

## ECONOMIC FORECASTING AND ITS “ERRORS”

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THOMAS ANGELETTI

## Economic Forecasting and Its “Errors”

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Our plan is to constantly remind institutions, in terms appropriate to the circumstances of the moment, of the requirements of change considered in general and in the long term, to inform and enliven the fundamental debate: where do we want to go? Where can we go?<sup>1</sup>

**T**IME IS A DECISIVE dimension in the experience of the social world, particularly among leaders of the dominant class.<sup>2</sup> Because time is both something to dominate, and to master in order to dominate, economic forecasting represented a paradigmatic way of making economic phenomena calculable, predictable, and therefore understandable in the second half of the twentieth century. This quantification of the future was also linked,

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1. This extract is from a short work which can surely be attributed to Claude Gruson, published by the Centre de Villemétrie (*Appel aux hommes et aux femmes d'espérance* [Paris: Centurion, 1983]). Created in 1954, it defines itself as a “Protestant study institution” and its booklet is written by three representatives of the episcopacy. “Economists, sociologists, theologians, business leaders”—as the 36 signatories describe themselves, 13 of whom call themselves economists—“engaged in administrative, academic, ecclesiastical activities, or in industrial and financial business, attentive to the world in which we live; we are deeply concerned about its future.”
  2. Among the many publications on this topic published during the 1980s, two publications on the collective mastery of time, or of its individual management include Jacques Attali, *Histoires du temps* (Paris: Fayard, 1982); Jean-Louis Servan-Schreiber, *L'art du temps* (Paris: Fayard, 1983).

at least for some of its advocates, to a broader project for society, which can readily be seen in the thought of Claude Gruson, one of the most active figures in French planning.<sup>3</sup> To understand the impact and role of such economic predictions, as manifested for example in administrative discussions but perhaps above all in the press, it is useful to focus on the various controversies surrounding forecasting in and around the 1980s.

Whether these controversies were about the transformation of the official institutions that produced them, the administrative leaks in the press, or the methodologies used, they are a good way to highlight disappointed expectations regarding forecasting. Furthermore, such debates are a way of accessing alternative and competing modes of totalization to give a meaning of the future. Above all, what these controversies have in common was their questioning of the role of forecasting in the phenomena they anticipate and witness. They are broader evidence of the crisis of causality that followed a decade marked by rising unemployment and inflation. These debates, which economists were dedicated to in the late 1970s and early 1980s, allow us on one hand to identify certain shifts in the relation to the future and therefore to change, and on the other hand to sketch out two forecasting regimes in which the economy appears in particularly contrasting ways.<sup>4</sup>

## Who Can Predict? The Institutions of Forecasting

In 1979, a report commissioned by Raymond Barre, the Lenoir-Prot Report,<sup>5</sup> was published. Written by two former students of the

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3. This polytechnic and ENA graduate, and finance inspector, who headed up INSEE between 1961 and 1967, developed a theory of the need to operate medium-term policies, which is inextricably linked to his Protestant roots. The title he gave to one of his works is particularly evocative: *Programmer l'espérance* [Programming Hope] (Paris: Stock, 1976).
  4. This article is based on research we conducted on economists working in government administration. In this sense, we conducted many interviews with members of the *Institut National de la Statistique et des Études Économiques* (French National Institute of Statistics and Economic Research, or INSEE) and the *direction de la Prévision* (Forecasting Unit) around the 1980s, institutions whose archives we also studied. This approach aims, on one hand, to assess the economists' commitment to norms and the moments in which such norms were updated or reevaluated. On the other hand, it studies the transformations of ways they developed and promoted to describe the economy.
  5. René Lenoir and Baudouin Prot, *L'information économique et sociale* (Paris: La Documentation française, 1979).

