

# PLANNING: PAST, PRESENT AND FUTURE

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# INTRODUCTION

## 1. The opening of an uncertain epoch:

- *Recurring financial and economic **crises**.*
- *Clear **imperfections of markets** in guiding long-term decisions.*
- *Still the domination of **the belief** in the efficiency of markets*
- *The influence of **ideology** more than analytical rigor*

## 2. Challenging TINA: “There is no alternative”

- *Micro economic theory: **no proof** for the existence of an invisible hand.*
- *Mathematical finance: **the myth** of the informational efficiency of financial markets.*
- *Comparative analysis of economic system: **no evidence** of superiority for Anglo-Saxon capitalisms*

# SYNOPSIS

- I. Markets or planning? The **theoretical debate** in historical perspective.
- II. The French **indicative planning**: lessons from a genuine trajectory.
- III. **Powerful private actors** have replaced States in building the future by a form of planning.
- IV. The secret of **successful national economies**: a form of planning.



# I - MARKETS OR PLANNING? THE THEORETICAL DEBATE IN HISTORICAL PERSPECTIVE.

1. WWII: the birth of **linear programming** in order to organize efficiently the war effort.
2. The reconstruction period: a **direct public intervention** guided by input/ output analyses and the affirmation of applied economics.

3. The autonomization of mathematical economics: the **general equilibrium theory** uses the theorems elaborated for the existence of an optimum in resource allocations.
4. Two approaches of planning: **by quantity or by price?**

# I.P. RESTAURATION DES BASES D'UNE CROISSANCE AUTO-CENTRÉE

## LE MODÈLE DE VON NEUMANN

(I.P.)	{	$AX_{t+1} \leq BX_t$	On ne peut employer la période $(t + 1)$ plus qu'il n'a été produit à la période $t$ .
		$X_{t+1} = (1 + g) X_t$	Tous les processus qui sont en fonction croissent au même taux.
		$X_t, X_{t+1} \geq 0$	Le niveau d'activité de chaque processus est positif ou nul.

## I.D. TAUX DE CROISSANCE, TAUX DE PROFIT ET DUALITÉ DU MODÈLE DE VON NEUMANN

(I.D.)	{	$p_t, p_{t+1} \geq 0$	Seuls ont un prix positif ceux des produits sur la pénurie desquels vient buter la croissance en volume ( $AX_{t+1} = BX_t \Rightarrow p_t, p_{t+1} > 0$ ).
		$p_t = p_{t+1}$	On étudie un sentier pour lequel les prix sont constants au cours du temps.
		$(1 + \pi) p_t A \geq p_{t+1} B$	Le taux de profit moyen est tel que le prix doit assurer au moins le taux de profit moyen sur le coût des inputs nécessaires, pour les techniques effectivement utilisées.

# 5. The issue of effective demand and the foundation of Keynesian macro theory: indirect control via money, taxes and public spending.

## II — LES LIMITATIONS DE LA CROISSANCE EFFECTIVE : UN MODÈLE KEYNESIEN SIMPLIFIÉ TYPE

$$(1) \quad Q + M = C + I + \bar{G} + \bar{X}$$

La production  $Q$  est déterminée par la demande globale.

$$(2) \quad C = c \cdot \frac{R}{p}$$

La consommation  $C$  dépend du revenu disponible des ménages  $R$ .

$$(3) \quad I = \bar{I}$$

L'investissement  $I$  est déterminé de façon exogène.

$$(4) \quad M = m(Q) \cdot Q$$

Les importations sont liées positivement au niveau de la production.

$$(5) \quad R = sN - \bar{T}$$

Le revenu disponible correspond aux revenus salariaux ( $sN$ ) nets de la fiscalité directe  $\bar{T}$ .

$$(6) \quad N = \frac{Q}{\pi}$$

L'emploi est fixé par le niveau de la production, compte tenu du niveau de la productivité.

$$(7) \quad \pi = \pi(K, Q \dots)$$

La productivité dépend du volume des équipements installés  $K$ , et du niveau de la production.

$$(8) \quad s = \bar{s}$$

Le taux de salaire nominal  $s$  est déterminé de façon exogène.

$$(9) \quad p = \frac{1}{r} \cdot \frac{s}{\pi}$$

Les prix se forment sur la base d'un taux de marge appliqué aux coûts variables (en l'occurrence, le coût salarial par unité produite).

