

## Planning and Coordination of Economic Policy in Market Economies

PETER MURRELL<sup>1</sup>

*Department of Economics, University of Maryland, College Park, Maryland 20742*

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The purpose of the paper is to analyze the experience of capitalist countries in implementing national economic planning. Planning procedures are examined in order to ascertain whether plans have succeeded in coordinating economic policy. Five operational criteria are formulated that must be satisfied by planning procedures if policy coordination is to be achieved. The planning experience of four capitalist countries, France, Japan, The Netherlands, and Sweden, is then evaluated in the light of the five operational criteria. The conclusion is that planning has been far from successful in coordinating policy. *J. Comp. Econ.*, June 1979, 3(2), pp. 145-166. University of Maryland, College Park, Maryland.

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### 1. INTRODUCTION

The purpose of the present paper is to analyze the experience of capitalist countries in implementing national economic planning.<sup>2</sup> Perhaps the most important question to ask in such an analysis is: has planning provided significant benefits in the countries in which it has been applied? Two alternative approaches are available to answer this question. In a statistical approach one would relate measures of economic performance

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<sup>2</sup> In this paper, the word "planning" will be used to indicate "national economic planning in a capitalist environment." As a referee has pointed out, the focus of the paper can be said to be on market-oriented economies rather than solely on capitalist economies. Thus, the results of the paper may be relevant to such a country as Yugoslavia. However, as the case studies include only capitalist countries, I prefer to restrict my comments to capitalist countries only.

to variables influencing economic performance for a sample of countries. One of the variables influencing performance would be represented by a dummy variable indicating whether the country's economy was planned or not.<sup>3</sup> A second approach involves a direct examination of the planning process. Following this approach, one analyzes the functioning of the planning mechanism in order to ascertain whether planning improved economic performance. In this paper, that second-best method is adopted.

Before examining the planning process, one must clarify the exact manner in which planning can aid an economy. Many advantages have been claimed for the application of planning. The advantage that has received the most emphasis is the coordination of economic policy. Following this emphasis, I concentrate solely on the coordination, or consistency, approach to planning. It is not argued here that coordination is the sole benefit to be derived from planning. Rather, the focus on coordination derives solely from the fact that any single evaluation of the planning procedure will usually center on one characteristic of planning. It is therefore important to examine the characteristic that has received most attention in the literature.

In order to justify the focus on coordination, one may quote both observers of planning and planners. Shonfield takes the French term *cohérence* to be equivalent to coordination: "The emphasis on *cohérence* in the making of policy, which is the characteristic feature of modern planning, [implies] the treatment of all aspects of the economic activities of government, present and future, as interdependent parts of a single system of aims and expectations" (Shonfield, 1965, p. 337). A Swedish planner expresses a similar view: "A first condition of planning is that an individual (or collectivity) assumes that he has freedom to act in different ways in the future. If he seeks to coordinate his immediate step of action with later steps of action, he becomes a planner" (Svennilson, 1965, p. 186). More important for this study is the fact that coordination has been defined as the objective of planning in at least one country.

<sup>3</sup> At this stage, it is appropriate to list the difficulties involved in applying the statistical approach since it is these difficulties that argue for the use of the approach adopted in this paper: (a) Reliable theories of the causes of international differences in economic performance (e.g., growth) may not be available. Such theories would be needed in order to develop appropriate statistical relationships. (b) There are many measures of economic performance. Unless the planning variable produced a "favorable" effect on each of these measures, one could not make a judgment on whether planning was a success or failure (assuming that one does not have a means of evaluating the welfare trade-offs between the measures). (c) There may be simultaneous-equations problems. Countries that have failed may be more receptive to the introduction of planning than countries that have been successful. (d) Defining suitable measures of economic performance may be difficult. For example, planning may have been used to produce a policy designed to help the governing party win elections.

According to the law that established planning in The Netherlands, the purpose of the Dutch Central Economic Plan is "for the benefit of the coordination of the government's policy in the economic, social and financial fields" (Abert, 1969, p. 112).

The focus of this paper being planning as a mechanism for policy coordination implies that other claimed advantages of planning are not addressed directly. Thus, for example, the analysis in this paper does not examine the value of planning as a device to improve informational flows between economic agents.

Therefore, in the ensuing sections of this paper, I examine the process of planning to see whether some measure of coordination has been achieved in planning procedures. In Section 2, five operational criteria are formulated that must be satisfied by planning procedures if policy coordination is to be achieved. In Section 3, evidence is presented from the planning experience of four capitalist countries. The evidence is compared to the five operational criteria. In Section 4, I summarize the results of that comparison and present an interpretation of those results.

## 2. COORDINATION: FIVE CRITERIA

The form that planning takes and the environment in which planning mechanisms operate vary between the countries studied. However, some general comments can be made concerning these factors in order to make clearer the nature of the coordination process. The most important point to specify is that the plans are not, in any sense, compulsory for the nongovernmental sector. In the types of economies under study, a large proportion of economic activity is undertaken in the private sector. Private-sector agents may participate in the planning process, but the plan does not add to the degree to which government policies delimit the activities of those agents.

Planning in the countries studied, where it has focused on government policy, has been macroeconomic in orientation, focusing on the economy-wide effect of the most important policy instruments. Thus, the plans have not specified in great detail the activities of individual government departments or individual enterprises but, rather, have concentrated on the broad outlines of policy. The policy instruments receiving most attention have varied between countries and between plans within countries, as have the exact levels of aggregation of the plans.