national school of administration (ENA), one of whom had a few years earlier published *Les exclus*,<sup>6</sup> the report can be considered as clear evidence of a revisionist climate surrounding forecasting. It recommended creating "independent" centers for macroeconomic forecasting to circumvent the "administrative oligopoly consisting of INSEE<sup>7</sup> and the Forecasting Unit" (138), the French government institutions principally responsible for quantifying the economic future.<sup>8</sup> "Our society . . . is hyper-complex, and simplistic economic calculations are no longer able to take into account its complexity. The astonishment of econometricians is salutary. What they need to do now is themselves indicate the limits of their investigations, strengthen their professional ethics, and work closely with political scientists and sociologists" (134). What was at stake by adopting this "pluralism" was the ability to "contribute to broadening the range of questions subject to debate," and to "create a degree of consensus on questions of national importance," because "the best way to enrich the debate and develop new methodologies is to have competing teams" (134–135). This could also mark "the end of discussions not based on concrete evidence; in other words, it could mark the coming of age of politics." In order to do so, it was considered necessary to have sufficiently large centers of calculation, adequately funded, to be able to operate with no extraneous concerns; they should have full access to INSEE data, and they should be totally independent. In 1981, these recommendations led to the creation of three entities: (1) a university based economic observatory, the OFCE (*Observatoire français des conjonctures économiques*), headed by Jean-Marcel Jeanneney; (2) an economic and financial forecasting center linked with the French

6. René Lenoir, *Les exclus. Un français sur dix* (Paris: Seuil, 1974).

7. *Institut National de la Statistique et des Études Économiques*, which will be referred to in the rest of this article as either INSEE or French National Institute of Statistics and Economic Research.

8. Leaving aside INSEE for the moment, it should be noted that the Forecasting Unit (*Direction de la Prévision*) is the newest service in the Ministry of Finance: it was formed in 1965 when Valéry Giscard d'Estaing was minister of finances, under the influence primarily of Claude Gruson and Jean Saint-Geours. It took the name "Forecasting" Unit (*direction de la "Prévision"*) to give the ministry a center of expertise and to counter the General Planning Commissariat which was perceived as an interventionist and spendthrift institution. "Forecasting" was therefore taken to mean, in this context, the opposite of "planning." The Forecasting Unit was therefore often described as the "intellectual" service of the ministry, without, however, the political weight of the Treasury, which had been created in 1940. For forecasting activity in France since the late 1940s, see François Fourquet, *Les comptes de la puissance. Une histoire de la comptabilité nationale et du Plan* (Paris: Encres, 1980); Aude Terray, *Des francs-tireurs aux experts. L'organisation de la prévision économique au ministère des Finances 1948–1968* (Paris: CHEFF, 2002).

Employers' Association, the *Institut de prévisions économiques et financières pour le développement des entreprises* (IPECODE, which became REXECODE a few years later); and (3) a center with all the major trade unions represented on its board, the *Institut de recherches économiques et sociales* (IRES) in 1982.<sup>9</sup> The government's policy on the social sciences—and for economic science in particular—since the late 1950s has, as Michael Pollak showed, mainly favored the development of research along administrative field and a resulting emphasis on contractualization.<sup>10</sup> The creation of these various institutes also helped to form a public space of forecasting, but above all to replace opposition between social classes with contention amongst economic experts.<sup>11</sup>

This relative “diversification” of forecasting institutions progressed at the same time as an attempt to harmonize the forecasts issued under the state's aegis. Thus, from 1979, forecasts developed by the Ministry of Finance were confronted with forecasts from other agencies within a “technical group” associated with the *Commission des comptes et budgets économiques de la Nation* (National Budgetary and Economic Accounts Committee).<sup>12</sup> In the late 1970s, the *Centre d'observation économique de la Chambre de commerce et d'industrie de Paris* (Economic Observation Center of the Chamber of Commerce and Industry of Paris), which had published annual forecasts since 1957, the private sector REXECODE, the GAMA (a university laboratory at University X Paris Nanterre founded by Raymond Courbis, an alumnus of INSEE); and then several years later the OFCE; the Bank of France; and *L'Expansion* magazine all presented their forecasts there. Thus, since the late 1950s, a period when forecasts came only from within the administration came

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9. Of these three institutions, only IRES never took the form of an economic forecasting or analysis institute, the presidency between 1985 and 1988 of Jacques Mazier, a polytechnic alumnus working in the Forecasting Unit and the Planning Commissariat, having, however, oriented its work towards a more macroeconomic approach. These new centers of calculation mainly recruited, at least initially, economists who had previously worked at INSEE or the Forecasting Unit.
  10. Michael Pollak, “La planification des sciences sociales,” *Actes de la recherche en sciences sociales* 2, no. 2–3 (1976): 105–121.
  11. We refer to a publication in which we analyzed another form of this shift, with the creation in 1997 of the Economic Analysis Council: Thomas Angeletti, “(Se) rendre conforme. Les limites de la critique au Conseil d'analyse économique,” *Tracés* 17 (2009): 55–72.
  12. Created in 1952, this commission is one of the sources of national accounting and an economic approach built on large macroeconomic aggregates. It meets two to four times a year to discuss “the nation's accounts” prepared for the previous year, the current year, and the following year. See F. Fourquet, *Les comptes de la puissance*, 198–222 (see note 7).

