Many of the greatest economic evils of our time are the fruits of risk, uncertainty and ignorance.

J. M. Keynes

The Theory of Indicative Planning

- One of the market failures is the presence of imperfect information.
- Indicative planning is one attempt to bridge this information gap.

The aim of pure indicative planning is to improve the performance of the economy by the provision of better economic information: forecasts or targets are published but compliance with them is voluntary. The underlying logic is that the plan, via collective action, can supply economically valuable information which, as a public good, the market mechanism does not disseminate efficiently. *(Peter Holmes)*
Rationale
- to make an informed investment decision, firms need to know a wide range of macroeconomic vars.
- How is this solved in a pure market environment?
- Consequence: ___________ and ___________ information
- If complete and efficient forward markets exist → firms could hedge against macroeconomic risks (__________)
- If such markets do not exist → (forecasts) gives investors confidence that demand for products and supply of inputs would be forthcoming

Positives
- information pooling
- economies of scale in information gathering
- exchange of ideas
- coordination mechanism

Criticism
- firms are better forecasters
- need for data
- optimism
- external shocks
- anticompetitive dangers

French indicative planning
- founded by Pierre Massé
- 3 stages in the process of indicative planning
  1. information gathering (pooling)
     - forward and backward - throwing the light on the future
     - developments in technology and industries and how would that affect employment, ind. structure, etc.
  2. concertation (dialogue)
     - employers' groups, trade unions, agriculture reps.
     - young people's, women's, consumers' groups, etc.
  3. consistency
- The goal is concerted economy
Historical perspective

- heavy state involvement in the markets throughout history
- Colbertism
  * dirigisme → directing the economy
- believed that markets should be the principal coordination mechanism + predominance of private firms in production
- The role of the state:
  * 
  * 
  * 

Motives

- to rebuild France to its glorious past
  * military strength requires economic strength
- to offset the strong communist movement within the French government
  * an “answer” to _________ planning

<table>
<thead>
<tr>
<th>Plan: Years</th>
<th>Forecast Growth Rate</th>
<th>Actual Growth Rate</th>
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</thead>
<tbody>
<tr>
<td>Second: 1953-57</td>
<td>4.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Third: 1957-1961</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Fourth: 1961-65</td>
<td>5.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Fifth: 1965-70</td>
<td>5.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Sixth: 1970-75</td>
<td>5.9</td>
<td>3.8</td>
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<tr>
<td>Seventh: 1975-80</td>
<td>5.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Eighth: 1980-84</td>
<td>3.2-2.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Ninth: 1984-88</td>
<td>2.2-1.6</td>
<td>1.1</td>
</tr>
</tbody>
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Trend: ____________________________
**Consequences?**

- Fast growth until the early 1970s (the glorious years), but slowdown since
- Indicative planning ________________
- Indicative planning is instituted in many developing countries: India, Iran, Pakistan, Latin American countries (mostly in the past), ...
- Shift from government involvement in production to providing ________________