All the countries examined in this paper participate extensively in foreign trade. Thus, planners are faced with a major "environmental" uncertainty in the form of occurrences which are external to the country being planned. It is likely that the importance of these environmental

uncertainties will have increased over the period under study due to the expansion of world trade and, in the case of The Netherlands and France, due to the formation of the European Economic Community. While this increasing uncertainty may have increased the costs of producing a plan of a given accuracy, it may also have altered the size of the benefits obtainable from such a plan. The overall effect of this increasing uncertainty on the value of planning is thus indeterminate at the present level of analysis.

The exact nature of coordination must now be defined (see Montias, 1976, pp. 177-179). Planners, in their role as coordinators of economic policy, receive information from economic agents (both governmental and nongovernmental) and then communicate orders or suggestions to some, but not necessarily all, of the government agents responsible for policy formation and implementation.<sup>4</sup> (The process of information communication may be iterative in nature.) The planners succeed in coordination if the performance of the economy is "better" than it would have been had planning not been instituted. In defining success in such a way we are confronted with a familiar problem: how does one define "better"?

Given that social-welfare functions are not available, it may be impossible to formulate a satisfactory definition of when a change in an economy's performance is an improvement. However, the method used in this paper to evaluate the success of planning does not require such a definition. The method involves an examination of the planning process in order to see if that process can have contributed to the policy-making process, whatever the fundamental objectives of policy. Five conditions that must be satisfied if the planning process is to aid policy coordination are specified in the following pages. Only if these conditions are satisfied is it possible to state with any confidence that coordination by the planning process has improved economic performance, whatever set of preferences is used to judge that performance.<sup>5</sup>

Few attempts have been made to determine whether coordination has been enhanced by planning. Lutz's work on French planning has compared plan forecasts and results. She claims that "such comparisons help us assess the effectiveness of the successive plans, irrespective of which

<sup>4</sup> In this definition, it is not meant to imply that the planners necessarily formulate the orders or suggestions. The planners may have no decision-making power and thus solely act as agents, communicating the decisions of some higher-level agency of government.

<sup>5</sup> It is possible that policies may be changed due to the implementation of planning even though planning fails as a coordinating mechanism. For example, the planners themselves may be able to influence policies in a certain direction. In such a case, the resultant economic performance may be improved in the view of some economic agents. However, the improvement cannot be said to be due to coordination but, rather, to the changing influences on policy formulation.

of the several possible conceptions of French planning may be said to have been operative" (Lutz, 1969, p. 64). However, Lutz's approach ignores the fact that, even if the plan is a poor forecast, the plan may be the best forecast available and therefore would provide a basis for making the best choice of policies, given the amount of information available. Thus, a crude comparison between planned forecasts and realized results cannot reveal whether planning has helped to coordinate policy.

One objection to the methodology of this paper that will naturally arise is the criticism that the analysis is nonquantitative. However, quantification is a goal, not a necessary condition for sound analysis. Quantitative information in some areas is difficult, or even impossible, to obtain. Yet, to ignore these cases would be to burden the direction of research with a needless bias. Quantification of the pattern of individual behavior within the planning mechanism would only be possible for those who have access to the process of decision making and to the individual decision makers. Those who are uniquely placed for such access, the planners, are also those who are least likely to question the efficacy of the planning process. Thus, the nonnumerical approach of this paper may be unavoidable.

After having parried, if not blunted, the possible methodological objections, I turn to the formulation of the five characteristics of plan formulation and implementation that I consider necessary for the coordination of policy.

#### *i. Incorporation of Actual Government Decisions*

Any plan will contain a specification of future government decisions. However, the embodiment of decisions in a plan does not imply that these decisions have any precise relation to actual government decisions. In practice, government decisions may be forecast by planners in the same way that private-enterprise econometric forecasters try to predict future policy actions. When government decisions are forecast, the plan will have no more normative significance than a private forecast. If the plan is to aid the government in the coordination of policy, then the plan must embody actual government decisions rather than forecasts of these decisions.

The mere embodiment of government decisions in the plan does not imply that all advantages offered by planning for coordination are reaped. If decisions are made separately by individual government departments, then they may not be consistent with each other. Effective coordination will entail the planners' enhancing the degree of communication between government officials concerning the decisions that those officials are making.

To reap the full benefits of a planning approach, the choices of the values of policy tools will be made collectively in the light of an overall view of the effect of all the instruments (see Tinbergen, 1967, p. 8). The plan will provide such an overall view. Therefore, government decision making must be an integral part of the planning process. A decision-making body that has the power to enforce its decisions must be engaged in the planning process, interacting with plans and planners. The highest official body in government, such as a Parliament, need not necessarily be the most important in the planning process. Often high-level government departments, such as Ministries of Finance, have arrogated to themselves power in decision making through their control of the implementation process. In embodying policy in the plan, planners must be responsive to the actual lines of authority; not to theoretical definitions of the structure of authority.

In summary, if the benefits of planning have been realized, one would observe that government decision making has been an integral part of the planning process and that government decisions have been embodied in the final plan.

#### ii. *Specification of Instruments and Targets*

Choice of the preferred path of development may be embodied in the plan without any indication of how the government must act in order to guide the economy along the preferred path. The plan will not embody the prescription for government action if the plan does not take into account the effect of government instruments. If the role of the instruments is omitted from the planning process then coordination will not take place because the orders or suggestions that planners issue in order to coordinate must relate to future actions of government bodies.