to an end, macroeconomic projections gradually developed in other sectors, so that today this technical group includes around ten banks that produce their own economic forecasts. This process, which also tends to encourage discussion about the future in a context of ordered, quantified equivalence, has contributed to spreading the language and concepts of macroeconomics to other spheres. For a major part of the dominant class, economics were indeed seen as a way to “educate” social groups, especially after the Second World War.<sup>13</sup>

The scope, or rather, the timeframes assigned to these officially sanctioned forecasting centers were disputed among the services and key public institutions (the “grands corps”). Due to the reconfiguration of the administrative responsibilities, the quantification of the future was only a limited part of their duties but was vested with high honorary status and was split between INSEE for very-short-term economic analysis, the Forecasting Unit of the Ministry of Finance for one to two-year economic budgets, then INSEE again for the “medium term,” particularly for producing projections as part of the five-year planning process. This time-based division of the future was intended to match the state’s various policy horizons, and the state’s economic administration activities were informed by these regular quantification checks.

## **A Descriptive and Civic-Minded Professional Ethos**

Along with these institutional transformations, a number of critiques of economic forecasting were formulated around the 1980s. Without going into detail, it can be said that these critiques highlighted certain expected standards of forecasting. Thus, in a period when leftist economic policies were the subject of much discussion, the reliability of projections was disputed, especially after revelations of scandals leaked to the general and specialized press. Although these revelations were sometimes politically motivated against the government in power, they showed more than anything the descriptive and civic-minded professional ethos of postwar macroeconomists. In their view, the scientific description of economic phenomena should not be overly manipulated. Some economists at INSEE and the Finance Ministry’s Forecasting

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13. As demonstrated by the publication of numerous reports on the theme of economic information and the popularization of economic works, as well as the development of the economic press. See Delphine Dulong, *Moderniser la politique. Aux origines de la V<sup>e</sup> République* (Paris: L’Harmattan, 1997), 13–68.

Unit did not hesitate to leak documents to the press when they felt they contained numbers that had been excessively altered.

In March 1983, a leaked forecast caused an uproar in the economic administration, as several economists mentioned to us in interviews. A memo from the director of the Forecasting Unit, Jean-Claude Milleron, explicitly announcing an “austerity squeeze” reached the satirical paper *Le Canard Enchaîné*. The paper published an article about the memo (March 2), which was picked up and widely published by the national dailies. This approximately 30-page document developed a scenario for the next several months and years that recommended squeezing household incomes to combat the country’s worsening foreign debt. Its publication led to serious changes in the Forecasting Unit: both management and unions sent letters to all staff. An inquiry was launched to find the source of the leak, and the director of the Forecasting Unit and a member of Jacques Delors’s cabinet (Minister of Finance at the time) submitted their resignations, which were declined. Furthermore, from that point on important management memos were released only in limited numbers, kept in a safe, and read only in meetings.

This episode cannot really be understood without taking into consideration one of the characteristics of the Forecasting Unit—even though it was undergoing a transformation in the early 1980s—as a sort of refuge within the administration for the most left-leaning economists who, due to their relatively important role, could continue their work with a certain degree of independence.<sup>14</sup> The situations in which the Forecasting Unit’s economists found themselves—some of them keen Marxists—sometimes led them to write, in addition to the official publications in the unit’s own journal *Économie et prévision*, articles in other media to explain their views in other ways, temporarily freed from the argumentative and moral constraints and the professional norms that they were required to observe at the Forecasting Unit. One example is an economist—at the time an active member of the Revolutionary Communist League (*Ligue Communiste Révolutionnaire*, LCR)—who helped develop a macroeconomic model for the Forecasting Unit called

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14. Thus, among the economists who worked at the Forecasting Unit in the years 1965–1980, many of them future contributors to the regulation school, we can cite in particular Hugues Bertrand, Bernard Billaudot, Robert Boyer, Philippe Herzog, Michel Husson, Jacques Mistral, Michel Mousel, Gaston Olive, Anicet le Pors, and Bruno Théret. Théret also wrote about these changes: Bruno Jobert and Bruno Théret, “France: La consécration républicaine du néo-libéralisme,” in *Le tournant néo-libéral en Europe. Idées et recettes dans les pratiques gouvernementales*, ed. Bruno Jobert (Paris: L’Harmattan, 1994), 21–86.

