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# ASSIGNMENT PROBLEMS AND THE LOCATION OF ECONOMIC ACTIVITIES<sup>1</sup>

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Two problems in the allocation of indivisible resources are discussed. Both can be interpreted as problems of assigning plants to locations. The first problem, in which cost of transportation between plants is ignored, is found to be a linear programming problem, with which is associated a system of rents that sustains an optimal assignment. The recognition of cost of interplant transportation in the second problem introduces complications which call for more laborious and largely unexplored computations and which also appear to defeat the price system as a means of sustaining an optimal assignment.

## 1. THE ALLOCATION OF INDIVISIBLE RESOURCES

THERE ARE several important areas of economic analysis in which progress depends on the development of methods for solving or analyzing problems in the efficient allocation of indivisible resources. In the first place, there are practical decision problems, such as determining suitable numbers of machine tools of various kinds within a plant, or choosing the number and sites of dams in river valley development. Furthermore, indivisibilities in the more highly specialized human or material factors of production are in many cases at the root of increasing returns to the scale of production, whether arising within the plant or firm, or in relation to a cluster of firms through so-called "external economies." Thus, strong interest in the effects of indivisibilities derives from the fact that if in an industry increasing returns to scale persist at a level of production comparable to total demand in the relevant market, this precludes perfect competition and thus presumably reduces the effectiveness of the price system in efficiently allocating resources. Finally, the theory of the location of economic activities has no chance of explaining such interesting realities as large and small cities without recognizing indivisibilities in the processes of production and in human existence.

In the light of the practical and theoretical importance of indivisibilities, it may seem surprising that we possess so little in the way of successful formal analysis of production problems involving indivisible resources. However, the mathematical difficulties that arise in attempts to construct a general theory of allocation of indivisible resources have so far seemed quite formidable. Perhaps the best chance of progress lies in isolating for detailed study a few rather limited but well defined problems, proceeding gradually from crude simplicity and

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artificiality to more realistic complexity. The present paper is offered with such a motivation.

## 2. THE LINEAR ASSIGNMENT PROBLEM

A relatively simple problem in the allocation of indivisible resources is that of matching two sets of an equal number  $n$  of objects, by making up pairs of objects consisting of one object from each set. Objects belonging to the same set are similar in kind but not identical. For each of the  $n^2$  possible pairs a score or value is given. The problem is to find a matching (or assignment to each other) of objects for which the sum of the scores of pairs matched is as high as possible. There are a variety of practical decision problems of which this is an idealization. In particular, the problem of assignment of persons to jobs or job categories on the basis of performance scores in psychological tests was discussed originally by Thorndike [1950] in these terms.

Because of an underlying interest in location theory, we shall here discuss the problem in terms of assigning industrial plants to locations. Each plant, still on the drawing board, is supposed to have a given expected profit in each location, different locations having different suitabilities for the production processes to be carried out. Transportation costs of primary inputs or final outputs to or from the location in question may also enter into the profitability comparisons. However, for the moment we rule out any consideration of transportation of intermediate commodities between plants to be assigned, or any other circumstances that could make the profitability of any plant at any location depend on the manner in which the remaining plants and locations are matched. The problem then is to find an assignment that makes the sum of the profits obtainable from all plant-location combinations selected as large as possible.

It will be clear that this problem is fully defined by its mathematical formulation, given below, independently of the locational interpretation that interests us in particular. Moreover, the latter interpretation gives an artificial and rigid picture of locational problems as compared with the complexities and degrees of flexibility found in reality. The subdivision of land into lots is actually not given in advance by nature, but is capable of continuous variation. The choice of the types and sizes of plants to be built, and of the number of each type, is likewise not prescribed, but is to be determined in response to the structure of demand, the technology of production, and the availability of resources. Our reason for ignoring all these dimensions of flexibility is that in this exploratory study we wish to admit only discrete choices, so as to examine the effects of indivisibilities in isolation before facing the complications that arise if both discrete and continuous decision variables are present. It is believed that important features of these purely discrete models will recur in more realistic mixed discrete-and-continuous models.

The profitabilities of the  $n^2$  possible plant-location pairs can be set out in the form of a square matrix, the typical element  $a_{ki}$  representing the profit expected from the operation of plant  $k$  in location  $i$ . A possible *profitability matrix* of the order  $n = 4$  would be

$$(2.1) \quad \begin{array}{c} \text{Plants} \\ \begin{matrix} 1 \\ 2 \\ 3 \\ 4 \end{matrix} \end{array} \begin{array}{c} \text{Locations} \\ \begin{matrix} 1 & 2 & 3 & 4 \end{matrix} \\ \left[ \begin{array}{cccc} 25 & \mathbf{20} & 5 & 19 \\ 18 & 3 & \mathbf{0} & 12 \\ \mathbf{22} & 4 & 2 & 12 \\ 16 & 7 & -2 & \mathbf{10} \end{array} \right] \end{array} = [a_{ki}] = A.$$

The bold-faced entries represent a maximal assignment, with a total profit of 52 units. Note that the most profitable pair, plant 1 in location 1, does not occur in a maximal assignment. Prescribing it would diminish the maximum profitability attainable by suitable assignment of the other three plants to 46 units.

The unknown assignment with which our problem is concerned can itself be represented by a so-called *permutation matrix*. This is a matrix  $P = [p_{ki}]$  of which each row and each column contains a single element 1, while all other elements are 0. The particular permutation matrix that represents the solution indicated in (2.1) to that problem is

$$(2.2) \quad \begin{array}{c} \text{Plants} \\ \begin{matrix} 1 \\ 2 \\ 3 \\ 4 \end{matrix} \end{array} \begin{array}{c} \text{Locations} \\ \begin{matrix} 1 & 2 & 3 & 4 \end{matrix} \\ \left[ \begin{array}{cccc} 0 & 1 & 0 & 0 \\ 0 & 0 & 1 & 0 \\ 1 & 0 & 0 & 0 \\ 0 & 0 & 0 & 1 \end{array} \right] \end{array} = [\hat{p}_{ki}] = \hat{P}.$$

Each row shows the location assigned to the corresponding plant by the place of the unit element. The profit from that assignment can be written as a double sum

$$(2.3) \quad \pi = \sum_{k,i=1}^4 a_{ki} \hat{p}_{ki} = 22 + 20 + 0 + 10 = 52,$$

in which the positions of the unit elements in  $\hat{P}$  indicate which elements of  $A$  are included in the addition. We note in passing that the permutation obtained from  $\hat{P}$  by interchange of the locations of plants 2 and 4 also presents a solution to the problem. We also note that the double sum formula  $\sum_{k,i} a_{ki} p_{ki}$  can of course serve to indicate the total profit from the selection of any other permutation  $P$ . (From here on we shall use the terms “permutation” and “permutation matrix” as interchangeable.)

The mathematical formulation of our problem then is to find a permutation matrix  $\hat{P} = [\hat{p}_{ki}]$  of the same order  $n$  as the given matrix  $A$ , such that (omitting summation limits  $k, i = 1, \dots, n$ )

$$(2.4) \quad \sum_{k,i} a_{ki} p_{ki} \leq \sum_{k,i} a_{ki} \hat{p}_{ki}$$

for all permutation matrices  $P = [p_{ki}]$  of that order. The problem is, of course, symmetric as between plants and locations: these two words are interchangeable in all interpretations to be given.

It is well known that, if we modify the matrix  $A$  of given profitabilities by adding any (positive or negative) constant to any row (or column), both members of (2.4) are increased by that same constant, because exactly one element out of that row (or column) is selected by any permutation for incorporation in the summation. Hence any solution  $P$  of the original problem remains a solution of the modified problem. This expresses the obvious fact that, if the conditions of the problem do not permit us to withhold any of the plants from assignment, only the differences in the profitability of each plant between locations matter, not the absolute amounts of profit. For some purposes, it will be convenient to use this freedom to modify the original problem so as to make the "profits" from all combinations positive, thus

$$(2.5) \qquad a_{ki} > 0, \qquad \text{for } k, i = 1, \dots, n.$$

The only choice studied is to select one out of the  $n!$  permutations. This being a finite (though possibly large) number, the brute force method of listing all permutations, evaluating the maximand for each and selecting a permutation with highest value of the maximand, is "in principle" available. This consideration led a mathematician approached by Thorndike [1950] to declare the problem trivial. However, there remains considerable mathematical challenge in the problem of finding short cuts that will extend the range of values of the "problem size"  $n$  for which we can hope to solve actual problems by computation on available computing equipment from limited budgets. There is also a challenge to the economist in the question whether a price system is possible which will sustain an optimal assignment if locational decisions are made independently by  $n$  entrepreneurs, in response to prices and on the basis of their own knowledge of profitabilities of given production processes in alternative locations.