Choice of a particular path of development implies choice of the instrument values necessary to attain the path. Hence, any plan must contain an articulation of policies that will make the chosen path of development attainable. Thus, if planning has been successful, one would expect to find that the values of instruments and targets are determined simultaneously in the plan.

#### iii. *Provision for Implementation*

Coordinated policy may be embodied in the plan without that policy being acted upon. There may be no effort within government departments to implement the plan. If there is no implementation, any benefit derived from the plan will not be due to coordination. A plan intended to aid coordination will have projections of actual policy decisions embodied in it. The greater the commitment to the plan on the part of the most power-

ful sectors of government, the more likely will it be that government departments will follow the orders or suggestions in the plan.

Government departments may not be responsive to the plan's prescriptions. Indeed, bureaucratic rivalry often exists whereby some government departments resist the dictates of other departments. Resistance would be especially forthcoming if the dictates emanate from a newly formed planning department whose actions seem to challenge the entrenched power of older departments. Thus, one would conclude that construction of an effective plan must ultimately involve the authorities who control implementation.

In deciding whether a plan has been effective, one has to analyze whether implementation of the plan has occurred. Implementation is most likely to take place if the policies embodied in the plan are broadly consistent with the policy objectives of those who have the power of policy implementation. The plan's policies are more likely to be consistent with the policy objectives of the implementing authorities if those authorities have participated in plan construction and have been able to influence the policies embodied in the plan. The Ministry of Finance, with its power over the purse strings, is the government department most likely to be able to enforce implementation. Hence, one must look for evidence of the Ministry of Finance's commitment to planning. Also, one must look for evidence that the plan has been backed as official government policy. If the plan has not been so endorsed, then there will be less commitment to the plan, and implementation will be less likely. Shonfield (1965, pp. 204-205) provides a concise summary: "... planning, if it is to be effective, must be steadily related to the day-to-day work of government. This is the truth which the French have grasped most clearly, right from the start." Thus, Shonfield claims not only that implementation is necessary for the efficacy of planning, but that implementation has occurred in one important practical example.

#### iv. *Exploration of Alternatives*

In making a policy decision, there is usually a wide range of possible courses of action. A plan can offer advantages to decision makers by revealing all alternative possibilities, in order that informed choice can be made among alternatives. If planners begin their work with only one view of the future behavior of the economy in mind, then possibility of choice is ruled out. Thus, one of the specific advantages of planning would be lost. In an examination of the extent to which planning has aided planned economies, one would look for evidence that, during plan construction, planners have explored alternative paths of development for the economy.

### v. *Flexibility under Uncertainty*

However large and inclusive a plan is, there will always be some residual uncertainty that the plan does not take into account. Uncertainty will be especially significant when the plan is intended to span a number of years. The merit of a planning approach is that all relationships between instruments and targets are taken into account. However, the forms of these relationships are predicated on assumptions concerning the state of the environment. In the event of the occurrence of unforeseen circumstances the relationships will be changed, possibilities will be changed, and hence, decisions already made, which have fixed the levels of the instruments, will be inappropriate. Thus, there will be a limit to the applicability of the plan's policies. Once that limit has been reached, that part of the plan containing variables that are directly and indirectly affected by unforeseen events will need to be changed. In an economy characterized by interdependence between all sectors, the whole plan will need to be changed. To quote Shonfield (1965, p. 235) again: "If any significant element in [a set of planning proposals] is changed, the whole structure must be adapted to accommodate the alteration."

If the way in which planning contributes to enhanced economic performance is through coordination, one would not expect to find that a plan's figures are used outside the domain for which they were intended. The original targets must not be regarded as sacrosanct, with instruments responding to changed circumstances by guiding the economy to unachieved targets. If the expected state of the economy has been rendered inappropriate by changed circumstances, then so have the targets of the plan.

### 3. THE FIVE CRITERIA IN PRACTICE

In this section, the experiences of four countries are compared in the light of the necessary conditions for successful coordination spelled out in the previous section. The four countries are France, Japan, Sweden, and The Netherlands. Medium-term planning (4-5 years) is the focus of the analysis for the first three countries. For The Netherlands both medium-term and short-term (1-year) plans are tools for the coordination of economic policy. Therefore, both types of plans are examined for this country. Focus on these four countries does not imply that other countries have not had significant attempts at planning. Rather the plans of these countries represent a sample of the most-touted formal planning exercises.<sup>6</sup>

<sup>6</sup> Those who, after reading the conclusion, feel that the sample may be biased should read Shanks's (1977) description of British attempts at planning.

In the analysis of planning experience one cannot hope to discuss every incident, every detail relevant to the criteria. Instead, one can only hope to describe important examples. In the ensuing pages a pattern is established that allows one to reach a straightforward conclusion. It is the ease with which the pattern can be established that leads to some degree of confidence that errors of omission are not likely to be important in drawing conclusions from the evidence presented.

### i. *Incorporation of Actual Government Decisions*

*Sweden.* In Sweden, the plan is prepared by a committee formed within the Ministry of Finance. The committee makes recommendations based sometimes on its own value judgments and sometimes on an estimation of the prevailing political consensus (Lindbeck, 1974, p. 167). The committee engages in discussions with government departments before the plan is finalized. However, the plan is not used to coordinate formally the decision-making mechanism. Indeed, the government does not adopt the plans as official policy (Lindbeck, p. 166). The Committee's report often contains recommendations that are not embodied in the plan, but are suggested by the plan's analysis (Lindbeck, pp. 167, 178-179). Thus, the extent to which the Swedish plan contains actual government decisions depends upon the extent to which government departments voluntarily follow the recommendations made by the planners.

