the essays are well known to students of input-output economics. They include the article about the dynamic inverse and two articles on environmental economics. In the latter field Leontief once again opened up an operational approach to the analysis of significant and pressing problems.

Two essays address the problems of international trade. In one of them

Leontief carefully dissects the argument put forward by Minhas in his *An International Comparison of Factor Costs and Factor Use* to show that the data used by Minhas was perfectly consistent with, or rather favour, the opposite conclusion to the one Minhas thinks he has proved. This essay gives as good example as any of the Leontief at his best: the painstaking data analysis, the unfailing sense of economic relevance and the ingrained scepticism of over-refinement in the use of analytic tools.

The essays include both the presidential address to the American Economic Association in 1970 and the Nobel Lecture of 1974. The Nobel lecture can be viewed as a trailer of the massive undertaking led by Leontief and Anne Carter which was published by the United Nations in 1977 as *The Future of the World Economy*, and has perhaps less lasting interest. The presidential address is a lot more controversial. In the address Leontief launched a severe criticism of dominant trends among American economists. The content of the address has been misrepresented as being an attack on the use of mathematics in economics. That would have been strange, indeed, coming from Leontief. His point is best stated in his own words. "The weak and all too slowly growing empirical foundation clearly cannot support the proliferating superstructure of pure, or should I say, speculative economic theory". The situation has not led to increased interest in improving the empirical foundation but rather the opposite. "Continued preoccupation with imaginary, hypothetical, rather than with observable reality has gradually led to a distortion of the informal valuation scale used in our academic community to assess and to rank the scientific performance of its members. Empirical analysis, according to this scale, gets a lower rating than formal mathematical reasoning". To put the boat back on an even keel as the first step of getting anywhere Leontief makes an eloquent and convincing plea for a large-scale effort towards securing a massive flow of primary economic data. For this to come about funds must be appropriated for the statistical agencies, but it is also necessary that the economists play a leading role in the widening and deepening of the empirical foundations of economics.

The last essay in this collection is also a plea, a persuasive plea for national economic planning in the United States written in 1976. The essay does not really deal with the planning problem as such but is directed towards removing the inborn inhibitions of the American public against economic planning. Leontief has been a consistent spokesman for the use of economic tools to improve the national welfare. Leontief may well find solace in the fact that although the Eisenhower administration decided to cut off federal support for his input-output analysis project twentyfive years ago because of the potential subversive aspect of tools of analysis that seemed so well suited for national economic planning, his struggle has not been in vain.

Olav Bjerkholt, Central Bureau of Statistics of Norway

Dronningens Gate 16, P.B. 8131, Dep., Oslo 1, Norway. Tel. 47-2-41 3820.

William Krehm

Babel's Tower – the Dynamics of Economic Breakdown.

Thornwood Publications,

Toronto, 1978,

Hard cover \$13.95, Soft cover \$8.95

This is an ambitious book, although “ambition should be made of sterner stuff”. Mr Krehm has undertaken to replace the accumulated body of economic thought with a new theoretical structure “indispensable for understanding and managing our mixed economy”. In his quest, the author, who is apparently not a professional economist, draws from resources of several branches of mathematics, philosophy, sociology, history, economics and physics, and displays an awesome, omnivorous reading appetite.

Personally I find chapter six, Policy in a Pluralistic Economy, the most substantial and interesting one in the book. Here are found many of the author's recommendations or as he puts it “a random sampling of the policy insights that will come from a theory that is relevant to our pluralistic reality” (p.83). Many of the policy recommendations, although of varying degrees of novelty, are interesting and worth serious thought for example “detaxation”, “tax-bonding”, basic income, housing reforms and new types of collaboration between the public and private sectors. Yet I fail altogether to see why Mr. Krehm needed a new cosmology to work out his ideas.

Babel's Tower – the Dynamics of Economic Breakdown is in eight chapters with an appendix on the housing situation in Canada in the light of Krehm's theories by Prof. Samuel Madras, Library Science Program, York University.

Chapter one, Roots, is a survey of economic theory from Adam Smith to A.W. Phillips with a welter of other information thrown in. This chapter also introduces some of the author's own ideas such as the *social lien*, the “layer of taxation in price”.

Chapter two, Descent into Metaphysics, is just that. The author rejects “the peculiar empiricist tradition in the Anglo-Saxon world, and complains of “an abiding superstition that whatever is not facts and figures is bound to be a waste of time” (p.21).

Chapter three, Detour Through Systems Dynamics is more interesting and

includes an application of methods developed by Jay W. Forrester, an approach which has the merit to set "aside everybody's dogma . . . [and] tell things like they are". Six subsystems are outlined: the pure and perfect market, the Keynesian subsystem, the social lien, social revalorization, the personal service quotient, and the ecological and resources subsystem. The subsystems are finally brought together in a diagram, using arrows with plus and minus signs to show their interaction with price. A layer theory of price based on this conceptual scheme is then advocated as a substitute for conventional supply and demand analysis.