In both of these aspects, the solving of this problem has been decisively facilitated by von Neumann [1953], who observed that a mathematical theorem due to Birkhoff [1946] is the clue to an important simplification of the linear assignment problem. Von Neumann used this clue to construct a zero-sum two-person game which is equivalent to the linear assignment problem, and which we shall briefly describe in Section 5 below. However, we shall in the next section study more closely an equivalent linear programming problem derived from the same clue.

### 3. AN EQUIVALENT LINEAR PROGRAMMING PROBLEM

This problem is obtained by blandly ignoring the indivisibilities of plants, and admitting the assignment of *fractional plants* to locations in our model even though this is supposed to be meaningless from a realistic point of view. The profit obtained from a fraction  $x_{ki}$  of plant  $k$  at location  $i$  is "postulated" to be  $a_{ki}x_{ki}$ , that is, that same fraction  $x_{ki}$  of what the profit from the entire plant  $k$  would be at location  $i$ . The earlier assumption that there is no interaction between the profitabilities of plants at different locations is now extended to an "assumption" of no interaction between fractions of plants whether at the same

or at different locations. Accordingly, the maximand in this fictitious problem is again of the form

$$(3.1) \quad \sum_{k,i} a_{ki} x_{ki}.$$

However, the unknowns  $x_{ki}$  are no longer restricted to the values 0 or 1. They are subject only to the "milder" restrictions<sup>2</sup>

$$(3.2) \quad \begin{cases} (3.2.1) & \sum_i x_{ki} = 1, & k = 1, \dots, n; \\ (3.2.2) & \sum_k x_{ki} = 1, & i = 1, \dots, n; \\ (3.2.3) & x_{ki} \geq 0, & k, i = 1, \dots, n. \end{cases}$$

The first of these expresses that precisely one plant of each kind is to be assigned. The second expresses that precisely one location of each kind is available, and that a location is fully taken up when the sum of the fractions of all plants assigned to it equals one. The last restriction precludes the assignment of negative amounts of plant.

Consider the set  $R$  of points in the Euclidean space with  $n^2$  coordinates  $x_{ki}$ ,  $k, i = 1, \dots, n$ , that satisfies the restrictions (3.2). It is the geometrical image of the set of all possible assignments, in integral units or by fractions, of  $n$  plants to  $n$  locations. It is formed by the intersection of  $2n - 1$  hyperplanes (of  $n^2 - 1$  dimensions each) with  $n^2$  halfspaces. Since the resulting set is bounded (each  $x_{ki}$  is necessarily wedged between 0 and 1 as attainable lower and upper bounds), the set  $R$  is a convex polyhedron. Birkhoff's theorem identifies all its vertices. It establishes that these are precisely the  $n!$  permutation matrices<sup>3</sup>  $[p_{ki}]$ . Thus, for  $n = 2$ , the set  $R$  is a line segment with endpoints in

$$\begin{bmatrix} 1 & 0 \\ 0 & 1 \end{bmatrix} \quad \text{and} \quad \begin{bmatrix} 0 & 1 \\ 1 & 0 \end{bmatrix}.$$

For  $n = 3$ , it is a four-dimensional polyhedron with vertices in the six points

$$\begin{bmatrix} 1 & 0 & 0 \\ 0 & 1 & 0 \\ 0 & 0 & 1 \end{bmatrix}, \quad \begin{bmatrix} 1 & 0 & 0 \\ 0 & 0 & 1 \\ 0 & 1 & 0 \end{bmatrix}, \quad \begin{bmatrix} 0 & 1 & 0 \\ 1 & 0 & 0 \\ 0 & 0 & 1 \end{bmatrix}, \quad \begin{bmatrix} 0 & 1 & 0 \\ 0 & 0 & 1 \\ 1 & 0 & 0 \end{bmatrix}, \quad \begin{bmatrix} 0 & 0 & 1 \\ 1 & 0 & 0 \\ 0 & 1 & 0 \end{bmatrix}, \quad \begin{bmatrix} 0 & 0 & 1 \\ 0 & 1 & 0 \\ 1 & 0 & 0 \end{bmatrix},$$

respectively.

It is intuitively obvious, and not hard to prove,<sup>4</sup> that a linear function defined on a convex polyhedron will reach its maximum in a vertex. If this maximum is not reached in any other vertex, then it is not reached in any other point of the polyhedron either. If it is reached in more than one vertex, then it is also reached in all points of a "face" of the poly-

<sup>2</sup> One of the restrictions (3.2.1), (3.2.2) is redundant and can be derived from the others by simple additions and subtractions based on the identity

$$\sum_k \sum_i x_{ki} = \sum_i \sum_k x_{ki}.$$

<sup>3</sup> For a proof see Appendix A. For mathematical discussion and references relating to the linear assignment problem, see Motzkin [1954].

<sup>4</sup> See, for instance, Koopmans [1951], p. 88, footnote 17.

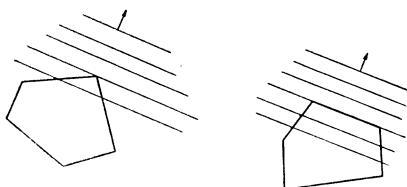


FIGURE 1.—Maximum of a Linear Function on a Polyhedron.

hedron, that is, a polyhedron contained in the boundary<sup>5</sup> of the original polyhedron, and having as its vertices all those vertices of the original polyhedron where the function reaches its maximum. The two cases are illustrated in Figure 1.

These simple facts of geometry clarify the relations between the linear assignment problem, and the linear programming problem (3.1), (3.2) that we have substituted for it. Any solution of the former is necessarily a solution of the latter. If the former problem has only one solution (one optimal assignment), then this is also the unique solution of the latter. If the former has more than one solution, then the latter has as its solution all points of a polyhedron which is spanned by the solutions of the former as vertices. Thus, by permitting fractional assignments, we have not lost from the set of solutions any of the *integral* (i.e., non-fractional) assignments that solve our problem.

Even so, the reader will wish to know what is the advantage of the enlargement of our problem obtained by admitting fractional assignments. Of the two important advantages, the first was pointed out by von Neumann. A great simplification in the computation of solutions is obtained, which brings a large class of problems of respectable magnitude within the power of available computation equipment.

The straightforward, brute force method requires the evaluation of the maximand in each of  $n!$  permutations. For  $n = 10$ , the number  $n!$  is about 3.6 million. On the other hand, the linear programming problem (3.1), (3.2) contains  $n^2$  unknowns (100 if  $n = 10$ ) subject to  $2n - 1$  restraints (19 if  $n = 10$ ). Moreover, as was observed by Votaw and Orden [1952], this linear programming problem is an especially simple representative of the category of transportation problems [Koopmans and Reiter, 1951], itself a category with special features that permit solution by a straightforward algorithm<sup>6</sup> [Dantzig, 1951; Flood, 1953].

The second advantage that can be derived from the consideration of fictitious fractional assignments is the subject of the next section.

#### 4. A PRICE SYSTEM ASSOCIATED WITH A SOLUTION OF THE LINEAR ASSIGNMENT PROBLEM

It is well known that with each solution of a linear programming problem (and more generally with each efficient point in a linear activity analysis problem<sup>7</sup>)

<sup>5</sup> Provided the given linear function is not a constant.

<sup>6</sup> The simplification has been carried one step further in a recent article by Kuhn [1955], which proposes an algorithm for the case where all  $a_{ki}$  are integers.