*Japan.* Discretion in action gives power to the body having that discretion. Therefore, a government body may jealously guard its ability to make decisions outside the plan framework. Planners will thus find it difficult or impossible to embody chosen government policy in the plan. Hence, the officials who prepared the 1955-1960 Japanese plan received no directions from the government about the policies that were to be incorporated into the plan, and had to make *assumptions* about government policy (Yoshuie, 1965, p. 116). The Japanese Ministry of Finance feared that early commitments on specific projects would cause it to overspend when new demands arose at a later date (Komiya, 1975b, p. 203). Therefore, in the Japanese Doubling National Income Plan, 1961-1970, the Ministry of Finance refused to give yearly figures for public investment to the planning authorities (Bieda, 1974, p. 254). Only aggregate figures for 10 years were given, the value of which was doubtful when the year-to-year distribution of the expenditures was not known. In the next plan, a retrograde step was taken. Government investment was forecast on the basis of a historical relationship (Bieda, 1970, p. 75). The Japanese plan is officially endorsed by the cabinet (Shishido, 1965, p. 227). The way government investment figures were calculated indicates that the government of Japan was swayed by historical inevitability much

more than would be appropriate for a government exercising the freedom of choice that is the essence of the planning approach.

Another powerful Japanese authority, the Ministry of International Trade and Industry (MITI) also has an uneasy relationship with the plan. At the time of the construction of the 1960-1970 national plan, MITI was preparing an investment plan for private industry. Because of MITI's strong powers, its plan would not only be a forecast but a statement of the policy actions that MITI would make in the ensuing years. However, the forecast of total investment in the national plan was only one-half of that forecast in MITI's plan (Watanabe, 1970, pp. 40-42). The national plan was scrapped at an early date primarily because of its underestimate of total investment (Shishido, 1965, p. 229). The lack of accuracy in the national plan was a result of the failure of that plan to incorporate a policy formulated within the government.

*The Netherlands.* In The Netherlands a first-draft short-term plan uses assumptions about economic policy. This plan is shown to the ministries who send comments on it to the Central Planning Bureau (CPB) (Dror, 1963, p. 93). Thus, the CPB may be able to gain information about the appropriateness of its assumptions regarding future government policy, in order to modify the plan in later drafts. The ministries may alter their decisions in the light of the plan's information. However, there is no attempt to coordinate these decisions with the use of the plan. "The plan is, for the most part, formulated after the most important economic policy decisions, in particular those in the budget, have already been made. A government agency or department has never been required to consult the Planning Bureau prior to a policy decision" (Abert, 1969, p. 122). Thus, Dutch plans may be regarded as a forecast for which the forecaster is privy to more information than a private forecaster would be. Government decisions may be embodied in the plan, but are not coordinated by the plan.

*France.* A highly simplified schematization of the plan-construction process may be given by reference to three stages. In the first, macro-econometric models are built. These models may embody policy instruments whose values must be chosen. In the second stage, the path of development is chosen at a macro-economic level. In the third, the sectoral implications of the chosen path are explored by the Modernization Commissions. "The major decisions of French planning are taken during this second stage, by the Planning Commission and the Treasury: they are merely modified during the subsequent stages of planning" (Cohen, 1969, p. 57). This conclusion, resultant from a study of earlier French plans, can also be affirmed for later plans. A study of the operation of the Modernization Commission during the preparation of the Fifth Plan revealed that little of substance was decided in the Commissions and

that government officials were imposing their ideas on the Commissions (McArthur and Scott, 1969, pp. 424-428). The dominance of government officials was enhanced in the Sixth Plan when the use of econometric model forecasts overwhelmed many participants (Liggins, 1975, pp. 19-20). Hence, the plan's aid in choosing appropriate policy will be found, not in the much-publicized third stage, but in the less overt earlier stages.

The extent to which actual government decisions are embodied in, and coordinated by, the French plans therefore depends on the extent to which the econometric stages facilitate the making of these decisions. Variants produced by econometric models provide the ability to judge between policies on the basis of the overall effect of those policies. During the early stages of the preparation of the Sixth Plan, econometric variants were explored by the Planning Commission. The end result of these early stages consisted of three variants that were presented to the government (Courbis, 1972, p. 42; Liggins, 1975, p. 4). However, construction of the final version of the plan did not involve the use of an explicit model (Liggins, 1975, p. 166). Decisions made by the government and ministries were embodied in the final plan. However, these decisions were not based on one view, or model, of the economy. Thus, the value of the econometric approach—the judgment of the overall effect of a set of policies on a set of economic variables—was lost at the final stages of the planning process.

Political expediency may be more desirable than the plan's consistency. Government decisions made before plan construction have sometimes been deliberately omitted from the plan. The Fourth French Plan (1962-1965) ignored the effect on the labor force of the repatriation of 1 million people from Algeria (Massé, 1969, p. xxi). In the Fifth Plan (1966-1970), government decisions on the size of coal production were deliberately reported inaccurately in the plan (McArthur and Scott, 1969, p. 421). In each of these cases, the government jeopardized the consistency of its own plans.

## ii. *Specification of Instruments and Targets*

*The Netherlands.* Abert details an example from Dutch planning of an economic policy that was formulated in such a way that the objectives and instruments were analyzed simultaneously (Abert, 1969, pp. 149-158). Three alternative combinations of policy measures were described by the Social and Economic Council, which advises the government on policy. The Social and Economic Council is, in turn, advised by the CPB. The alternative combinations indicated the levels of the objective variables that would be attained from the policy measures. The choice of a particular alternative within this framework would satisfy the present

criterion for planning to be effective. However, the body exercising choice, the Social and Economic Council, is only an advisory body and has no statutory power to make any government department follow its advice. The extent to which instruments and targets are formulated together depends on the extent to which ministries follow the advice of the Council. Given the independence of Dutch ministries, one cannot generalize on how closely they follow the Council.