Chapter four, Entropy – Fine-Tuning for the Heat Death, introduces the second major theoretical tool of Mr. Krehm's world, although it is not entirely his creation. "Entropy – the running out of negentropy – bids well to become the dominant symbolism of our day. It is coming to pervade every area of social thinking with but a single exception – economic theory" (p.46). I find the author's attempts to apply the second law of thermodynamics to his problems "words, words, mere words, no matter from the heart". Actually very little is said about the structure of his entropic theory, and most of the illustrative examples of its use follow directly from standard economic analysis.

Chapter five, Policy Operators – the Tablets from the Mount, puts forth 11 primary propositions of Mr. Krehm's system, beginning with "price is a summation". Chapter six contains various policy recommendations, as was already mentioned, and chapter seven presents the author's views on the world economy and an application of the layer theory of price. A large and growing taxation layer in the import prices of underdeveloped nations is seen as a primary reason for the deterioration of their terms of trade. "The prices of their imports will be part-payment for the costly social services of the advanced societies" (p.97).

The final chapter, War-Paint and Economic Cannibalism, deals primarily with the effects of inflation on allocation and distribution, but the discussion is fragmentary. In his treatment of inflation-induced wealth redistribution, the author does not distinguish between nominal and real interest rates, and he does not make it clear that only net-monetary-debtors gain by inflation, and only when loans are made without sufficient adjustments to allow for the depreciation in the value of the unit of money.

Reading Mr. Krehm's book, I was left with the impression that in the final analysis he is primarily rebelling against "excessive" taxation and mindless government interference with private enterprise which in his opinion has already paralyzed the price mechanism and made the mixed economy unmanageable. Another of Mr. Krehm's fundamental propositions is the assertion that the rapid growth of the public sector has in recent years resulted in a rising price trend independently of the level of aggregate demand. This follows from his layer theory of price whereby the steady growth in taxation must seep into prices and the only way to get rid of the "price gradient" is "to bleed as much taxation out of price as possible" (p.83).

Apparently the author's ambition is to find ways to improve the working of the price mechanism in a mixed economy, and at the same time ensure a just income distribution, adequate welfare services, and proper regard for ecological constraints. Unfortunately Mr. Krehm is bogged down in his efforts to create a new science, and nearly drowned in an elegant display of multi-disciplinary learning, but his fundamental ideas remain under-developed. I would like to know much more about the mechanics of his new system, and the detailed implications of his policy recommendations. For example, how exactly do taxes affect the price level and do different taxes affect it differently?

I believe that the author would do well to throw away the entropy concept, and even system dynamics, and work out his imaginative ideas in terms of modern economic theory. Mr. Krehm has more use for economics than he thinks, and I am sure that even Leon Walras, one of the author's chief antagonists, may in his celestial abode look with pleasure on the book's concluding paragraph where it says: "any economic program that is advanced without an attempt to explore its effects on all subsystems, and thus its total cost, must be seen as anti-social" (p.115).

Thrainn Eggertsson, University of Iceland.

P.O.B. 965, Reykjavik, Iceland.

ЭКОНОМИКА ПЛАНИРОВАНИЯ

Теория и практика плановых хозяйств и их отношения с рыночными хозяйствами

Международный орган, издаваемый Институтом по Изучению СССР и Стран Восточной Европы, Бирмингемского Университета, при экономической поддержке Королевской Академии Наук и Государственного Совета Общественных Исследований Швеции, Совета Обще-научных Исследований Норвегии и Государственного Банка Финляндии.

Главный редактор: Т. О. М. Кронше.

Комитет управления: Роберт Уильям Дейвис, Джон Данстен, Филип Гансен, Мадху Канбур, Том Кронше.

Международный редакционный совет: Гуннар Адлер-Карлссон, Дания — Лейф Югансен, Норвегия — Эрки Лаатто, Финляндия — Гуннар Мюрдаль, Швеция — Рейно Росси, Финляндия — Ян Серк-Ханссен, Норвегия — Кнут Эрик Свендсен, Дания.

Заместитель главного редактора: Карл-Луи Сандблум.

Датский редактор: Петер М. Прузан. **Исландский редактор:** Траин Егертсон. **Финский редактор:** Илмари Сусилуото. **Норвежский редактор:** Олав Бьеркголт. **Шведский редактор:** Ян-Оке Делленбрант. **Венгерский редактор:** Густаф Багер. **Польский редактор:** Войчех Мачейевски. **Советский редактор:** Тигран Сергеевич Хачатуров. **Югославский редактор:** Любиша Адамович.

Подписная цена на год £12, почтовая пересылка бесплатна. Могут быть заказаны предыдущие номера, 3 номера в год.

Заказы, статьи для опубликования, книги и журналы для рецензий следует направлять по адресу: Economics of Planning, Centre for Russian and East European Studies, University of Birmingham, P.O. Box 363, Birmingham B15 2TT, United Kingdom.