<sup>7</sup> See Koopmans [1951].

one can associate a price system for the commodities involved that has the property of preserving the optimal (or efficient) point under decentralized profit-maximizing decision-making. The underlying mathematical fact can be put in the form of the Minkowski-Farkas lemma for linear inequalities [see Gale, Kuhn and Tucker, 1951], which in turn can be derived from a separation theorem for convex sets [see, for instance, von Neumann and Morgenstern, 1947, sec. 16.3]. In the case of the transportation model (and hence also of the linear assignment problem), a simple constructive proof of the properties of such a price system can also be given [Koopmans and Reiter, 1951]. Here we shall merely state the proposition in question as applied to the linear assignment problem, and derive it from the Minkowski-Farkas lemma in Appendix B.

Let an integral optimal assignment be given, and let plants and locations be renumbered in such a way that in that optimal assignment each plant is matched with the location bearing the same number. Then, according to our theorem, there exists a system of rentals  $q_k$ ,  $k = 1, \dots, n$ , on all plants and  $r_i$ ,  $i = 1, \dots, n$ , on all locations such that

$$(4.1) \quad \begin{cases} (4.1.1) & a_{kk} = q_k + r_k, & k = 1, \dots, n, \\ (4.1.2) & a_{ki} \leq q_k + r_i, & k, i = 1, \dots, n. \end{cases}$$

Conversely, if such a system of rentals exists, then the matching of plants to locations bearing the same number is an optimal assignment.<sup>8</sup>

The first condition (4.1.1) states that the profit from each plant-location pair in an optimal assignment can be split into two parts, one a rental imputed to the plant, the other a rental imputed to the location. The second condition (4.1.2) then states that the rental imputed to a plant is the highest amount that could be "earned" by this plant in any location, if its share is computed by subtracting the rental imputed to that location from the profit it can make in that location. Symmetrically, the rental imputed to a location is the highest income that could be secured for this location by attracting any plant to it and subtracting the rental imputed to that plant from the profit so obtained. Assuming rents to be known and regarded as given, the effect of rents having the properties stated would be that no plant owner or landlord would be better off with any location or tenant plant other than that with which he is provided under the optimal assignment in question. In this sense, that assignment may be said to be sustained by a market mechanism operating through profit-maximizing response to a system of rentals.<sup>9</sup>

The price conditions (4.1) that permit this interpretation as an optimum-sustaining market mechanism are stated in complete symmetry as between plants and locations. However, response to rents on only one side of the market is

<sup>8</sup> The latter, converse, statement does not depend on the Minkowski-Farkas lemma. It follows directly from the fact that, for any permutation matrix  $p_{ki}$ , if (4.1) holds,

$$\sum_{k,i} a_{ki} p_{ki} \leq \sum_{k,i} (q_k + r_i) p_{ki} = \sum_k q_k \left( \sum_i p_{ki} \right) + \sum_i r_i \left( \sum_k p_{ki} \right) = \sum_k q_k + \sum_i r_i = \sum_k (q_k + r_k) = \sum_k a_{kk},$$

which is the value of the maximand for the "k-to-k" assignment assumed optimal.

<sup>9</sup> For a discussion of the role of rents in the choice of locations, see August Lösch [1954], pp. 247-248 and 253-255.



sufficient for the price system to operate. Suppose for instance that plants are not available for rent, but are owned by entrepreneurs who decide on their location. Then, only location rents need to be quoted. Conditions equivalent to (4.1) in terms of location rents alone are easily found by elimination of the  $q_k$ ,

$$(4.2) \quad a_{ki} - a_{kk} \leq r_i - r_k, \quad k, i = 1, \dots, n.$$

Given an optimal assignment, therefore, there exists a system of location rents satisfying (4.2), that is, such that the increment in profitability from any move of any plant is not more than the increment in rent. Hence these rents by themselves sustain the optimal assignment.

Conversely, if location rents  $r_k$  are found that satisfy (4.2), then these same rents supplemented by plant rents defined through  $q_k = a_{kk} - r_k$  will satisfy (4.1). It follows that the assignment sustained by the location rents  $r_k$  is an optimal assignment. No plant rents need enter into the comparisons for this to be so.

An important characteristic of the market mechanism just described is the way in which its information requirements are distributed. Each plant owner needs to know only the rents on locations, and the profitabilities of his own plant in each location. The latter information (his own row in the matrix  $[a_{ki}]$ ) is likely to be more accessible to him than to anyone else. The location rents may thus be looked upon as a condensation of the information present in the entire matrix of profitabilities  $a_{ki}$  to that smaller number of data that are sufficient, in combination with his own row of the matrix, to enable each plant owner to hold his place in an optimal assignment. We meet here with the informational decentralization made possible by a price system, which has been stressed by many economists as one of the main merits of resource allocation through competitive markets.<sup>10</sup>

It should be added that we have here shown only that a competitive market can sustain an optimal assignment once it and an associated system of rents have been established, and that such a market cannot sustain any non-optimal assignment. Whether a competitive market can find an optimal assignment through a process of alternating adjustments in prices and in choices of locations cannot be answered without specifying dynamic characteristics of the market processes in question. Since this subject is outside the scope of the present article, we shall merely remark here that there is a possible parallel between the iterative computation methods for the transportation problem, referred to above, and the market adjustment processes mentioned here.

Owing to special features of the present problem, the imputation of rents to plants and locations under an optimal assignment is by no means unique, even if there is only one optimal assignment. In the first place any constant (positive or negative) amount  $\lambda$  may be taken out of all plant rents and added to all location rents,

$$(4.3) \quad q_k^* = q_k - \lambda, \quad r_i^* = r_i + \lambda, \quad k, i = 1, \dots, n,$$

<sup>10</sup> See, for instance, F. A. Hayek [1945].

and the new rentals will satisfy the conditions (4.1) if the old ones did. Moreover, within limits imposed by the consideration that no non-optimal pair should be allowed to become profitable after payment of rents, similar transfers can often be made between the two rentals within each individual pair in an optimal assignment,

$$(4.4) \quad \begin{aligned} q_k^* &= q_k - \lambda_k, & r_k^* &= r_k + \lambda_k, & a_{ki} &\leq q_k - \lambda_k + r_i + \lambda_i, \\ & & & & & k, i = 1, \dots, n, \end{aligned}$$

without violating the conditions (4.1). Thus, allocative considerations alone do not fully determine the price system in the present case. Such ranges of indeterminacy can be expected in problems where indivisible resources have only a finite number of alternative uses. In the present model, the indeterminacies are increased by the fact that the number of plants and locations is evenly matched, so that no competition from unused resources brings one or more prices down to zero. At the same time, the indeterminacies noted leave the present model adaptable for embedding in various more general models that recognize alternative uses for plants in a given location, or alternative methods for manufacturing the plants themselves from more basic scarce resources, etc.

By slightly sharper reasoning, it can be shown that if all profitabilities  $a_{ki}$  are *nonnegative*, then we can associate with each optimal assignment a system of *nonnegative* rents  $q_k, r_i$  that meets the price conditions (4.1). To obtain this conclusion, one permits the withholding of fractions of plants and of locations from assignment. The restrictions (3.2) then take the more inclusive form

$$(4.5) \quad \begin{cases} (4.5.1) & \sum_i x_{ki} \leq 1, & k = 1, \dots, n, \\ (4.5.2) & \sum_k x_{ki} \leq 1, & i = 1, \dots, n, \\ (4.5.3) & x_{ki} \geq 0, & k, i = 1, \dots, n. \end{cases}$$

Now since every plant in every location secures a nonnegative profit, under an optimal but incomplete assignment any unassigned pairs or fractions of pairs must be of zero profitability. Therefore an optimal assignment which is not already complete can always be made complete without losing its optimal character. However, the Minkowski-Farkas Lemma applied to a complete assignment optimal under the restrictions (4.5) implies (see Appendix B) that a system of nonnegative rents satisfying the price conditions (4.1) can be associated with that assignment.