*Japan.* The model used for the 1955-1960 plan contained no policy variables. The model consisted of a one-sector growth projection (Yoshuie, 1965, p. 119). Policy variables were introduced into the model for the 1960-1970 plan, when there was a first attempt to differentiate between public and private sectors (Watanabe, 1970, p. 26). The prediction made by this model was related to the values of policy instruments (Shishido, 1965, pp. 225-226). However, when the plan's growth rate was changed in response to political pressures, little attention was paid to relating the change in the growth rate to the change in instruments (Shishido, p. 222). The number of policy variables used in the model for the Medium-Term Plan, 1964-1968, was higher than for the previous plan. At the same time, input-output models were introduced into planning, but no effects of fiscal and monetary variables were included in the input-output model (Watanabe and Shishido, 1970, p. 22).

Insofar as Japanese planning relies on the results of the econometric models, targets and policy measures are determined simultaneously. Even so, the models' results may be limited in applicability. For example, there is almost a complete absence of financial and monetary variables in the model. Thus, a large proportion of government instruments is missing. Also, the government sector is treated as a whole, rather than being divided into central and local sectors (Shishido and Oshizaka, 1974, p. 275). As local governments have a long tradition of autonomy in Japan (Bieda, 1970, p. 119), one can conclude that Japanese local government policy cannot be treated as an instrument controlled by the central government. The treatment of the government sector in the planning model is therefore inappropriate. Although there are simultaneous determinations of targets and instruments in Japanese planning, one may be dubious about the extent to which the models' instruments can be related to applicable policy instruments.

Econometric models can certainly help in relating instruments to targets, but it appears that the more complicated models have another use, as an example from Japanese planning reveals. In the preparations for the 1964-1968 plan, the econometric model indicated that a high growth rate was attainable, whereas the prevailing mood in the economy was that growth might falter due to balance-of-payments difficulties. In order to give the plan more "credibility," the econometric prediction was

biased downward by giving unreasonable values to the exogenous variables. Watanabe (1970, p. 29) reveals why a nonlinear model was helpful in this case:

... in order to prevent possible censures, one procedure is to conceal key information. The nonlinearity of the model in this [1964-1968] plan has been of great help. (Even though the government makes the entire structure of the model open, i.e., the values of all structural parameters of the equations being known, it is very difficult to solve a non-linear simultaneous equation system and to reach planned values without having all the information on exogenous variables. If, therefore, some key information is not made known year to year changes in the planned targets would also be unavailable for people outside of the government.)

Evidently, the econometric model of the 1964-1968 Japanese plan was of more use in obfuscation than in coordination. Song (1974, p. 39) presents evidence to show that such practice continued in the preparation of the 1967-1971 plan.

*France.* In the early plans, the use of econometric modeling was not very well developed. Yet, as has been already shown, government choice traditionally occurs at the econometric stage of the planning process. The early French plans relied on the Modernization Commissions for their sophistication, especially for their numerical detail. Thus, to the extent that the chief effort was put into the later stages of planning, there can have been no simultaneous determination of targets and instruments. This was the situation up to, and including, the Fourth Plan:

The fourth plan provided no detailed strategy for achieving the planned growth pattern. It projected a very detailed picture of economic activity for its final or target year, but it did not concern itself sufficiently with the changes in incentives, controls, policies, and institutions that would have been necessary to realize that pattern. . . . The exercise of short-term policy was never, even on paper, incorporated into the plan; throughout the fourth plan it remained an external variable (Cohen, 1969, pp. 183-184).

In the Fifth Plan, the situation hardly improved. The Minister of Finance wanted to keep a stabilization program in action whose policies were inconsistent with the 5% growth rate proposed by the Planning Commission. The final decision was made by the President, who decided to keep *both* the stabilization program and the 5% growth rate (McArthur and Scott, 1969, pp. 62-63). Thus, the choice of policy and the choice of growth path were inconsistent.

Since the Fifth Plan, econometric models have played a more important role. Indeed, Courbis (1972, p. 41) calls his medium-term model the "central instrument of preparation for the VI-th plan." Thus, there is now a greater possibility of coordination of objectives with instruments at the stage where choice is made. However, at present there are legitimate reasons to doubt the effectiveness of the coordination. Courbis' model

predicts for 5 years ahead on the basis that development will be smooth between initial and terminal years. Therefore, detailed temporal determination of policy is not worked out. One would expect the timing of actions to be an important feature of planning. The fact that the modeling of short-term policy begins with alternative projections of the growth rate (Liggins, 1972a, p. 15) indicates that the "smooth" policies of Courbis's model are not policies that will be useful in practice.

When the final version of the Sixth Plan was chosen, decision makers rejected the econometric model whose predictions had formed the central part of early discussions (Liggins, 1975, pp. 146-149). Actual policy choices rested on implicit notions of the economy's interrelations rather than explicit ones. The coordination between instruments and targets therefore depended on the decision makers' ability to understand the economy's interrelations. I will leave it to the reader to decide how well such a process satisfies the requirement of simultaneous determination of targets and policies.