COPAIN. While he was doing so, he published, under a pseudonym, two articles in the *Critiques de l'économie politique* (Critiques of Political Economy), at a certain time close to the LCR, in which he denounced modeling, pointing as an example to the model that he himself was helping to develop. If such multiple commitments were known and relatively tolerated, it was also because most members of the administration (most of them polytechnic and engineering graduates) were not incarnations of the traditional picture of senior civil servants totally dedicated to the administrative cause as a necessary counterweight to the political vagaries. But this precarious balance between differing spaces for expression began to unravel during this period, due to a contraction of the political field and a compartmentalization of economics. It is therefore significant that the journal *Critiques de l'économie politique* shut down in 1985, only a few months before the launch of the *Revue française d'économie* (French Economic Review).

### Forecasting “Errors” and the Culture of “True” Numbers

Another aspect of this descriptive ethics of economic forecasting in the second half of the twentieth century, which is especially interesting in relation to temporality, is the relatively realist perspective it applies to the phenomena that it proposes to measure and sometimes to anticipate—in the sense that they exist independently of their measurement and categorization. For example, in 1983 an OFCE economist published an article—preceded by other similar publications—in which he addressed reasons for the problems encountered by economic policies following the arrival of the socialist government, pointing to “errors” by various forecasting agencies when compared to the “reality” of what “actually happened.”<sup>15</sup>

Forecasting is seen here as an activity that can be assessed as a success or a failure, such that it is possible to estimate the “errors” between predictions measured (at a time T) and the “definitive” results, as presented for example in INSEE’s national accounts (see table on next page). Thus, the “rising value of the dollar,” wrote Fonteneau in his 1983 article, “and the shift from a stagflationary international environment to a deflationist one had not been predicted by either international

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15. We could also mention the work of Alain Fonteneau and Pierre-Alain Muet (*La gauche face à la crise* [Paris: Presses de la FNSP, 1985]) which takes up and continues these analyses.



A Realist Approach to Economic Phenomena  
Forecasts for the French economy in 1982 published from autumn 1981

Average Annual Growth in %	Economic Budget (September 1981)	Forecasts Published Q4 1981			Forecasts Published Q2 1982			Actual Results <sup>(2)</sup>
		Low <sup>(1)</sup>	Average	High <sup>(1)</sup>	Low <sup>(1)</sup>	Average	High <sup>(1)</sup>	
<i>Volume of goods and services:</i>								
GDP .....	3.3	2.5 <sup>(*)</sup>	2.75	3.1 <sup>(G)</sup>	1.2 <sup>(G)</sup>	1.8	2.7 <sup>(CE)</sup>	1.9
Household consumption ....	2.5	2.2 <sup>(CC)</sup>	2.8	3.2 <sup>(CE)</sup>	1.5 <sup>(G)</sup>	2.2	3.4 <sup>(R)</sup>	3.5
Total investment .....	2.3	-1.6 <sup>(R)</sup>	0.2	1.5 <sup>(G)</sup>	-2.2 <sup>(E)</sup>	-0.7	1.2 <sup>(CC)</sup>	-0.4
Corporate investment .....	3.0	-4.0 <sup>(R)</sup>	-0.6	1.2 <sup>(G)</sup>	-4.5 <sup>(E)</sup>	-1.3	1.0 <sup>(CC)</sup>	1.6
Exports .....	4.9	3.5 <sup>(E)</sup>	4.5	5.9 <sup>(CE)</sup>	-0.1 <sup>(R)</sup>	2.2	4.5 <sup>(CC)</sup>	-3.7
Imports .....	5.1	4.5 <sup>(CC)</sup>	5.7	7.7 <sup>(CE)</sup>	2.5 <sup>(E)</sup>	3.9	6.0 <sup>(CC)</sup>	4.8
<i>Consumer prices</i> .....	12.9	12.0 <sup>(CL)</sup>	13.5	15.5 <sup>(R)</sup>	12.0 <sup>(CL)</sup>	12.75	13.8 <sup>(R)</sup>	10.9
<i>Average hourly pay</i> .....	15.0	15.5 <sup>(N)</sup>	16.7	17.8 <sup>(R)</sup>	15.7 <sup>(G)</sup>	16.4	18.9 <sup>(R)</sup>	15.4
<i>Balance of goods and services</i> .... (in billions of current francs)	-61.3	-47.0 <sup>(O)</sup>	-66.0	-86.5 <sup>(R)</sup>	-52.5 <sup>(O)</sup>	-71.5	-82.0 <sup>(R)</sup>	-95.6

(\*) Four forecasting agencies published GDP growth of 2.5% (BIPE, COE, OECD, and *Nouvel Economiste*)

(1) B = BIPE. CC = COE. CE = CEE. CL = Crédit Lyonnais. G = GAMMA. R = REXECO. E = *Expansion*. N = *Nouvel Economiste*. V = *Vie Française*.

