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KANTOROVICH OPPOSES THE CENTRALISTS

In an article in the latest issue of the Bulletin of the Academy of Sciences, USSR,¹ Academician L.V. Kantorovich comes out strongly against the school of economists who believe in centralized decision-making. Urging the more widespread use of mathematical methods to achieve optimal planning, Kantorovich writes that:

... The system of optimal planning in no way presupposes the full centralization of economic decisions. On the contrary, because the optimal economic plan can be combined with a coordinated system of prices and other social evaluations (the rate of return on capital, land rent, rent for raw materials etc.), it is possible for decisions to be taken locally which are coordinated to the maximum extent with the interests of the national economy. This contributes to the widespread utilization of the initiative of the production staffs, to the possibility of mobilizing local resources and discovering local reserves; it permits the expansion of the rights of individual economic sectors, and the build-up of a system of evaluation and stimulation of the work of these sectors, whereby that which is profitable for society as a whole also becomes profitable for each factory. In other words such a system creates the theoretical basis for solving the problem of combining centralized guidance of the economy with widespread local rights and initiative on the basis of economic methods of management.

1) No. 10, 1966.

Kantorovich then goes on to explain that a great deal of preparatory work remains to be done before optimal (i.e. mathematically based) planning can be introduced at every level of the economy. For example, greatly improved economic and statistical information will be required, as well as computer centers etc. The necessary research work has been begun, but at present its scale and intensity is still far below the level required to make optimal planning by mathematical methods a practicable solution.

Nevertheless Kantorovich argues that many individual problems can be tackled now, and the results incorporated during the present 5-year plan. On the subject of the formation of prices, he writes that it is not enough to reflect the labor expenditure in a given sector, or enterprise, but that the full cost to society as a whole (by which he means differential costs, interest rates and rents etc.) must also be taken into account. He accepts the view that the rate of interest payable in various industries should be differentiated, and believes that mathematical methods can be used to optimize them.

The choice of the best growth rate (not necessarily the highest), and of the optimal balance between consumption and accumulation are two other crucial areas in which Kantorovich believes that mathematical methods should be more fully used in long-term planning. It is now too late for the 1966-70 plan to be affected by any such decision, but in the 1970-75 period it seems likely that the Kantorovich school of thought will have an appreciably greater impact on the final shape of the plan.

"Elements of Spontaneity"

Kantorovich points out that in a socialist economy there are some factors which cannot be planned. These are the "elements of spontaneity" as he calls them, and the results of free economic decisions (consumer choice, the movement of labor into one industry rather than another or from one area to another, etc.). He therefore urges the use of mathematical methods in market research, in programming the production of consumer goods, and in determining retail prices, wages, bonuses and taxation.

Can the Centralization Issue be Solved Mathematically?

By far the most important question raised by Kantorovich is the possibility of the development of models to give a quantitative picture of systems of administration and of

the use of information. He writes that this is an "extremely urgent"² problem, and then says:

Such models should, for example, compare the harm done by excessive centralization (inflexibility and the vast bulk of the system, the restriction of local initiative) with the harm done by decentralization (lack of coordinated action), or by the shortage or surplus of information. Analysis of these problems would permit a better approach to the establishment of a rational structure and system of administration. At the same time these questions should be decided in coordination with the planning mechanism.

This would seem to be potentially a most valuable proposal. If such a model could be properly constructed and used objectively, it might well show that a much greater degree of decentralization would benefit the running of the economy. At the same time it is the kind of "objectivist" suggestion which is likely to arouse a storm of protest and criticism from the neo-Stalinist economists who believe in maximum centralization, and who have frequently argued that the arrival of the computer era should enable them to achieve it. The position of these remnants of a bygone age is completely undercut by Kantorovich's reminder of the presence of spontaneous and unplannable elements in a "socialist" economy, and in this respect Kantorovich's position is close to that of Kosygin.

On the other hand it is most improbable that any Politburo, no matter how revisionist it might be, would allow its decisions concerning the desirable degree of centralization to be dictated by a mathematical model such as Kantorovich now proposes. Nevertheless he and the Academy of Sciences have tabled the question, and it seems quite probable that a model on these lines will in fact be constructed. Its results might well favorably influence the future decisions made by the Politburo concerning the eternal conflict between centralization and decentralization, even though the last word will clearly remain with the Kremlin. But at least the Politburo would then have a better basis than in the past for taking its decisions and for reducing the numerous elements of "subjectivism" in them. Altogether it looks as though Kantorovich's idea may one day make a real contribution to the establishment of a more rational type of planned economy.

r.r.g.

2) Emphasis supplied.