*Sweden.* The procedure for the presentation of Swedish plans gives rise to doubts about the efficacy of coordination of the instruments and targets. In these plans, policy recommendations are made, the results of which are not embodied in the plan. If the government ignores the recommendations, then an opportunity to improve policy formulation will be lost. If the government accepts the recommendations, the plan's coordination of instruments and targets will be lost.

### iii. *Provisions for Implementation*

*Sweden.* Plans are prepared in the Ministry of Finance and thus have the backing of the most important department in the governmental structure (Lindbeck, 1974, p. 165). Even so, Swedish plans are not, as a rule, officially adopted by the government and thus have no force of commitment behind them (Lindbeck, p. 165). Also, the freedom of the Labor Market Board, which is dominated by nongovernmental appointees, to act on public-policy issues would seem to weaken any coordinative effect of the plan. (See Schnitzer, 1974, Chap. 4, for details of the Labor Market Board.)

*Japan.* In Japan, the Economic Planning Agency is a separate agency of government possessing no powers of implementation. The Ministry of Finance and the Ministry of International Trade and Industry (MITI) possess much greater power than the Planning Agency. The Ministry of Finance refuses to give yearly public investment figures to the planners. Thus, for public investment the plan will not be implemented because the plan does not contain the forecasts of the implementers. In addition, the plan is not compulsory for any government department; ministries

are solely required to consult with the Economic Planning Agency before making decisions (Komiya, 1975a, p. 18; Bieda, 1974, p. 254). If a department desires to follow the plan, implementation might be difficult because the plan gives no information to departments on the appropriate timing of policy measures (Bieda, 1974, p. 254). Facts such as these have led Watanabe (1965, p. 252) to conclude that "the influence of long-term planning in the public sector is small in the quantitative sense."

The Japanese MITI has had an enormous influence on the course of Japan's economic development. However, MITI has not been responsible to making its policies consistent with national planning (Watanabe, 1965, p. 242). MITI is divided into sections, each section being responsible for fostering growth in one industry. Each section has undertaken its task with little regard for consistency between the policies of all sectors (Komiya, 1975a, p. 18). Therefore, intraministry coordination has been absent in MITI.

Thus, although the Japanese plan is endorsed by the government, the endorsement is not backed by any governmental or ministerial commitment. Coordination of policy does not occur at a practical level in Japan. "When the Ministry of Finance makes decisions on the annual budget, the Bank of Japan on money supply, and the Ministry of International Trade and Industry on industrial policies, they pay little attention to the national economic plan" (Komiya, 1975b, p. 204).

*The Netherlands.* In the Netherlands, the Central Planning Bureau is located in the Ministry of Economic Affairs. The Dutch administrative structure has authority widely dispersed and individual government departments are very independent (Shonfield, 1965, p. 215). For this reason, the plan has only an informational input in the decision making of government departments. Dror (1963, pp. 100-101) indicates that the separation between the planners and the Ministry of Finance is one reason for the separation between the plan and implemented policy. The extent to which plans affect actual policies may be judged by quoting Abert (1969, p. 249):

Thus, the forecasts of the Central Planning Bureau might turn out to be erroneous for the . . . reason that the assumptions about government policy used by the Bureau in drawing up the plan, insofar as they pertain to action by the government, may turn out to be incorrect.

*France.* In France, the Planning Commission is directly responsible to the Prime Minister. The Planning Commission has remained small and has obtained no direct power, therefore presenting little challenge to the Ministry of Finance (Lutz, 1969, p. 10). Plan decisions have become a point of negotiation between the planners and the Finance Ministry with the government sometimes acting as arbiter (Cohen, 1969, p. 35). The



Ministry has objectives that differ from those of the planners. The former, for example, values stability higher relative to growth than the planners (Cohen, pp. 53-54). If the Finance Ministry lost in a conflict with the planners, the plan would also lose because there would be less chance of plan implementation. The French planners have been sensitive to the wishes of the Ministry of Finance (with the notable exception of the Fifth Plan) (Cohen, 1969, Chap. 4).

The fact that the French Ministry of Finance is often an ally rather than an opponent of the plan does necessarily imply that the plan is used to guide economic policy. At the time of the Fifth Plan, the Planning Commission ruled that the plan was indicative for the public sector, as well as for the private sector (Lutz, 1969, pp. 156-157). No department is forced to follow the dictates of the plan, even though the French plan has the status of a law. The function of this peculiar law is therefore unclear.

A medium-term plan, although containing policies for a 5-year period, can only be implemented if short-term policy is made broadly consistent with policies suggested for the longer period. It is clear that French plans are not implemented in the short run. Short-term policy may even be inimical to the course of economic development laid down in the plan: "... short-term policy was not used deliberately and systematically for the purpose of implementing the detailed programmes of the plan, ... quite often the main trends in economic policy were in contradiction with even the broadest outlines of the plan" (Cohen, 1969, pp. 166-167). Liggins points out that French short-term policy is not cast in the framework provided by the plans (Liggins, 1972b, p. 156). In 1964, the Court of Accounts pointed out that the public-investment programs were not described in enough detail to enable the Court to decide whether the programs had been implemented (Lutz, 1969, p. 157). The Court's criticism would imply that the plan's programs do not contain enough information to enable strict implementation by government departments.