(2) Source: Quarterly Accounts (1970 prices)

Table extracted from Alain Fonteneau, "Les erreurs de prévision économique pour 1982," *Revue de l'OFCE* 4 (1984): 81-97.

or French forecasters. The ups and downs of French economic policy, partly in response to an adverse international environment, had been anticipated incorrectly or not at all. When events did occur—continued Fonteneau—, their consequences were most often assessed incorrectly” (93). Here, as elsewhere,<sup>16</sup> the idea that the various predictions competed to help direct the state of the economy is entirely absent, as an essentially “realist” approach is applied to forecasting. In such a conception, the separation of forecasting from results is particularly marked, as conflating them would undermine the forecaster’s role. Forecasting is in no way seen as playing a role in the phenomena that it is trying to describe and measure and, consequently, there is no feedback loop between forecasts and ordinary expectations.

### Rational Expectations and the Critique of Modeling

This issue was examined in depth in debates among economists, generated by the hypothesis of *rational expectations*, confirming and updating the major shift in macroeconomic modeling. As has often been noted, the first formulation of this hypothesis can be attributed to American economist John Fraser Muth before Robert Lucas developed a more systematic version from the mid-1970s. In brief, the argument is that economic agents, whether individual or collective, take the state’s economic policy statements into account in what they do. Therefore, the impact of the state’s economic policy could only be limited or nil, as it is acknowledged that forecasts and announcements affect the actions of the people. As Muth said in a seminal paper in 1961: “Expectations, since they are informed predictions of future events, are essentially the same as the predictions of the relevant economic theory.”<sup>17</sup> Chicago economist Robert Lucas, a historian by training and the 1995 Nobel

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16. We find further traces of this reasoning in the report of the Economic and Social Council by André Barjonet (“Comparaison des prévisions aux résultats pour les années 1953–1960,” *Journal Officiel* 9 [April 19, 1961]), in an article written at the Forecasting Unit (Jacques Boullé, Jean Bouysset, Henriette Perker: “Les budgets économiques et leur réalisation,” *Statistiques et études financières* 18 [1975]: 3–52); also in a book by Jean-Jacques Carré, Paul Dubois, and Edmond Malinvaud, (*French Economic Growth*, trans. J. P. Hatfield [Stanford: Stanford University Press, 1975 [1972]]), although the question of the effects of forecasting is, in this last case, touched on.

17. John F. Muth, “Rational Expectations and the Theory of Price Movements,” *Econometrica* 29, no.3 (1961): 315–335.

Prize winner, extended this argument of the perverse effect<sup>18</sup> to the forecasts made by econometric models. In any simulation of economic policy, based, for example, on deficit financing, the reactions of households and enterprises are predicted based on past behavior. However, once the policy is announced, households and enterprises' actions change as they are anticipating a compensatory action by the state, such as a tax increase. In other words, and almost tautologically, the “rational” expectations of economic agents also depend—perhaps more than anything—on the anticipated future. As Lucas said: “Manipulation won't work unless people are stupid.”<sup>19</sup>

The advent of this hypothesis in France in the 1970s was evidenced mainly in the widely disseminated work of Henri Lepage, published in 1980 and entitled *Demain le libéralisme*, in which he devoted an entire chapter to it.<sup>20</sup> Born in 1941, Lepage was an economic journalist for some time before working at the *Institut de l'entreprise*. He wrote a number of publications for a wide audience with the aim of promoting free enterprise and denouncing state intervention. “Ten years ago,” explained the author, “economists and government officials shared a common illusion. They believed that, thanks to advances in econometric modeling, a new era had dawned that would give public authorities the tools to steer the economy in the same way you can drive a racecar; in particular, by giving them the tools to choose the inflation and unemployment profile they wanted” (89). From the perspective of rational expectations, he continues, “experience causes businesses to react more prudently than in the past to monetary and fiscal stimuli, but some of them have also accumulated enough experience to give them the means to make adjustments ‘upstream’ of governmental decisions, making them able to anticipate—almost at the same time as the governmental authorities—major economic changes that determine current public policy, and even future public policy” (98). The rational expectation hypothesis opened up a new field of research that contributed to discrediting traditional macroeconomic approaches—and in particular modeling—developed alongside economic planning since the 1960s.