Finally, if all profitabilities  $a_{ki}$  are positive, each optimal assignment is, of course, a complete assignment, and one can associate with it a system of positive rents  $q_k^*, r_i^*$  satisfying the price conditions (4.1). To see this, let  $q_k, r_i$  be a system of nonnegative rents satisfying (4.1), and assume that  $r_{i_0} = 0$ . Then, from (4.1.2),

$$(4.6) \quad q_k = q_k + r_{i_0} \geq a_{ki_0} > 0, \quad k = 1, \dots, n.$$

If, therefore, we insert

$$(4.7) \quad \lambda \equiv \frac{1}{2} \min_k q_k > 0$$

in (4.3), we shall obtain a system of positive rents  $q_k^*$ ,  $r_i^*$  satisfying (4.1). A similar reasoning applies, of course, if we have  $q_{k_0} = 0$  instead of  $r_{i_0} = 0$ .

It is worthwhile to register a few straightforward yet interesting implications of the inequalities (4.2) for the connections between location rent differences and the profitability differences between locations encountered by the plants. In the first place, we have

$$(4.8) \quad a_{ki} > a_{kk} \text{ implies } r_i > r_k ,$$

that is, if location  $i$  is more profitable for plant  $k$  than the location  $k$  to which it is optimally assigned, then the rent of location  $i$  exceeds that of location  $k$ . This obvious statement is as yet of little help unless the optimal assignment is known. However, it implies a weaker statement that does not depend on what is the optimal assignment:

$$(4.9) \quad a_{ji} > a_{jk} \text{ for all } j \text{ implies } r_i > r_k .$$

In words, if location  $i$  is more profitable than location  $k$  for every plant, the rent of location  $i$  must exceed that of location  $k$ .

Secondly, again from (4.2),

$$(4.10) \quad r_i < r_k \text{ implies } a_{ki} < a_{kk} ,$$

that is, if location  $k$  rents higher than location  $i$ , the plant optimally assigned to location  $k$  is more profitable there than at location  $i$ . In particular, the plant assigned to the location that rents highest of all (if there is a single such location) is more profitable there than at any other location. A similar statement holds for the plant assigned to the next highest renting location in comparison with all locations renting still lower. It follows that, if plants are ordered by descending rents of their optimal locations, the optimal assignment can be reconstructed by first locating the first plant so as to maximize its profitability, next locating the second plant so as to maximize its profitability among the remaining locations, etc. One can therefore also look upon the ordering of plants by descending rent of their optimal locations as the unknown of the assignment problem.

Finally, (4.2) permits us to place lower and upper bounds on the range of location rents without requiring knowledge of the optimal assignment. In the first place, from (4.2)

$$\min_j \max_{i,k} (a_{ji} - a_{jk}) \leq \max_{i,k} (a_{ki} - a_{kk}) \leq \max_{i,k} (r_i - r_k).$$

Secondly, again from (4.2) after interchanging  $i$  and  $k$  and reversing signs,

$$\max_{i,k} (r_i - r_k) \leq \max_{i,k} (a_{ii} - a_{ik}) \leq \max_j \max_{i,k} (a_{ji} - a_{jk}).$$

Taking these relations together,

$$(4.11) \quad \min_j \max_{i,k} (a_{ji} - a_{jk}) \leq \max_{i,k} (r_i - r_k) \leq \max_j \max_{i,k} (a_{ji} - a_{jk}),$$

we see that the range of location rents is contained between the smallest and the largest of the profitability ranges encountered by individual plants as between different locations.

Of course, all of the relations (4.8)–(4.11) can be translated into corresponding relations between plant rent differences and profitability differences as between alternative plants, encountered by the locations.

Before concluding the discussion of optimizing price systems, we should point out that, where no market mechanism exists or can be created, a price system as described can still be an important aid in the computation of an optimal assignment. It further reduces the number of unknowns from  $n^2$  quantities  $x_{ki}$  to only  $2n$  rents  $q_k, r_i$ . These rents can be looked upon as numbers which, by subtraction from the corresponding rows and columns, respectively, of the matrix  $[a_{ki}]$  of profitabilities, produce an equivalent assignment problem, characterized by a matrix

$$(4.12) \quad a_{ki}^* = a_{ki} - q_k - r_i,$$

of which the solution can be read off immediately by selection of a maximal element from each row and column. To illustrate this idea, prices associated with the solution of the problem (2.1) there indicated are

$$(4.13) \quad [q_k] = [10, 3, 6, 1], \quad [r_i] = [16, 10, -3, 9],$$

and the matrix of the equivalent problem is (with a solution in boldface)

$$(4.14) \quad [a_{ki}^*] = \begin{bmatrix} -1 & \mathbf{0} & -2 & 0 \\ -1 & -10 & \mathbf{0} & 0 \\ \mathbf{0} & -12 & -1 & -3 \\ -1 & -4 & 0 & \mathbf{0} \end{bmatrix}.$$

Algorithms based on this principle have been discussed by Törnquist [1953] for both the linear and the quadratic assignment problem.

## 5. VON NEUMANN'S EQUIVALENT GAME

The decisive step in the reduction of the linear assignment problem to manageable proportions for moderate values of  $n$  is the application of Birkhoff's theorem. Beyond that several roads are open, of which we have followed one leading to an equivalent linear programming problem. Von Neumann [1953] has chosen another road leading to an ingenious zero-sum two-person game which is likewise equivalent to the assignment problem. We shall briefly describe this game and its solution (without proof) because there is a connection between it and the price system discussed above. This section can be passed over by readers unfamiliar with the theory of games.

The rules of the game are as follows: Player I selects a field  $(k, i)$  in a checker-board of  $n$  rows and  $n$  columns and communicates his selection to a referee. Player II guesses either the row  $k$  or the column  $i$  in which this field is found, indicating also whether he is guessing by row or by column. If the guess is correct, player II receives a payoff

$$(5.1) \qquad 1/a_{ki}$$

from player I (it is presupposed that (2.5) has been satisfied). If the guess is wrong, there is no payment.

The solution of the game is as follows: Player I chooses a strategy of selecting only fields belonging to an optimal assignment in the linear assignment problem defined by the matrix  $a_{ki}$ , and selecting any given field occurring in that assignment with a probability proportional to  $1/a_{ki}$ . If more than one optimal assignment exists, he may choose any probability mixture of the strategies of this type associated with optimal assignments. The value of the game to player II equals the reciprocal

$$(5.2) \qquad \frac{1}{\sum_{k,i} a_{ki} \hat{p}_{ki}}$$

of the maximal value of the sum of scores attained in an optimal assignment  $\hat{p}_{ki}$ . Player II chooses a strategy of selecting row  $k$  and column  $i$  with probabilities proportional to any set of nonnegative prices  $q_k$ ,  $r_i$  that can be associated, by (4.1), with an optimal assignment.<sup>11</sup>

## 6. THE QUADRATIC ASSIGNMENT PROBLEM

The assumption that the benefit from an economic activity at some location does not depend on the uses of other locations is quite inadequate to the complexities of locational decisions. The literature contains many references to "direct" interactions, such as the benefits of improvements to one lot that extend to adjacent lots, or the detrimental effects of noise, vibration, and air or water pollution stemming from surrounding activities.<sup>12</sup> Of these direct interactions nothing more will be said here except for the obvious remark that they often tend to favor the conglomeration of similar activities in the same neighborhood. They have drawn attention in the literature mainly as examples of discrepancies between social cost (or benefit) and private cost, discrepancies which impair the price system as an efficient allocator of resources.

Our main point here is that these "direct" physical interactions between production and/or consumption processes are by no means the only reasons for such failure of the price system. The mere fact that scarce resources need to be utilized for the transportation of intermediate commodities between plants appears to be sufficient to deprive the price system of its ability to induce or preserve efficient

<sup>11</sup> This statement, not contained in von Neumann's article, was communicated to one of the authors by von Neumann.

<sup>12</sup> See, for instance, A. Pigou [1920], Chapter IX of Part II (4th ed.).

decentralized allocative decisions. In order to show up this point sharply, we shall now introduce the quadratic assignment problem.

