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Result-Oriented and Process-Oriented Evaluations of Indicative Planning

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Murrell, Peter—Evaluating Indicative Planning

This paper comments on the methodology that Estrin and Holmes (Estrin, Saul, and Holmes, Peter, "Indicative Planning in Developed Economies." *J. Comp. Econom.* 14, 43000-4000, 1990) employ to evaluate indicative planning in developed countries. An evaluation that focuses on results suffers from inevitable informational problems, thus necessitating an examination of the processes of indicative planning. *J. Comp. Econom.*, December 1990, 14(4), pp. 555-559. University of Maryland, College Park, Maryland 20742. © 1990 Academic Press, Inc.

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1. MODES OF EVALUATION

In examining concepts of rationality within the social sciences, Herbert Simon (1982) makes the useful distinction between substantive and procedural rationality. A person's decisions are substantively rational if the choices made are the correct ones for the achievement of that person's goals. In contrast, behavior is procedurally rational when it is the outcome of appropriate deliberation (Simon, 1982, pp. 425-427). The latter concept, then, refers to the processes of choice, while the former refers to the choices themselves. The use of substantive rationality, of course, is dominant within economics, acquiring even some normative overtones: it is often deemed the way in which economic agents should behave. Hence, it is hardly surprising that when economists must evaluate the operations of some organization or institution, they prefer a methodology that searches for evidence of substantive rationality in outcomes.

In the following, I make use of Simon's distinction between the two concepts of rationality to consider the Estrin and Holmes (1990) evaluation of

indicative planning in developed countries.¹ In the only significant disagreement that I have with Estrin and Holmes' excellent paper, I make use of this distinction to critique the methodology that they employ in that evaluation.

Transporting Simon's concepts into a somewhat different domain, one might identify a substantive, or result-oriented, methodology for the evaluation of planning. Such an approach would attempt to measure the benefits that planning has produced by finding evidence that outcomes have changed in a desired direction and that planning is responsible for this change. For example, one might examine whether plan forecasts are more accurate than those in the private sector or whether an increase in growth rates has resulted directly from the use of planning.

As Simon (for example, 1982, pp. 438-439) makes clear, human decision-making occurs in such complex environments that it will usually be impossible to bring substantive rationality to bear upon decisions. Analogously, given the complex interactions of a modern economy, it is unlikely that one can precisely map out the effect that planning has had on economic outcomes in order to conduct a result-oriented evaluation. Comparisons of growth rates are fraught with the complications of disentangling cause and effect in the presence of myriad variables and small numbers of observations. Judging the accuracy of a forecasting procedure involves innumerable difficulties of interpretation: there can be beneficial self-invalidating forecasts, the publication of a government's bad forecasts might give much information about the intentions of the most important actor in the economy, and comparing forecasts to outcomes gives little insight into the quality of ex ante forecasts.²

Given the aforementioned difficulties, one must rely on something less than a definitive result-based measure of success when analyzing the usefulness of indicative planning. Instead a process-oriented approach is necessary, where one examines whether the institutions and procedures of planning are structured in a manner consistent with the implementation of some clearly defined, justifiable goal. Such an approach would begin by providing a theoretical case for indicative planning. For example, one might rely upon the theory of informational market failures.³ The theory would serve to identify

¹ These comments are on the original version of the Estrin-Holmes paper, presented at the Conference on Indicative Planning. A revised version appears in the present issue of this journal.

² Estrin and Holmes themselves are certainly clear about all of these points. But perhaps they do not confront the implications therefrom squarely enough. For example, it is these problems that led to the inconclusive discussion of the effectiveness of plans in the early 1980s. Both planners and markets get low marks on forecasting accuracy. But the implications of this conclusion are unclear.

³ The theoretical case for indicative planning is probably stronger now than ever before, since the informational problems of markets are now being highlighted by economic theorists. See, for example, Greenwald and Stiglitz (1986) and Grossman and Stiglitz (1980).

the broad goals of the planning procedure. Then, the evaluation would focus on the nature of the institutions and procedures of planning, where one examines whether these can be viewed as functional in meeting those goals.⁴

Given the usual focus on substantive, or result-based, rationality, most economists will find a dissatisfying element to this process-oriented methodology, which admits no possibility of quantifying the exact effects of planning. But this dissatisfaction should not be directed at the methodology. Rather, the problem is inherent in the subject of study: the very nature of indicative planning means that clear quantitative evidence on its effects is impossible to obtain. But this problem is hardly unique to indicative planning.⁵ For example, when a public good is supplied by the government, the preference revelation problem will ensure that it is difficult to obtain the information necessary for a result-oriented evaluation of the relevant government program. In such cases, most economists would not insist upon a result-oriented evaluation before they were willing to accept the possibility that the relevant government program adds to economic welfare. There seems to be no reason why indicative planning should be treated differently.