Sont exogènes :

$\bar{G}$  les dépenses publiques

$\bar{X}$  les exportations

$\bar{T}$  la fiscalité

$\bar{K}$  le stock d'équipement disponible en début de période

Source:  
Ibidem.

## 6. The Real Business Cycle and new classical macroeconomics:

- *Seemingly micro foundation for macro: **rationality, equilibrium, rational expectation.***
- *The abandon of Walrasian analysis of a **multi-product** economy: only money, one good, and labor.*
- *The rational expectation hypothesis replaces good heterogeneity by the unfolding of **time.***
- *In fact, a **benevolent planner** – or Robinson Crusoe – is organizing resource allocation.*

**The magical trick: Robert Lucas 1982 to 1988.**

# 7. The visible hand becomes a belief because mathematical economists cannot prove its generality.

Inspired by Israel  
and Ingrao, 1990.

THE HYPOTHESES OF THE TWO WELFARE THEOREMS	STYLIZED FEATURES OF CONTEMPORARY ECONOMIES	CONSEQUENCES UPON MARKET FUNCTIONING
1. De facto, complete centralization of transactions, no need for money	1. Largely decentralized exchanges allowed by money and credit	1. Multiplicity...or absence of any equilibrium. Efficiency is no more warranted
2. Atomistic competition among very numerous agents	2. Imperfect competition via product differentiation is the rule	2. Market equilibria are no more efficient
3. The list of goods is finite, their quality is known	3. Producers are better informed than consumers, products innovation is crucial	3. Markets do not clear: unemployment and over capacities
4. Purely private goods, without any external effect	4. Existence of many public goods and external effects (security, education, R&D,...)	4. Competitive markets imply an under-investment in collective goods
5. Constant returns to scale and fixed technologies	5. Learning by doing, by using and increasing dynamic re-returns to scale are significant	5. Imperfect competition is the rule, inefficient techniques can persist, multiplicity of path dependent equilibria
6. All contingent future markets exist	6. Only few financial markets allow intertemporal transactions	6. Existing markets cannot deliver an adequate coordination: inefficient equilibria are the rule
7. Equity principles have not any influence upon efficiency	7. Workers loyalty and commitment are linked to a fair treatment	7. Markets do not clear; unemployment can persist

## II - THE FRENCH INDICATIVE PLANNING: LESSONS FROM A GENUINE TRAJECTORY.

1. After WWII: away from the interwar belief in self adjusting markets.
2. The constraint of efficient resource allocation in the reconstruction of the economy.
3. New political alliance between Gaullists and Communists.



4. After the reconstruction: a permanent modernization taking into account **medium-long term** objectives.

5. Recurring but fruitful tensions between

➤ *The **Ministry of Finance** in charge of the short term.*

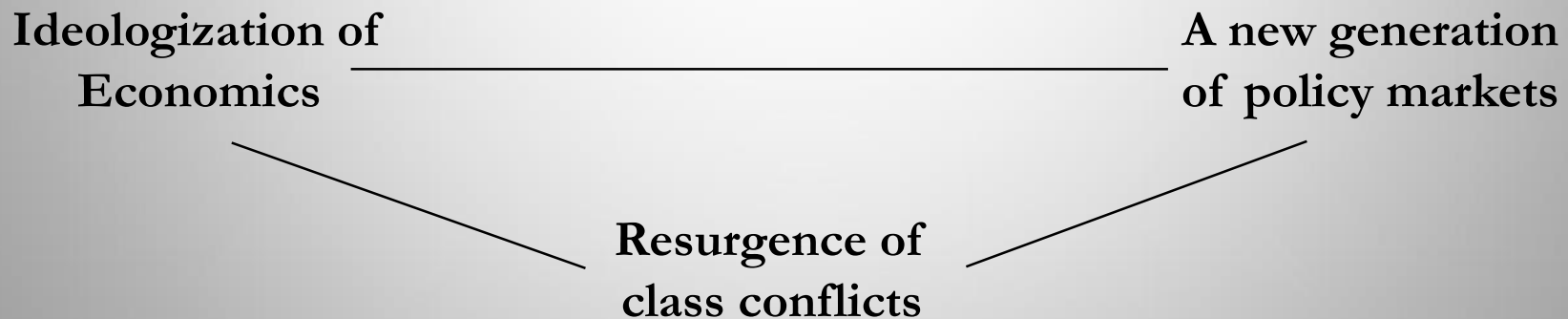
➤ *The **Planning Commission** (Commissariat General du Plan) defends the long-term.*