We again consider  $n$  plants and  $n$  locations, and a matrix  $[a_{ki}]$  of which the element  $a_{ki}$  now represents a "semi-net" revenue from the operation of plant  $k$  at location  $i$ , that is, gross revenue less cost of primary inputs, but before subtracting cost of transportation of intermediate products between plants. Having adopted this definition, we maintain the assumption that "semi-net" revenue  $a_{ki}$  is independent of the assignment of other plants to other locations.

In order to express interplant transportation cost, let a set of nonnegative numbers  $b_{kl}$ ,  $k \neq l$ ,  $k, l = 1, \dots, n$ , represent required commodity flows (in weight units) from plant  $k$  to plant  $l$ , and a set of positive numbers  $c_{ij}$ ,  $i \neq j$ ,  $i, j = 1, \dots, n$ , represent the cost of transportation for the unit flow from location  $i$  to location  $j$ . The flow coefficients  $b_{kl}$  are assumed independent of the locations assigned, and the transportation cost coefficients  $c_{ij}$  are assumed independent of the plant assignments and applicable to all amounts and compositions of flows. The  $c_{ij}$  satisfy a triangular inequality,

$$(6.1) \quad c_{ij} \leq c_{ik} + c_{kj}, \quad i, j, k = 1, \dots, n,$$

which expresses that transportation from location  $i$  to location  $j$  via a third location  $k$  is not cheaper than direct transportation.

If each plant were assigned to the location bearing the same number, total interplant transportation cost would be given by

$$(6.2) \quad \sum_{k,l} b_{kl} c_{kl},$$

provided we set

$$(6.3) \quad b_{kk} = 0, \quad c_{kk} = 0, \quad k = 1, \dots, n.$$

For any other assignment, each  $b_{kl}$  must instead be multiplied, before the summation, with that  $c_{ij}$  connecting the locations to which the plants  $k$  and  $l$  are assigned, respectively. If the assignment in question is defined by the permutation matrix  $[p_{ki}]$ , it is readily seen that this leads to the expression

$$(6.4) \quad \sum_{k,l} \sum_{i,j} b_{kl} p_{ki} c_{ij} p_{lj}.$$

It follows that total net revenue for the agglomeration of plants is represented by

$$(6.5) \quad \sum_{k,i} a_{ki} p_{ki} - \sum_{k,l} \sum_{i,j} b_{kl} p_{ki} c_{ij} p_{lj}.$$

The quadratic assignment problem is the problem of maximizing this expression by suitable choice of a permutation matrix  $[p_{ki}]$ . It is called quadratic<sup>13</sup> because the maximand contains a term of second degree in the unknown permutation.

<sup>13</sup> There is some arbitrariness in this designation. A given discrete problem can often be converted to different mathematical forms depending on the choice of the space in which the given discrete alternatives are embedded in order to make methods depending on continuity applicable. Thus, in Section 8, we shall encounter an equivalent formulation of the "quadratic" assignment problem which is "linear" but for one extra nonlinear restriction on the values of the unknowns.

Again this model is much more rigid than economic reality. Some of the commodity bundles flowing between pairs of plants might have one or more commodities in common. In that case, a locational reshuffling of plants might also lead to some reshuffling of the flows of intermediate commodities between supplying and receiving plants. Furthermore, production processes can often to some extent be adjusted to the kinds of input commodities available in the vicinity of each location being considered. We may therefore be stacking the cards against the effectiveness of a price system by ignoring this flexibility. However, the particular complication of the location problem on which the present model concentrates—the interdependence of locational decisions arising from transportation cost of intermediate commodities—is not likely to be entirely eliminated if greater flexibility is introduced in the choice of suppliers and of processes. It therefore seems worthwhile first to examine that particular complication in isolation.

The computational difficulties of finding a solution of the quadratic assignment problem even for moderate values of  $n$  (say  $n = 10$ ) have so far been insurmountable. To our knowledge, the only sizeable example that has been computed so far relates to a special case, known as the traveling salesman problem. This case is obtained by setting  $a_{ki} = 0$  and taking

$$(6.6) \quad b_{ki} = \begin{bmatrix} 0 & 1 & 0 & \cdot & \cdot & 0 \\ 0 & 0 & 1 & \cdot & \cdot & 0 \\ \cdot & \cdot & \cdot & & & \cdot \\ 0 & 0 & 0 & \cdot & \cdot & 1 \\ 1 & 0 & 0 & \cdot & \cdot & 0 \end{bmatrix},$$

which is itself a permutation matrix. The one and only “intermediate commodity” now is a traveling salesman who is required to call once at each location and return to his point of departure. The assignment problem is the problem of so choosing the order of points of call that the total cost of transportation of the salesman for the tour is minimized. Dantzig, Fulkerson and Johnson [1954] computed the minimum cost tour through forty-nine cities in the United States, one in each state and Washington, D. C. They equated cost with road distance, and proved the validity of their solution. The methods used were ad hoc methods that were rewarding in the problem at hand, but do not necessarily carry over to other cases of the quadratic assignment problem.<sup>14</sup>

In view of the computational complexity of the quadratic assignment problem, the question of the possibility of a price system preserving an optimal assignment is very pertinent. The unavailability of a practicable computation method would be less of an obstacle to good use of resources if market processes could be relied upon to sustain, and possibly even to lead to, an optimum assignment. Unfortunately, our tentative and heuristic exploration into this problem, to be reported on in the next section, also meets with a negative outcome.

<sup>14</sup> For a further discussion of the traveling salesman problem, see Flood [1956].

# 7. CAN OPTIMAL INTERDEPENDENT LOCATIONAL DECISIONS BE SUSTAINED BY A PRICE SYSTEM?

By analogy with the functioning of a price system in the linear assignment problem and in the transportation problem, it is of interest to examine whether an optimal assignment in the quadratic assignment problem can be sustained by a system of rents on locations and/or plants, and of prices on each intermediate commodity that depend on the location at which the commodity is quoted.

By a line of reasoning that may also have some interest in itself, one can disprove this possibility for what might appear at first sight to be the most natural way of defining the operation of such a price system. This reasoning again utilizes the device of fictitious fractional plants sharing locations.

We assume that the "semi-net" revenue from a given fractional plant  $k$  in a given location  $i$ , as well as the input and output flows of intermediate goods to and from that plant, are proportional to the size  $x_{ki}$  of the fraction. As indicated already, we also assume that the commodity bundle which flows from plant  $k$  to plant  $l$  is specific to this ordered pair of plants. It, or any of its component commodities, cannot be drawn from any type of plant other than (fractions of) plant  $k$ , and cannot be used by any type of plant other than  $l$ . We shall therefore speak of this commodity bundle as a single commodity. It is fully distinguishable by the combination of indices  $(k, l)$ , in that order.

Within the stipulations given, we allow and indeed require most economic routing of each distinct commodity  $(k, l)$  between fractional plants. In particular, if in keeping with (6.3) we regard transportation between fractional plants in the same location as costless, this will favor the assignment to the same location of combinations of fractional plants that supply each other with intermediate commodities.

Let us denote by  $x_{kl,ij}$  the flow from location  $i$  to location  $j$  of the commodity which is supplied by plant  $k$  to plant  $l$ . To avoid irrelevant indeterminacy, we shall say that  $x_{kl,ii} = 0$ . Then our problem has become that of maximizing

$$(7.1) \quad \sum_{k,i} a_{ki} x_{ki} - \sum_{k,l} \sum_{i,j} c_{ij} x_{kl,ij}$$

by suitable choice of the  $x_{ki}$  and  $x_{kl,ij}$  subject to the restrictions

$$(7.2) \quad \begin{cases} (7.2.1) & x_{ki} b_{kl} + \sum_j x_{kl,ji} = x_{li} b_{kl} + \sum_j x_{kl,ij}, & k, l, i = 1, \dots, n, \\ (7.2.2) & \sum_i x_{ki} = 1, & k = 1, \dots, n, \\ (7.2.3) & \sum_k x_{ki} = 1, & i = 1, \dots, n, \\ (7.2.4) & x_{ki} \geq 0, \quad x_{kl,ij} \geq 0, \quad x_{kl,ii} = 0, & k, l, i, j = 1, \dots, n. \end{cases}$$

The restrictions (7.2.1) specify that the total inflow of the intermediate commodity  $(k, l)$  to the location  $i$  added to its production at that location equals the total outflow from  $i$  plus its consumption at that same location. The other re-



restrictions are the same as before, except that (7.2.4) also specifies the non-negative character of intermediate commodity flows.

