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## On the Structure and Methods of Socialist Planning I

by Ayako Hirano

According to Prof. Maurice Dobb, what the main functions of planning in a socialist economy will be is fairly easy to see, as well as the type of situation in which its advantages over any alternative economic mechanism will be marked.

Even more important theme from a production-standpoint, if a certain rate of growth is expected, is that the industries producing things like constructional steel, building materials and the requisite types of technical equipment, should be capable of turning out these things in sufficient quantities to sustain this rate of growth and construction, and moreover should themselves be expanding their productive capacity in an appropriate degree so that their own output should continue over the period to be adequate to the needs of growth in the economy at large.

The centralised planning is likely to show greatest superiority as an economic mechanism when for any reason large structural changes are occurring in a country's productive system and where economic growth has priority as a social objective.

Even before 1965, the changes had been introduced in East Germany (D.D.R.): changes that were followed by Poland a year or two later. None of these decentralising changes, whether called simply "reforms" or a "new economic mechanism", went so far in relaxing centralised control as had Yugoslav scheme of 1950-1. The crux of this change was the restoration of "market autonomism", the institution of the so called "self-managing enterprise" as basic industrial unit.

In 1918, Lenin said in a speech, "Workers' control, which in all the main branches of industry was bound to be chaotic, disorganised, primitive and incomplete, is now giving place to *workers' management of industry* on a national scale." The most important and most valuable is that the workers have themselves taken a hand in managing.

The worker's management of industry\_\_\_\_. Surely an essential aspect of the mature development of socialism is absent in the problem of decentralisation of the planning and administration of industry in exclusively technical terms. After a period of hyper-centralisation being almost inevitable in the first country to build socialism in a backward country, it must be necessary to have decentralising measures in the economic reform.

However, we are faced with a choice between two alternative systems of planning, highly centralised and relatively decentralised, each having its own methods, instruments and consistency-requirements. The major problem is not in decentralising decision-taking to the enterprise-level,

nor in enhancing democratic participation in framing policy at the enterprise level, but in realising the real, democratic participation in framing policy for planning with the majority of the people themselves in the community of socialism.

## On the Nature of Second Best Solutions

by Kunio Kawamata

It was maintained by Lipsey and Lancaster [2] that "if there is introduced into a general equilibrium system a constraint which prevents the attainment of one of the Paretian conditions, the other Paretian conditions, although still attainable, are, in general, no longer desirable," and that "an optimum situation can be achieved only by departing from all the other Paretian conditions." Although this statement is doubtlessly true, we demonstrate in this paper that there are important cases where we can make some meaningful *a priori* judgement.

The main assumptions we employ to prove our results are roughly as follows. First, it is assumed that in the framework of Lipsey and Lancaster [2], the transformation function is quasi-convex and the objective function is quasi-concave. Secondly, it is required that certain pairs of a fixed three goods are substitutive in consumption and complementary in production in the Hicksian sense. Based on these assumptions, we establish, as our main result, that given a non-curable distortion of a commodity market, the degree of which is measured by the ratio of the marginal rate of substitution in consumption to the marginal rate of substitution in production between this commodity and a numeraire, the distortion in any other commodity market in the second best situation must be smaller than the above ratio.

On the way of proving this theorem we shall also generalize a proposition obtained by Davis and Whinston (1). We shall also formulate the problem in a slightly different way and state analogous theorems. Finally we shall comment on some of the related results in the literature.

### References

- [1] Davis, O. A., and Whinston, "Welfare Economics and the Theory of Second Best," *Review of Economic Studies*, Vol. 32 (January, 1965), pp. 1-14.
- [2] Lipsey, R. G., and K. J. Lancaster, "The General Theory of Second Best," *Review of Economic Studies*, Vol. 24 (1956-57), pp. 11-32.