Examples may be given to substantiate the conclusions of the previous paragraph. The decision to devalue the franc in 1958 was not embodied in the plan, nor was it taken in the context of the plan (Cohen, p. 55). Lutz (p. 46) cites the considerable degree of flexibility government officials have in offering inducements to companies to comply with the plans. Such flexibility implies that the plan's coordinative effect is reduced in the implementation stage. Ministries also have much flexibility in the timing of implementation because they are not required to spend funds in the year in which they receive them (Liggins, 1975, p. 293). A recent example of nonimplementation has been provided by the period of high inflation of the early 1970's, when attention had been drawn away from the plan and had focused on anti-inflation and demand-management policies (Lig-

gins, 1972b, p. 171). For example, the 1973 change in indirect taxes was not taken in the context of the plan's framework (Seibel, 1975, p. 174).

Shonfield has claimed that the French have sensed that, for planning to be effective, the plan needs to be related to the day-to-day work of government. The foregoing analysis indicates that despite the perception of the need, appropriate action is absent.

#### iv. *Exploration of Alternatives*

One remarkable similarity between the planning methods used in different countries has been that the starting point of preparation has been the choice of a growth rate. Using the chosen growth rate, implications for the economy as a whole are found by a disaggregation procedure. This "top-down" formalization of the planning procedure is the antithesis of a "bottom-up" method that most theoretical economists would probably advocate. In the latter procedure, the view of the economy (i.e., the model or the indicative process) is formulated, a feasible policy is chosen, and the implications in terms of the growth rate are found last of all.

*The Netherlands.* The Dutch medium-term economic program of 1963-1966 assumed a growth rate of 4% and analyzed the division of the increments of national income into competing uses (Abert, 1969, pp. 172-173).

*Japan.* In Japan, the Plan for Doubling National Income 1960-1970 assumed the growth rate implicit in its title (Bieda, 1970, p. 61). In the next Japanese plan, not even econometric projections were to stand in the way of planning the chosen growth rate, as we already saw in Section 3ii.

*France.* In France, the plan's growth rate is chosen before the working variant of the plan is sent to the Modernization Commissions for disaggregation. The Fifth Plan was the first plan to discuss explicitly differing growth rates, and only one of these was made into a formal plan variant (Cohen, 1969, p. 35). The Modernization Commissions provide a cumbersome approach to planning, with little scope for examining a range of possibilities. Lutz (1969, p. 15) cites an example suggesting that the Modernization Commissions can only comfortably deal with one variant per planning period. Thus, if there is ever to be a real choice of alternatives offered in French plans, they would be offered at the earlier, econometric stages of planning. The models used in the preparatory stage of the Sixth Plan obviously gave some scope for the articulation of alternatives. However, by the time the government received the variants only three were presented, and the model was no longer used (Liggins, 1975, pp. 4, 148, 166).

Plans that start from a specific growth rate before actual possibilities are explored do not avail themselves of the ability to choose between paths of development. Most earlier attempts at planning began with the

choice of a growth rate. However, there is a tendency to move away from this procedure, the Sixth French Plan being the clearest example. The formal modeling approach may indeed provide significant benefits in the articulation of possibilities.

#### v. *Flexibility under Uncertainty*

The prime way in which planning has adapted to the presence of uncertainty is the least encouraging: the scrapping of plans once the assumptions embodied in the plans have become untenable.

*Japan.* Japan provides the best example. In Japan, it is regarded as inevitable that a plan will cease to be useful before its scheduled termination date (Bieda, 1970, pp. 74-75). Therefore, a method of rolling plans has been informally adopted. Even so, annual plans differ considerably from the medium-term plans before the latter are scrapped (Watanabe, 1965, p. 248). The adaptation to uncertainty is not complete.

*Sweden.* In Sweden, the plans have not been revised when unexpected events have occurred. The lack of reaction to changed circumstances is an indication of how little policy makers in Sweden rely on the information in the plans.

*The Netherlands.* In The Netherlands, where annual plans are the most important means of planning, there is little time to alter a plan in the case of changed circumstance. An official CPB publication indicates that certain targets, for example investment, are much more important than formal policy consistency (Dror, 1963, p. 87). The publication states that remedial measures would be taken if performance, in comparison to the important targets, lags. These remedial measures would not be taken in the context of the plan. Thus, the remedial measures would be an example of an ad hoc approach to ensure the attainment of one specific target: the antithesis of planning.

Dutch planners have made some theoretically justifiable attempts to adapt to uncertainty in the short-term plans. Since 1961, tables have been published which enable anyone to ascertain what can be expected if certain variables take on values differing from those in the plan.<sup>7</sup>

*France.* The reaction to changing circumstances has differed according to the philosophy of the government in power at the time. During the second and fourth plan periods, the occurrence of unforeseen events led to the formulation of new short-term programs that were not cast in the framework of planning (Cohen, 1969, p. 56). The high inflation of the early 1970's caused much the same reaction. In contrast, during the period of the Third Plan, a new plan was published in response to the shortcomings of the original plan (Lutz, 1969, p. 74).

<sup>7</sup> The information given in this paragraph was supplied by an anonymous referee.

The French planning authorities have said that if the performance of an important variable, such as the rate of growth, does not behave as targeted, then attempts will be made to restore the variable to its targeted value (Lutz, p. 155). As has been said in the Dutch case, such an approach is a rejection of planning. If the actual rate is below the targeted rate due to unforeseen events, then the targeted rate is no longer relevant. If there are ways to raise the rate of growth without affecting other targets, then an opportunity to improve policy by coordination has been missed in the formulation of the plan.