It is perhaps worth pointing out that the linear problem defined by (7.1) and (7.2) becomes equivalent to the quadratic assignment problem defined by (6.1), (6.3) and (6.5) by adding the simple nonlinear restriction

$$(7.3) \quad x_{ki} = 0 \text{ or } 1, \quad k, i = 1, \dots, n.$$

If we do not add such a restriction, however, then the problem is truly linear, and has all the general properties of linear programming problems. Above we have used the property that with a solution of a linear programming problem is associated a system of prices which meets certain conditions that permit the solution to be sustained by decentralized profit-maximization. However, we have also noted a converse property: if with a point (a set of numbers  $x_{ki}$ ,  $x_{kl,ij}$ ) satisfying the restrictions (7.2) one can associate a price system that meets the conditions (still to be enumerated), then this point is a solution to the problem.<sup>15</sup> In particular, we shall make use of this property in its equivalent negative form: if a point satisfying the restrictions is not a solution to the problem, then there exists no set of prices that meets the conditions in question in association with this point.

Now we can readily specify one particular case in which the nature of the solution(s) of the linear problem (7.1), (7.2) which we have substituted for the quadratic assignment problem can be seen directly. This case is obtained by specifying that the "semi-net" revenue from a given plant is independent of its location,

$$(7.4) \quad a_{ki} = a_k, \quad i = 1, \dots, n.$$

Under this assumption, the first term in the total profit (7.1) becomes, by (7.2.2),

$$(7.5) \quad \sum_{k,i} a_k x_{ki} = \sum_k (a_k \sum_i x_{ki}) = \sum_k a_k,$$

a constant independent of the assignment selected. The maximization of total profit thus becomes equivalent to the minimization of total transportation cost,

$$(7.6) \quad \sum_{k,l} \sum_{i,j} c_{ij} x_{kl,ij},$$

under the restrictions (7.2) on the assignment of fractional plants.

An obvious solution to this problem is to distribute each plant in equal fractions over all locations,

$$(7.7) \quad x_{ki} = 1/n, \quad x_{kl,ij} = 0, \quad k, l, i, j = 1, \dots, n.$$

In this case there is no need for transportation, hence no cost thereof.

If every flow coefficient  $b_{kl}$  with  $k \neq l$  is positive, this is the only solution. If some  $b_{kl}$  are zero, additional solutions arise, but as long as at least one of the

<sup>15</sup> The proof of this property in the present case follows the same line of reasoning as that given in footnote 8.

$b_{kl}$  is positive, no integral assignment of plants to locations can be a solution, because the positive coefficient  $b_{kl}$  would be multiplied by one of the transportation cost coefficients  $c_{ij}$ ,  $i \neq j$ , all of which are positive. In particular, any solution of the quadratic assignment problem defined by (6.5) and (7.4), being by definition an integral assignment, is not a solution of the linear problem (7.6), (7.2), hence does not have associated with it a price system meeting the conditions which we shall now write down.

The conditions in question follow from the form of the mimimand and of the restrictions (7.2). With each of the restrictions (7.2.1–3) we associate a price for that commodity of which the conservation is expressed by that restriction. We shall use  $u_{kl,i}$  for the price of the commodity  $(k, l)$  at location  $i$ ,  $q_k$  for the rental of the unit of plant  $k$ , and  $r_i$  for the rental of the unit of location  $i$ . We shall again number plants so that assigning each plant as a whole to the location bearing the same number is an optimal integral assignment. The price conditions which, as we have shown, *cannot* be satisfied then are

$$(7.8.1) \quad c_{kl} = u_{kl,l} - u_{kl,k}, \quad k \neq l,$$

$$(7.8.2) \quad c_{ij} \geq u_{kl,j} - u_{kl,i}, \quad i \neq j,$$

$$(7.8.3) \quad (a_{kk}=)a_k = q_k + r_k - \sum_l b_{kl} u_{kl,k} + \sum_l b_{lk} u_{lk,k}, \quad k, l, i, j = 1, \dots, n,$$

$$(7.8.4) \quad (a_{ki}=)a_k \leq q_k + r_i - \sum_l b_{kl} u_{kl,i} + \sum_l b_{lk} u_{lk,i}, \quad k, l, i, j = 1, \dots, n.$$

Condition (7.8.1) says that, on the one route ( $i = k, j = l$ ) on which transportation of the commodity  $(k, l)$  is called for in the optimal (integral) assignment in question, the price difference between the point  $l$  of requirement and the point  $k$  of availability equals the transportation cost. Similarly, (7.8.3) says that for each plant  $k$ , the semi-net revenue it can make anywhere just suffices to pay rents on that plant and on the location to which it is optimally assigned, after allowing for the proceeds of the sale of its intermediate outputs and the cost of purchase of its intermediate inputs, evaluated again at the prices quoted for the location to which the plant in question is (optimally) assigned. Condition (7.8.2) says that price quotations on each commodity in all locations are subject to the restrictions that no price difference between two locations shall exceed the transportation cost. Finally, condition (7.8.4) says that no plant can make a positive profit in any location.

Let us recall again that we have shown that these conditions *cannot* be satisfied in an optimal integral assignment, or for that matter in any integral assignment. The implications of this negative conclusion seem to us to be worth examining. It means that no price system on plants, on locations and on commodities in all locations, that is regarded as given by plant owners, say, will sustain any assignment. There will always be an incentive for someone to seek a location other than the one he holds. In the case of plants on the drawing board, compatible choices cannot be induced or sustained by such a price system. In the case of actual establishments already located, the cost of moving is the only element of

stability, in the technological circumstances we have assumed. Without such a brake on movement, there would be a continual game of musical chairs. Whatever the assignment, prices of intermediate commodities and rents on locations cannot be so proportioned as to give no plant an incentive to seek a location other than the one it holds.

It might be objected that we have ourselves created this difficulty by asking for a price system that discourages not only what is inefficient, but also what is anyhow impossible. We have asked for a price system that would discourage plant owner  $k$  from desiring to change to a location now held by plant owner  $l$ , without inquiring whether the latter has a similar inducement to make this possible by another move of his own.

Before looking further into this objection, it should be recalled that, in the linear assignment problem, the price system does *not* invite incompatible choices. In case only one optimal assignment exists, prices can be found such that alternative choices are inferior for all plant owners concerned. If more than one optimal assignment exists, there is always a set of compatible choices such that each plant owner's choice is not inferior, for him, to any alternative. This expresses the fact that efficiency prices in linear activity analysis in general, and in linear programming in particular, not only discourage inefficient use of resources, but also remove the incentive for anyone to claim more of a scarce resource than is available, given the amounts already allocated to others. Hence, if we should have made our problem more difficult by requiring prices to administer scarcities in addition to discouraging inefficiencies, this must be due to the nonlinear character of the present problem.

That this is at least part of our difficulty, becomes clear by looking at the very simplest problem of interplant transportation cost minimization for just  $n = 2$  plants and locations. If the initial assignment is " $k$ -to- $k$ " and if positive shipments  $b_{kl}$ ,  $k \neq l$ , go in both directions between the two plants, (7.8.1) becomes

$$(7.9) \quad c_{12} = u_{12,2} - u_{12,1}, \quad c_{21} = u_{21,1} - u_{21,2}.$$

The relevant terms in the profit of plant 1 are, at location 1,

$$(7.10) \quad b_{12}u_{12,1} - b_{21}u_{21,1} - r_1$$

and, at location 2,

$$(7.11) \quad b_{12}u_{12,2} - b_{21}u_{21,2} - r_2.$$

The profit at location 1 exceeds that at 2 by

$$(7.12) \quad b_{12}(u_{12,1} - u_{12,2}) - b_{21}(u_{21,1} - u_{21,2}) - r_1 + r_2 = -b_{12}c_{12} - b_{21}c_{21} - r_1 + r_2.$$

This expresses the simple fact that, if a move of plant 1 to location 2 is evaluated at prices corresponding to the initial " $k$ -to- $k$ " assignment taken as given, its effect on the profit of plant 1 is the same as if plant 1 were "doubling up" with plant 2 in location 2. The entire interplant transportation cost is then saved. It

is, of course, possible to offset this for plant 1 by a large rent differential  $-r_1 + r_2$ . But this only strengthens the profit incentive

$$(7.13) \quad -b_{21}c_{21} - b_{12}c_{12} - r_2 + r_1$$

for plant 2 to move to location 1. Since the sum of the two incentives (7.12) and (7.13) is  $-2(b_{21}c_{21} + b_{12}c_{12})$ , it is impossible, if transportation costs  $c_{ij}$  are positive, to find rents  $r_i$  that prevent *both* plant owners from desiring to move. This is so irrespective of whether the initial assignment is optimal or not.