## 6. The three pillars of French planning **success** 1946 - 1970



## 7. A **progressive decay** of the planning spirit and institutionalization

1971 - 2006



# 8. An early detection of the entry in a new world where competitiveness is the limiting factor of growth.

Source: Boyer (1976)

## III — ECONOMIE OUVERTE : ÉCONOMIE CONCURRENCÉE <sup>14</sup>

$$(9c) \quad p = \bar{p}_{et}$$

Le prix est imposé par la concurrence extérieure.

$$(14c) \quad p \cdot Q = s \cdot N + \text{Aut}$$

L'autofinancement est celui compatible avec les prix extérieurs et les coûts par unité produite.

$$(3c) \quad pI = \frac{\text{Aut}}{a}$$

L'investissement réalisé est celui permis par l'autofinancement dégagé.

$$(15c) \quad I = k \cdot Q$$

La production est supposée à facteurs strictement complémentaires.

$$(6c) \quad N = n \cdot Q$$

$$(8c) \quad s = w_0 + w_1 \cdot p + w_2 \cdot N$$

Le taux de salaire nominal est croissant avec le niveau de l'emploi (relation de Phillips).

$$(5c) \quad R = s \cdot N - T$$

Formation du revenu disponible après impôts.

$$(2c) \quad C = c \cdot \frac{R}{p}$$

La consommation des ménages est fonction de leur revenu disponible.

$$(1c) \quad Q + M = C + I + \bar{G} + \bar{X}$$

$$\text{c'est-à-dire } \bar{X} - M = Q - C - I - \bar{G}$$

La condition d'équilibre des biens et services exprime en l'occurrence que le solde commercial correspond à l'excès de la production par rapport à la demande intérieure.

Sont exogènes :

$\bar{G}$  les dépenses publiques

$\bar{T}$  la fiscalité directe

9. The **two oil shocks** reveal the erosion of the post-WWII golden age.

- *The turning point of **de-industrialization**.*
- *The irresistible rise of **unemployment**.*
- *The **breaking-down** of most macro-econometric regularities.*
- *The polarization of debates around the opposition **State against Market**.*
- *The decay of prospective analyses: the long-term as the adding-up of **short run marginal decisions**.*

## 10. The silent but steady rise of alternative conceptions and ideologies.

- *A **new generation of politicians** with few memories of interwar dramatic episode.*
- ***State is the problem**, markets are the solutions.*
- *Economic expertise progressively shifts to powerful **private actors**.*
- *The rise of mathematical finance built upon the **informational efficiency** hypothesis.*
- *Recurring deficit interpreted as **mismanagement** of the State.*

## 11. A tentative modernization of planning spirit.

- *Creation of “**France Stratégie**”, in charge of analyzing medium-long term issues.*
- *More a **think-tank** than an agora where economic interests and social groups deliberate and share a common understanding.*
- *From one urgent issue to another: the de facto victory of **short termism**.*
- *A paradoxical reversal. **Financial markets** scrutinize the viability of a socioeconomic regime and the State has to react to their changing concerns and anticipations.*



# III - POWERFUL PRIVATE ACTORS HAVE REPLACED STATES IN BUILDING THE FUTURE BY A FORM OF PLANNING.

1. **Large private financial** entities concentrate capital and they dramatically reduce the influence of public sovereign funds
  - *Caisse des dépôts around 250 billions Euros in 2016.*
  - *The 300 largest pension funds: 14800 billions dollars in 2016.*



## 2. The new monopolies in the various segments of Information and Communication Technologies do have planning activities.