18. The perverse effect is one of the component of the *rhetoric of reaction* analyzed by Albert O. Hirschman (*The Rhetoric of Reaction: Perversity, Futility, Jeopardy*, (Cambridge, MA: The Belknap Press of Harvard University Press, 1991).

19. A comment reminiscent, in an entirely different context, of Garfinkel's denunciation of sociology, for treating actors as “cultural idiots.” Indeed, ethnomethodology has put reflexivity and categorization at the heart of its analytical framework. See Harold Garfinkel, *Studies in Ethnomethodology*, (Englewood Cliffs, NJ: Prentice-Hall, 1967).

20. Henri Lepage, *Demain le libéralisme* (Paris: Hachette, 1980). This work was preceded by *Demain le capitalisme* (Paris: Hachette, 1978).

## Distinguishing Two Forecasting Regimes

The elements involved in the reshaping of economic forecasting around the 1980s allow us distinguish two approaches to forecasting in the second half of the twentieth century, if we think of forecasting as a specific way of calming concerns over what the future might bring.<sup>21</sup> Indeed, forecasting can be understood as one of the devices developed to manage the tensions between two modes of existence of the economy, which we could call *the economy we act on* and *the economy that acts upon us*.<sup>22</sup> The first refers to the economy as a specific area on which one can perform actions to control it, model it, and affect its development. The second reveals itself most evidently when the economy is conceived of as an unmanageable “reality” that it would be difficult or futile to struggle against. The forecasting approaches that we outline lie on the boundary between these two modes of existence of the economy. These approaches attempt to combine them, using highly divergent means to manage this contradiction<sup>23</sup>. They are not clearly associated with any particular period yet they have special relevance for certain historical situations and coexist and incorporate *what is coming* in different ways.

Schematically, an initial *macroeconomic forecasting regime*, connected to national accounting and planning, sees the citizens only on the quantitative scale of the nation-state. Within this framework, one can still make item by item comparisons of GDP forecasts and “actuals results,” insofar as one takes a “realist” approach to economic phenomena. Modeling is important here, as it pushes the focus on accounting consistency and the dependency between economic phenomena to their extreme. It also seamlessly connects the short-term past, the

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21. On the integration of change in different political systems, see Luc Boltanski, *On Critique. A Sociology of Emancipation*, trans. G. Elliott (Cambridge: Polity Press, 2011 [2009]), 116-149. The following paragraphs also rely on the works of Alain Desrosières, especially “Est-il bon, est-il méchant? Le rôle du nombre dans le gouvernement de la cité néolibérale,” (communication to the seminar *L’informazione prima dell’informazione. Conoscenza e scelte pubbliche*, University of Milan Bicocca, 2010); Alain Desrosières, “Managing the Economy,” in Theodore M. Porter and Dorothy Ross, ed., *The Cambridge History of Science, Volume 7: The Modern Social Sciences* (Cambridge: Cambridge University Press, 2003), 553-564.
  22. On the way in which such a contradiction is contained between these two modes of existence of the economy around planning in the 1960s–1970s, we can refer to an earlier work: Thomas Angeletti, “Faire la réalité ou s’y faire? La modélisation et les déplacements de la politique économique au tournant des années 1970,” *Politix* 95 (2011): 47–72.
  23. These approaches are yet to be refined, and especially their relationship to critique, which would be beyond the scope of this article.