It might be thought, in the light of this example, that all one should require of a price system is that, for any non-optimal permutation out of an optimal assignment, it would make at least one plant owner refuse the proposed move and thus cause the permutation to be blocked. However, it is hard to see how such a requirement could lead to a determination of rents at all. Unwillingness of a plant owner to participate in an otherwise attractive permutation could be tested by bidding a higher rent to the owner of his location. If the idea that rents should reflect the value of each location to its occupant cannot be incorporated, then the search for a price system seems to lose much of its interest.

If this heuristic reasoning is accepted, there remains one other possibility to be explored. One can lay the failure of a price system in the 2-plant case, and perhaps also in the  $n$ -plant case considered before, to the fact that a move of one plant is evaluated without considering the effect on everybody's transportation costs of the subsequent moves of other plants that are needed to make room for the first move. This neglect is inherent in the attempt to work with one given system of commodity prices in the various locations. To avoid it, one may give up the search for commodity prices altogether, and look instead for principles that bring changes in total interplant transportation cost to bear on individual plant budgets in such a way that, in response to a rent system to be determined in conjunction with these principles, a non-optimal permutation out of an optimal assignment will be rejected by *every* participant in the permutation. We have made some explorations along these lines, in which we have received substantial help from Professor Theodore Motzkin. While a more detailed report of these attempts would exceed the limits of this article, it may be mentioned here that again no rent system was found that even halfway meets the requirement of informational decentralization.

We are frankly perplexed by the difficulty of establishing meaningful relations between location rents and transportation costs in a problem as elementary, in comparison with the actual complexities of locational markets, as the quadratic locational assignment problem. For this reason, we have delayed publication of our results for several years, in the hope that more conclusive results might be obtained. It now seems better to present such largely negative results as we have obtained concerning the possibilities of pricing in the quadratic assignment problem, because this problem seems to be close to the core of location theory, and in the hope that an examination of this example of apparent failure of the price system may ultimately lead to better insight into the possibilities and limitations of price systems as means of decentralizing the allocation of indivisible resources.



We note that  $x_{ki}(\epsilon)$  if substituted for  $x_{ki}$  in (A.1) satisfies the first two conditions (A.1) for all  $\epsilon$ , because every addition of  $\epsilon$  to a row or column sum is offset by a subtraction of  $\epsilon$ . We note further that the number  $\nu(\epsilon)$  of inner elements of  $[x_{ki}(\epsilon)]$  is at most that of  $[x_{ki}]$  since any outer element  $x_{kO iO}$  of  $[x_{ki}]$  cannot occur in the sequence (A.3) and hence the corresponding element  $x_{kO iO}(\epsilon)$  of  $[x_{ki}(\epsilon)]$  is equal to  $x_{kO iO}$  and therefore also outer.

The set of values of  $\epsilon$  for which  $[x_{ki}(\epsilon)]$  satisfies also the third condition (A.1) is easily seen to be the interval

$$(A.5) \quad \underline{\epsilon} \leq \epsilon \leq \bar{\epsilon}, \quad \text{where} \quad \underline{\epsilon} = -\min_q x_{kq i q}, \quad \bar{\epsilon} = \min_q x_{kq i q+1},$$

the minima being taken over the values  $q = m, m+1, \dots, p-1$ . Since all  $x_{kq i q}$  and  $x_{kq i q+1}$  involved are positive,

$$(A.6) \quad \underline{\epsilon} < 0 < \bar{\epsilon}.$$

Moreover, since at least one  $x_{ki}(\epsilon)$  vanishes at  $\epsilon = \underline{\epsilon}$  and at least one at  $\epsilon = \bar{\epsilon}$ ,

$$(A.7) \quad \nu(\underline{\epsilon}) < \nu(0), \quad \nu(\bar{\epsilon}) < \nu(0) = \nu, \text{ say.}$$

Finally, because  $[x_{ki}(\epsilon)]$  is linear in  $\epsilon$ ,

$$(A.8) \quad x_{ki} = x_{ki}(0) = -\frac{\underline{\epsilon}}{\bar{\epsilon} - \underline{\epsilon}} x_{ki}(\bar{\epsilon}) + \frac{\bar{\epsilon}}{\bar{\epsilon} - \underline{\epsilon}} x_{ki}(\underline{\epsilon}).$$

In (A.8) the given matrix  $[x_{ki}]$  is written as a weighted average, with positive weights, of two matrices,  $[x_{ki}(\underline{\epsilon})]$  and  $[x_{ki}(\bar{\epsilon})]$ , both of which satisfy (A.1) and have a smaller number of inner elements than  $[x_{ki}]$  has. As long as that is still a positive number, either of these can in turn be again written as a weighted average of two other matrices satisfying (A.1) and having a still smaller number of inner elements. Since a weighted average of weighted averages is itself a weighted average, any given matrix  $[x_{ki}]$  can ultimately be written as a weighted average of matrices satisfying (A.1) with no inner elements, that is, of permutation matrices. The theorem is thereby proved.

## APPENDIX B

### STATEMENT AND APPLICATION OF THE MINKOWSKI-FARKAS LEMMA

The lemma referred to in Section 4 is as follows.

*In order that*

$$(B.1) \quad \sum_{n=1}^N g_n u_n \leq 0$$

*for all*  $u = [u_n], n = 1, \dots, N$ , *satisfying*

$$(B.2) \quad \sum_{n=1}^N h_{mn} u_n \leq 0, \quad m = 1, \dots, M',$$

*it is necessary and sufficient that*

$$(B.3) \quad g_n = \sum_{m=1}^{M'} v_m h_{mn}, \quad n = 1, \dots, N,$$

*for some*  $v = [v_m]$  *such that*  $v_m \geq 0, m = 1, \dots, M'$ . For proofs and further discussion, see Farkas [1902], and references in Gale, Kuhn, and Tucker [1951].

The following geometric interpretation gives to this lemma an intuitive appeal. The set of vectors  $u = [u_n]$  that satisfy (B.1) form a halfspace in  $N$ -dimensional space that contains the origin in its bounding hyperplane. This halfspace can be represented by the vector  $g = [g_n]$  normal to that hyperplane and pointing *into* the halfspace.

Likewise, the set of vectors  $u$  that satisfy (B.2) is the intersection (common part) of  $M'$  such halfspaces, each similarly represented by a vector  $h^{(m)} = [h_{mn}], m = 1, \dots, M'$ .

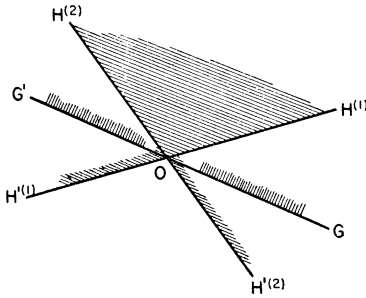


FIGURE 3a.—Illustration of the Requirement of the Minkowski-Farkas Lemma.

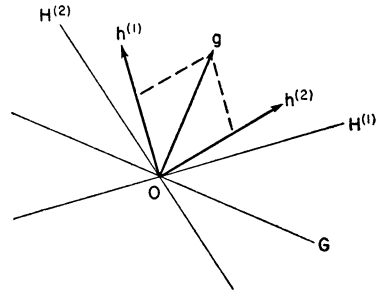


FIGURE 3b.—Illustration of the Condition of the Minkowski-Farkas Lemma.