- *A concentration of **Research and Development** expenditures.*
- *The ability to invent and propose **a vision** of the future and to engage massive capital in order to make it happen.*
- *An impressive asymmetry between **citizens' demands and projects** and the ability to mobilize capital to make them real.*
- *A **neo-schumpeterian State** in charge of attracting foreign capital localization,...but few constraints.*

3. The **GAFA** have the power to gather and exploit relevant information on a massive scale.

- *Under the domination of free marketers, **less funding** of public statistical institutes.*
- *The **secret of business** entitles large firms to keep private an information relevant for the collectivity.*
- *This one of the origin of 2008 financial crisis: dangerous toxic products **out of the control** of regulatory authorities.*
- *The accumulation of data on individual behaviors resuscitates the possibility of a **Big Brother**.*
- *Public forecasts are frequently the outcome of the **lobbying** of powerful private actors.*

# IV - THE SECRET OF SUCCESSFUL NATIONAL ECONOMIES: A FORM OF PLANNING.

1. The **market only registers** the performance generated by cooperation, long-term commitment and investment....  
.... And conversely, following market price signals might lead to decline and bankruptcy.

**John Kay, 2010, *Obliquity***

## 2. How much **Chinese performance** is the consequence of a genuine form of planning?

- *This is **not Soviet type** planning, largely abandoned since 1978.*
- *This is **not a variant of French indicative planning.***
- *A selection of **strategic sectors**: basic products, sunrise industries, infrastructures and communication.*

- *A **multiplicity of instruments**: limitation of property rights, property of lands, capacity to impose joint ventures to foreign capital, control of bank credit and large investment funds in charge of nationalized enterprises.*
- *The **digital control** by Communist apparatus of most relevant private information about firms.*
- *Access by the State to the information generated by platforms and synoptic **control of citizens**.*
- *Use the dynamism of **private initiatives** and market competition in all other sectors.*



### 3. One neglected source of **US dynamism**: an implicit industrial policy via publicly funded research

- *The Silicon Valley: the impressive private spillovers of the end of the public **military programs**.*
- ***Security issues** justify massive public spending of military and civilian research.*
- ***Some firms** are so successful that they can design their own research programs with society wide impact.*
- *Traditionally, **lobbying** warrants the compatibility /complementarity of private and public funding.*

#### 4. The flexi-security **Danish model** displays an hidden but important planning component

- ***Tripartite agreements** between business associations, workers unions and civil servants do organize policies that favor long term sustainability and competitiveness.*
- *One task of **Ministry of Finance** is to detect the structural limits to future growth and propose reforms to overcome these obstacles.*
- *The **welfare system** is conceived as a contribution to the formation of social capital.*



- *The **quality of the education** and the healthcare are assessed to be crucial for long-term social and economic sustainability.*
- *The rebuttal of the formation of a mass of working poor explain a form of **wage rigidity** that channels technical and organizational change in the direction of more efficient production techniques.*
- *The **control by citizens** of the quality of public services prevents some of the inefficiencies of public management.*

# CONCLUSION.

- C1 – Never be impressed by the scientific nature of the arguments in favor of market mechanisms and against any form of planning.**
- C2 – The very advances of mathematical economics have concluded that the theorem of the “invisible hand” cannot be demonstrated. It is thus more a belief or an ideology than a scientific result.**

**C3 – Some recent advances in endogenous growth theory deliver a surprising argument **in favor of planning**, not at all a demonstration of superiority of pure market mechanisms.**

**C4 – It would be erroneous to state that any forms of planning is bound to fail. The French **indicative planning success** has been built upon complementarity of rigorous **applied economics**, the participation of **social partners** and the defense of public interest by dedicated **civil servants**.**

**C5 - The demise of planning** largely derives from the alliance between an ideological shift of economics, the entry of a new generation of policy makers and the resurgence of class conflicts. The **anonymity of markets** has been used to **discipline workers** and progressively reduce their bargaining power.

**C6 – State and large private firms have been trading places.** Until the 70s, governments decided strategic orientations, private firms had to comply with. Nowadays, governments only accompany the development projects of dominant transnational firms. Citizens have a limited voice and power to orient society wide transformations.



**C7 – The market is only assessing the success of strategies based upon cooperation, trust and/or planning. One can find in the contemporary world examples of resilience of new forms of planning. China, US and Denmark, however different, deserve a careful analysis of the sources of their dynamism. Some of them are compatible with the involvement of citizens, most of them are not.**

**Thanks for your attention  
and patience**

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