present, and the short-term future. It involves seeing the economy as relatively autonomous, with its own forces, or, in other words, governed by its own logic, which can be monitored and its movements and changes anticipated. In doing so, economists reveal the “spontaneous” developments of the economy. This operation is a routine way of incorporating change within an overarching order. Change is understood to be absent of events, as a seamless stream of numbers bridging discontinuities. According to this view, the only entity able to counter, correct, and act on the course of things is the state. Indeed, most modelers are interventionists, and modeling is an analytical way of delimiting the state’s scope of maneuver and, thereby, promoting an economic policy. However, in highlighting the regularities in the economy, they sometimes unintentionally limit the type of intervention possible by making economic forces appear as a necessity. Forecasting is therefore paradoxical: it brings into being an unavoidable future economic reality, while at the same time advocating a state capable of determining an economic policy and countering “spontaneous” economic developments. In that respect, we need to take into consideration that modeling was strongly developed in France during a period punctuated by major civil unrest (May 1968) and economic crises (e.g. 1973 oil crisis) by economists intent on holding together a world that they could clearly see was falling apart. Modeling can therefore be seen as a claim to state sovereignty in a period of profound change. The link with planning allowed medium-term forecasting to be anchored in an institution that guaranteed the “general will,” the General Planning Commissariat and its modernization commissions that brought together representatives of social groups. Seeing things in this way, economists attempted to gradually incorporate economic phenomena into the totality of the model: “externalities” were progressively “internalized” to better understand the links between the economic actions of agents seen as aggregated entities and to be able to study them from a common perspective. Macroeconomic modeling continued into the 1980s before gradually declining, thus accompanying the major transformations of the 1970s–1980s.

In line with critiques by advocates of “rational expectations”—some of which can be considered to have in their own way contributed to the introduction of constructivism into economics, if only by the importance accorded to categorizations—a *second forecasting regime* can be identified. Forecasting is thus a part of a different conceptual apparatus in which the macroeconomic quantification of the future, as an activity to reduce concerns over what is going to happen, is no longer considered to be entirely able to correctly adjust and guide expectations.

The reshaping of the economic forecasting field in the late 1970s and early 1980s and the gradual shift of focus onto the short term, particularly with the introduction of quarterly statistics, helped to remove this activity from the privileged domain of policy concertation. More precisely, the creation of "independent" forecasting agencies favored a different form of representation, with each center having accredited experts presenting and analyzing their own figures.<sup>24</sup> Above all, in this new approach, the state's actions were seen as ones that could be anticipated by economic actors, who were now observed individually. From a constructionist point of view, forecasts are considered to have more value due to the *looping effects* (to use Ian Hacking's term<sup>25</sup>) that they generate and the actions they provoke, rather than for their validity and accuracy. This, therefore, meant lowering the level at which concerns about the future should be eliminated or at least tamed. It also involved grounding reality in smaller entities, as is the case in micro-economic thinking surrounding agency theory and principal-agent logic.<sup>26</sup> Interventionism is also very present in this second approach but is on a different scale and of a different type, associating, for example, forecasts with incentive systems.<sup>27</sup> Whereas previously impersonal and aggregated economic movements could be determined so as to collectively counter their effects, in this new regime, quantitative indicators

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24. It is also not surprising to see that the French National Statistics Council, still today, only looks at social surveys and excludes national accounting and economic studies from its scope. See Bruno Sujobert, "La société peut-elle intervenir sur le programme de la statistique publique? Le CNIS en tant que lieu et outil d'élaboration et de confrontation des attentes sociales et des projets de la statistique publique," (communication to the seminar *Politique des statistiques* organized by Isabelle Bruno, Alain Desrosières, and Emmanuel Didier, EHESS, March 6, 2012).
25. The argument advanced by Hacking consists of considering looping effects just for the "human kinds," which necessarily imply a moral dimension, in contrast to the "natural kinds." The economy occupies a tricky space in this distinction, to the extent that any work is undertaken to uncover "spontaneous" laws, notably through forecasting, but also to gain the means to counterbalance those probable developments. See Ian Hacking, "The Looping Effect on Human Kinds," in Dan Sperber, David Premack, and Ann James Premack, ed., *Causal Cognition: A Multidisciplinary Approach*, (Oxford, UK: Clarendon Press, 1995), 351–383; and I. Hacking, *The Social Construction of What?*, (Cambridge, MA: Harvard University Press, 1999).
26. Agency theory appeared in the 1970s and was particularly popular among management, highlighting the opportunism of subordinates who could, in any hierarchical relationship, conceal or distort information to their superiors. To limit these asymmetries and ensure loyalty among "agents," superiors can use devices of valorisation and sanction, such as individual performance appraisal, for example.
27. The statistics analyzed by Emmanuel Didier which describe, measure, and set objectives for police activity are a particularly clear illustration. See Emmanuel Didier, "L'État néolibéral ment-il? 'Chanstique' et statistiques de police," *Terrain*, 57 (2011): 66–81.

measured actions assumed to be unconnected with autonomous laws. This was the case because these indicators were attributable to “programs” and “services”—in the language of the 2001 French organic law relating to the finance laws (LOLF)—and therefore, ultimately, to individuals.