The lemma states the following condition under which the halfspace represented by  $g$  contains the intersection of the halfspaces represented by  $h^{(1)}, \dots, h^{(M')}$ : that  $g$  can be obtained as a linear combination, with nonnegative weights, of  $h^{(1)}, \dots, h^{(M')}$ .

Figures 3a and 3b illustrate this condition in a space of  $N = 2$  dimensions (where a halfspace is a halfplane, bounded by a line). In Figure 3a, the halfplane bounded by  $G'OG$  (and indicated by shading on one side of the line  $G'OG$ ) contains the intersection  $H^{(1)}OH^{(2)}$  of  $M' = 2$  halfplanes bounded by  $H^{(1)}OH^{(1)}$  and  $H^{(2)}OH^{(2)}$ , respectively. Figure 3b shows the inward normal  $g$  of the first halfplane within the angle spanned by the two normals  $h^{(1)}, h^{(2)}$  of the other two halfplanes. While similar geometrical interpretations could be made of the propositions below, we shall not pursue this further.

THE PRICE THEOREM OF LINEAR PROGRAMMING [Koopmans, 1951, p. 82, Theorem 5.4.1] says the following:

*In order that*

$$(B.4) \quad \sum_n g_n x_n \leq \sum_n g_n \hat{x}_n$$

*for all  $x = [x_n]$  that satisfy*

$$(B.5) \quad \sum_n h_{mn} x_n \leq k_m, \quad \text{with } x_n \geq 0, \quad m = 1, \dots, M, \quad n = 1, \dots, N,$$

*where it is given that  $\hat{x} = [\hat{x}_n]$  satisfies (B.5) if  $\hat{x}$  is substituted for  $x$ , it is necessary and sufficient that there exist numbers  $\lambda_m$ ,  $m = 1, \dots, M$ , such that*

$$(B.6) \quad \sum_m \lambda_m h_{mn} \begin{cases} = \\ \geq \end{cases} g_n \quad \text{according as} \quad \hat{x}_n \begin{cases} > \\ = \end{cases} 0,$$

*and*

$$(B.7) \quad \lambda_m \begin{cases} \geq \\ = \end{cases} 0 \quad \text{according as} \quad \sum_n h_{mn} \hat{x}_n \begin{cases} = \\ < \end{cases} k_m.$$

PROOF: *Sufficiency.* Suppose there exists a set of  $\lambda_m$  satisfying (B.6) and (B.7) for some  $\hat{x}$ . Then, by a sequence of steps derived from the relations indicated at each step,

$$\sum_n g_n \hat{x}_n \stackrel{(B.6)}{=} \sum_{m,n} \lambda_m h_{mn} \hat{x}_n \stackrel{(B.7)}{=} \sum_m \lambda_m k_m \geq \sum_{m,n} \lambda_m h_{mn} x_n \stackrel{(B.5, B.6)}{\geq} \sum_n g_n x_n$$

for all  $x$  that satisfy (B.5).

*Necessity.* Let  $\hat{x} = [\hat{x}_n]$  satisfy (B.4) for all  $x = [x_n]$  that satisfy (B.5). Without loss of generality we can specify that

$$(B.8) \quad \begin{aligned} \hat{x}_n = 0 \quad \text{for } n = 1, \dots, \bar{N}, \quad \hat{x}_n > 0 \quad \text{for } n = \bar{N} + 1, \dots, N, \\ \sum_n h_{mn} \hat{x}_n = k_m \quad \text{for } m = 1, \dots, \bar{M}, \quad \sum_n h_{mn} \hat{x}_n < k_m \quad \text{for } m = \bar{M} + 1, \dots, M. \end{aligned}$$

By inserting  $x = \hat{x} + u$  in (B.4) and (B.5) our premise is seen to imply that

$$(B.9) \quad \sum_n g_n u_n \leq 0$$

for all  $u_n < \delta$ ,  $n = 1, \dots, N$ , such that

$$(B.10) \quad \sum_n h_{mn} u_n \leq 0 \quad \text{for } m = 1, \dots, \bar{M}, \quad u_n \geq 0 \quad \text{for } n = 1, \dots, \bar{N},$$

provided  $\delta$  is a positive number small enough to ensure that the conditions (B.5) with  $m = \bar{M} + 1, \dots, M$  and with  $n = \bar{N} + 1, \dots, N$  are met. However, since all left-hand members in (B.9) and (B.10) are linear and homogeneous in the  $u_n$ , the requirement  $u_n < \delta$  can be omitted from this statement. We can therefore use the Minkowski-Farkas Lemma (necessity clause), with the matrix  $[h_{mn}]$  in (B.2) and (B.3) replaced by

$$\begin{bmatrix} h_{11} & \dots & h_{1\bar{N}} & h_{1,\bar{N}+1} & \dots & h_{1N} \\ \dots & \dots & \dots & \dots & \dots & \dots \\ h_{\bar{M}1} & \dots & h_{\bar{M}\bar{N}} & h_{\bar{M},\bar{N}+1} & \dots & h_{\bar{M}N} \\ \dots & \dots & \dots & \dots & \dots & \dots \\ -1 & \dots & 0 & 0 & \dots & 0 \\ \dots & \dots & \dots & \dots & \dots & \dots \\ 0 & \dots & -1 & 0 & \dots & 0 \end{bmatrix}$$

to show the existence of nonnegative numbers  $v_m$ ,  $m = 1, \dots, \bar{M}$  and  $w_n$ ,  $n = 1, \dots, \bar{N}$ , such that

$$(B.11) \quad \begin{aligned} g_n &= \sum_{m=1}^{\bar{M}} v_m h_{mn} - w_n \quad \text{for } n = 1, \dots, \bar{N}, \\ g_n &= \sum_{m=1}^{\bar{M}} v_m h_{mn} \quad \text{for } n = \bar{N} + 1, \dots, N. \end{aligned}$$

The necessity clause of the price theorem of linear programming now follows by specifying  $\lambda_m = v_m$  for  $m = 1, \dots, \bar{M}$  and  $\lambda_m = 0$  for  $m = \bar{M} + 1, \dots, M$ .

In application to the linear assignment problem under the restriction (4.5), the elements of the score matrix  $[a_{ki}]$  in (3.1) make up the vector  $[g_n]$  of (B.4), whereas the elements of the matrix  $[h_{mn}]$  and the vector  $[k_m]$  in (B.5) are ones and zeros so selected that (B.5) represents the restrictions (4.5). Now if an optimal assignment, integral or fractional, is complete (that is, satisfies the restrictions (3.2) as well), only the first case distinguished in (B.7) can occur. We therefore conclude from (B.7) that all rents  $q_k$ ,  $r_i$ , there represented by the  $\lambda_m$ , are nonnegative, and no further condition arises from (B.7). Reversing the order of case distinctions in (B.6) for a more natural interpretation, we obtain: A complete assignment  $[\hat{x}_{ki}]$  is optimal under the restrictions (4.5) if and only if there exists a system of non-negative rents  $q_k$ ,  $r_i$ , such that

$$\hat{x}_{ki} \begin{cases} \geq \\ = \\ > \end{cases} 0 \quad \text{according as} \quad q_k + r_i \begin{cases} = \\ > \end{cases} a_{ki}.$$

By specifying in addition that the given assignment be integral, we obtain the statement in the text surrounding (4.1), with the added specification that  $q_k$ ,  $r_i \geq 0$ .

If some of the profitabilities  $a_{ki}$  are negative, no complete assignment optimal under the restrictions (4.5) need exist, whether fractional or integral. If in this case we restrict the problem further by (3.2) to admit only complete assignments in all comparisons, we must



supplement every restriction (B.5) of the form  $f(x) \leq 1$  by another one of the form  $-f(x) \leq -1$  to make (B.5) equivalent to (3.2). In this case, each  $q_k$ ,  $r_i$  appears as the difference of two nonnegative numbers  $\lambda_m$  and we obtain the statement surrounding (4.1) without further sign restrictions on  $q_k$  or  $r_i$ .

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