2. ESTRIN AND HOLMES: TWO EVALUATIONS OF DEVELOPED COUNTRY PLANNING

In the following paragraphs, I compare the methods and conclusions of the book by Estrin and Holmes (1983) with their paper in the present volume. The former can be considered the standard reference on the theory and practice of planning in developed capitalist countries. Although this book concentrates on the French experience, while the paper covers a wider range of countries, both have the same aim, to examine the possibilities for indicative planning, using both theory and analysis of practice. However, there has been some significant shift in the authors' views between the two works and it is that shift that prompts my comments.⁶ The differences between the two pieces are threefold:

1. The book is much more sanguine about the possibilities for successful indicative planning than is the current paper. While Estrin and Holmes (1983, p. 2) begin in a declarative spirit: "Our study vindicates at a conceptual and practical level a particular form of indicative planning. . . ." their

⁴ Murrell (1979) adopts such an approach in evaluating indicative planning as a method of coordination of government activities.

⁵ Olson (1982) shows that there is a general problem of isolating the effects of phenomena that are characterized by indivisibilities. Indicative planning and standard public goods are two examples of such phenomena.

⁶ I should add here that this shift is one of tone and emphasis rather than any change in the fundamental character of their arguments.

later paper is much more hesitant: "We conclude that there are circumstances in which planning might improve on the outcomes by free markets though these have been relatively infrequent. . . ."

2. Estrin and Holmes (1983) focus a great deal on the institutions and the processes of planning, asking whether these processes are structured in such a way that one can reliably suppose that society benefits. In contrast, the paper concentrates much more on quantifying the results of planning, especially growth rates and the accuracy of forecasts.⁷

3. Compared to the earlier book, Estrin and Holmes' paper (1990) places less emphasis on both the intellectual integrity of the theoretical argument for indicative planning and the importance of that intellectual exercise for justifying the use of planning.

Using the forgoing discussion on result- and process-oriented evaluations of planning, it is easy to see that these three shifts in tone and emphasis are very much interrelated. Estrin and Holmes (1983) provide a cast-iron *prima facie* case for indicative planning by employing the theory of the informational failure inherent in markets. This theoretical exercise then orients the examination of whether the institutional structure of French planning was functionally related to the apparent goals of the institutions, as required by a process-oriented approach. In this examination, Estrin and Holmes (1983) are able to identify the circumstances under which planning was successful in France and those under which it was not successful. Then, settling for a process-oriented approach, they are able to find convincing instances of successful planning and consequently venture a positive view.

By contrast, Estrin and Holmes' paper (1990) adopts a result-oriented approach. Thus, the authors concentrate upon comparisons of growth rates, the accuracy of forecasts, and the effect of forecasts on behavior. They are unable to offer convincing evidence that attributes positive results to the process of planning. But, as has been argued above, this ambiguity of evidence is inherent in the nature of indicative planning itself. Hence, the methodological approach of Estrin and Holmes (1990), as much as anything, leads to the somewhat ambivalent conclusion as to whether indicative planning has brought benefits to developed economies.

3. EVALUATING THE 1992 PROGRAM

Finally, I use the argument developed above to discuss the lessons that Estrin and Holmes (1990) draw from the 1992 program of the European Economic Community. It seems clear, again, that a result-oriented approach

cannot be convincing in evaluating the success or failure of this program, for the simple reason that separation of cause and effect is impossible. Thus, one cannot know whether the result of the indicative planning exercise, the survey of businesses, has been a partial cause of the European investment boom. The timing of the investment boom is, in fact, as much implied by the approach of 1992 as by the publication of the survey of expectations about the effects of the 1992 program. Moreover, even on a conceptual level, it is difficult to imagine an econometric exercise that would separate these two effects.

A process-oriented analysis of the 1992 plan, in contrast, is eminently feasible. In fact, Estrin and Holmes (1990) do provide some of the information needed to begin such an analysis. For example:

1. Is there a cogent theory for the type of indicative planning embodied in the 1992 program? The results of the business surveys are certainly a public good. Moreover, it is reasonable to argue, as do Estrin and Holmes (1990), that existing private expectations might be unreliable measures of the economywide effects of such completely new circumstances as the creation of a Europe free of economic borders.

2. Did the process of planning have the integrity to give confidence in the reported results of the survey? Estrin and Holmes' discussion (1990) of the administration and evaluation of the survey of business expectations provides reassuring information on this score. However, one could go further. For example, one would want to ascertain whether the EEC Commission itself was acting on the basis of the results of the survey of expectations.

Hence, it seems possible that a much stronger case might have been made for the 1992 exercise as a successful instance of indicative planning. As I have argued here, however, such a case would rest upon a process-oriented evaluation in the spirit of Estrin and Holmes (1983) rather than upon the result-oriented approach favored by Estrin and Holmes (1990).

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⁷ Although there is a very informative discussion of forecasting accuracy in the book, this is to some extent dominated by the discussion of the institutions and processes of planning.