These few examples have revealed a checkered response to coping with uncertainty. The one theoretically justified approach, which is easily applicable, is replanning when the original plan becomes redundant. Inevitably, planners wait for the change in circumstance that makes the plan redundant before beginning to replan. The gestation period for a plan being quite long, there is a hiatus when no usable plan is in existence. In practice then, one of the most efficacious ways to plan under uncertainty would be to use a system of formalized rolling plans. In this system, as soon as one plan is finalized, planners would begin to work on a new plan.

#### 4. CONCLUSION

The experience of the four countries taken together reveals a consistent pattern. Evidence has been found strongly suggesting that each country failed a majority of the five criteria. Probably the most damning evidence is that related to the third criterion, where it is shown that the plans are not implemented in any strict sense in any of the countries. If any significant part of a plan is not implemented, then policy coordination has not been achieved.

To say that planning, as a tool of policy coordination, has not been effective is not the same as saying that planners, and the institutions of planning, have been an insignificant force. In concluding this paper, I wish to make a tentative suggestion as to the way in which planners may have influenced the developing of the planned economies. This suggestion derives from observing two characteristics of the positions that planners hold in the policy-making framework. First, planners, because of their role, are more likely to be concerned with long-term analysis than other policy makers. Second, planners may have some influence on the orientation of policy due to the importance of their position and the contacts that planners have with policy makers.

Planners are placed in a unique position in that their task is to be concerned with the long-run economic position. Treasury officials are concerned with the short-run consequences of government fiscal actions, and most of all, with the consequences of such actions on the budget deficit.

Central Banks see their role as defenders of the purchasing power of a currency. Elected officials have a relatively short time horizon and the variables that most concern them are those that can easily be made electoral issues: the level of unemployment and the rate of inflation.

The three policy-making institutions, Treasury, Central Bank, and the cabinet, may not find the long-term growth prospects of the economy as significant as other objectives. Often the economic models used by these institutions emphasize their priorities. The most common form of model is the static Keynesian type: ignoring the nexus between investment and productive capacity. In contrast, planning models center on productive investment and the growth of the economy. In constructing a planning model, the possibilities of long-run growth become the focus; the trade-off between consumption now and consumption in the future is crystallized. However, those institutions that focus on the short run will see investment as functionally equivalent to government spending and consumption.

Thus, the traditional guardians of economic policy may lose perspective on the importance of investment to the health of an economy. In contrast, the planners are drawn, by the very nature of their task, into a position where they can hardly fail to see the benefits of encouraging investment. Thus, one would expect that planners would be advocates of policies designed to increase growth rates. Evidence of the planners' priorities can be seen in the earliest Dutch and Japanese plans where the planners chose the objective of maximizing growth rates (Dror, 1963, p. 87; Yoshuie, 1965, p. 120). Swedish planners have consistently concerned themselves with the ratio of domestic saving to GNP. The Swedish long-term plans have often forecast that investment would be larger than saving. Faced with such a forecast, the Swedish planners have consistently advocated policies to encourage saving at the expense of consumption.

Traditionally, the French planning procedure has begun by focusing on a specific rate of growth. Often, this rate has been an ambitious one, as can be shown by examining the experience of the Fifth Plan. When the Fifth Plan's chosen growth rate was embodied in a plan, an imbalance was found. The growth rate was higher than the one that would have been generated spontaneously without a change in policy. The imbalance was evident in the fact that the plan's forecast of investment was higher than the forecast of saving (McArthur and Scott, 1969, p. 454). Therefore, new policies were needed to bring the growth rate to fruition. The planners advocated an incomes policy that would cause retained earnings to increase (Lutz, 1969, p. 56). One cannot tell how much influence the planners had on future policy. However, the advocacy of growth by the planners caused both President and Prime Minister to commit themselves to a high growth rate (McArthur and Scott, pp. 62-63). Thus, by virtue

of their contacts with government officials planners were able to influence the actions of these officials.

Perhaps the most revealing comment on the status and importance of planning techniques has been given by Pierre Massé, the French planning commissioner from 1959 to 1966. In September 1963, anti-inflationary measures were adopted that had not been envisaged in the French Fourth Plan (1962-1965). Therefore, from this time onward short-term policy was conducted in a framework that was neither consistent with, nor coordinated by, the plan. Massé explains that the Fourth Plan was not replaced by the stabilization measures. Then, as a sole comment, he adds: "I must, moreover, mention in this connection that in spite of the unexpected turn of events in 1963, the Fourth plan not only reached but slightly passed its growth objective" (Massé, 1969, p. xx). The person who had done more than anybody to give French planning a theory commented solely on the attainment of the plan's growth rate. The impression gained is that the attainment of the forecast growth rate is evidence that planning has been successful even though the plan was ignored.<sup>8</sup> To attain a growth objective may be evidence that the economy has performed well in the view of the planners. However, such attainment does not imply that the plan has been successful as a policy-coordination tool.

Shonfield has recognized the planners' advocacy role. He refers to the job of the head of a national planning organization as the leader of "a lobby for long-term economic growth inside the government" (Shonfield, 1965, p. 234). However, just one page later, Shonfield remarks that the merit of a set of planning proposals is their "intellectual coherence and self-consistency." The foregoing analysis does not support the claim that planning has been successful in promoting the intellectual coherence (or coordination) of policy. Perhaps it is in their role as advocates of growth that one should look for the influence of planners.

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<sup>8</sup> In an article describing his view of the theory of French planning, Massé gives a similar interpretation of plan success: "The [Plan] can only be said to have failed if the [differences between projections and results] are large in size, unfavorable, and uncompensated for" (Massé, 1965, p. 276). This statement does not reflect the view that the contribution of the plan to economic performance is through the attainment of coherence.

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