Moreover, the externalities that had previously been gradually incorporated into models in the interests of overall consistency, were seen as objects of investigation and action in their own right. For example, randomized controlled trials, which took on importance through the work of Esther Duflo, is a continuation of “the evaluation of public policies” which has expanded greatly since the 1980s. In doing so, the focus of policy evaluation shifted from testing the validity of existing policies to estimating *ex ante* the effectiveness of a proposed policy action using test groups.<sup>28</sup> Restricted initially to development issues, these analyses are now used in the field of social policy and contribute to displacing representations of totality, to the extent that the recommended solutions are *local* and *situated*.<sup>29</sup> State action is no longer part of a mechanism of multiple interdependencies, as in the macroeconomic models developed by economists at INSEE and the Forecasting Unit, but can be split into innumerable sub-domains, each studied autonomously, using business logic of *best practices*.<sup>30</sup>

Finally we can add, in line with the thinking advanced by Lorraine Daston and Peter Galison,<sup>31</sup> that these transformations were also tied to changes in the concept of scientific objectivity. The positivism of the 1950s–1970s, which created a bridge between scientism—partly linked to Marxism—and the mathematization of the economy used largely by modelers, was still tinged by a culture of “true” numbers, implying a sharp demarcation between forecasters and the phenomena

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28. Inspired by clinical trials, randomized testing methods test the effects of an action—for example, the action of new “support” mechanisms for the long-term unemployed while they are returning to work, as was the case in France in 2007—by comparing two groups, only one of which is actually measured on an “all other things equal” basis.

29. On the experiments proposed by Esther Duflo, see the in-depth reading suggested by Agnès Labrousse, “New development economics and randomized controlled experiments: Putting an instrument of proof and of government into perspective,” *Revue de la régulation – Regulation Review (online)* 7 (2010), referenced June 14, 2012. It shows that the picture of the economist advanced by these works is the one of the “plumber” or the “engineer.”

30. On the development of the logic of “best practices,” linked to benchmarking, and how it applies to research, see Isabelle Bruno, *À vos marques, prêts... cherchez! La stratégie européenne de Lisbonne, vers un marché de la recherche* (Bellecombe-en-Bauges, Éditions du Croquant, 2008).

31. Lorraine Daston and Peter Galison, *Objectivity*, (New York: Zone Books, 2007).



that they investigated. However, in the movement advanced by rational expectations, the looping effect between forecast and actual results contradicted this conception. In both cases, it was acknowledged that forecasting could not be left to mere experience: devices needed to be put in place to record, frame, and define people's anticipations. There was no place for "everyday" experience and situations in the macroeconomics flowing from national accounting. Although in the second case, forecasting in a way rested upon experience: the looping that connects predictions and experience was thought of in terms of a very short time frame. And that is the source of the entire paradox of this shift: this second forecasting regime, which presented itself as much "looser" and claimed to be less "interventionist" and in favor of autonomy, at the same time advocated much closer monitoring of the individual practices and actions that it wanted to study and predict. ♦

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## ABSTRACT

### **Economic Forecasting and Its "Errors"**

Around the 1980s, the reshaping of economic forecasting in France was reflected both in the institutions tasked with managing the economic future and in the professional ethos of economists. Focused on state intervention, forecasters at the time had little interest in the impact of their predictive statements. This descriptive and realist culture, implying a distinction between the existence of a phenomenon and its measurement, gradually accorded a greater role to looping effects and came to favor microeconomic analysis. Looking at this period enables us to outline two conceptions of the economy and ways of containing concerns about the future.



RÉSUMÉ

*La prévision économique et ses « erreurs »*

*Autour des années 1980, la recomposition de la prévision économique se manifeste tant dans les institutions en charge de dire l'avenir économique qu'à travers l'ethos professionnel des économistes. Dans les considérations de ces derniers, centrées jusqu'à cette époque sur l'intervention de l'État, la question des effets des énoncés prédictifs est absente. Cette culture descriptive et réaliste, qui implique une séparation entre l'existence des phénomènes et leur mesure, accorde progressivement une place aux effets de boucle et privilégie une approche microéconomique de court terme. Cette période nous permet ainsi de styliser deux conceptions de l'économie et des manières de contenir les inquiétudes sur l'avenir.*