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Strategic Planning and Forecasting

Political Risk and
Economic Opportunity

WILLIAM ASCHER

WILLIAM H. OVERHOLT



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Strategic Planning and Forecasting

**To
Herman Kahn
and
Harold D. Lasswell**

Prefatory Note: A Few Forecasts



We are gradually approaching, with the decadence of youth, a near proximity to a nation of madmen. By comparing the lunacy statistics of 1809 with those of 1909 . . . an insane world is looked forward to by me with a certainty in the not far distant future.

Forbes, Winslow M.D. 1910, in Ralph L. Woods, "Prophets Can Be Right and Prophets Can Be Wrong," *American Legion Magazine*, October 1966: 29.

In Germany, it was proven by experts that if trains went at the frightful speed of 15 miles an hour on the proposed Rothschild railroads, blood would spurt from the travelers' noses, mouths and ears, and also that the passengers would suffocate going through tunnels.

E.C. Cirti, *Das Haus Rothschild in der Zeit seiner Blüte, 1830–1871*, Leipzig, 1928. Translated by Lunn, Brian, and Beatrix as *Reign of the House of Rothschild*, New York (1928), pp. 77 and 94.

The abolishment of pain in surgery is a chimera. It is absurd to go on seeking it today. "Knife" and "pain" are two words in surgery that must forever be associated in the consciousness of the patient. To this compulsory combination we shall have to adjust ourselves.

Alfred Velpeau, surgeon, 1839, on anesthesia, in Martin Gumpert, *Trail-Blazers on Science*, New York: Funk and Wagnalls (1936), p. 232.

That is the biggest fool thing we have ever done. . . . The bomb will never go off, and I speak as an expert in explosives.

Statement by Admiral William Leahy when told about the atomic bomb. Harry S. Truman, *Memoirs, Vol. 1: Year of Decision*, Garden City: Doubleday (1955), p. 11.

I do not think there is the slightest chance of its [electricity] competing, in a general way, with gas. There are defects about the electric light which, unless some essential change takes place, must entirely prevent its application to ordinary lighting purposes.

Remarks by Mr. Keates, "Minutes of Evidence Taken Before the Select Committee on Lighting and Electricity," in "Report from the Select Committee on Lighting by Electricity," London: House of Commons (1879), p. 146.

We hope that Professor Langley will not put his substantial greatness as a scientist in further peril by continuing to waste his time, and the money involved, in further airship experiments. Life is short, and he is capable of services to humanity incomparably greater than can be expected to result from trying to fly. . . . For students and investigators of the Langley type there are more useful experiments.

New York Times editorial page, December 10, 1903.

The popular mind often pictures gigantic flying machines speeding across the Atlantic and carrying innumerable passengers in a way analogous to our modern steamships. . . . It seems safe to say that such ideas must be wholly visionary, and even if a machine would get across with one or two passengers the expense would be prohibitive to any but the capitalist who could own his own yacht.

William H. Pickering (astronomer), quoted in Arthur C. Clarke, *Profiles of the Future*, New York: Harper and Row (1962), pp. 3–4.

If in thirty years we shall not have succeeded in reorganizing the world, it will inevitably relapse into barbarism.

Alfred Nobel, inventor of dynamite, January 7, 1893.

On Statistics

The government is very keen on amassing statistics. They will collect them, add them, raise them to the n th power, take the cube root, and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he pleases.

Sir Josiah Stamp, Inland Revenue Department, England (1896–1919).

The Law

“Persons pretending to forecast the future” shall be considered disorderly under Subdivision 3, Section 901 of the Criminal Code and liable to a fine of \$250 and/or six months in prison.

Section 899, New York State Code of Criminal Procedure.

Preface

This book asks: how does one make forecasting useful? The answer requires movement beyond a tradition of studying forecasting primarily as a series of discrete mathematical methods. Forecasting must be studied not in isolation, but in the context of a policy-making process. The world's leading expert on regression analysis could, in practice, be almost useless to decision makers. Useful forecasting almost invariably involves: unholy mixes of different methods; interdisciplinary assumptions, processes, and outcomes; the need to address political phenomena, which are difficult to quantify; and coping in an organizational environment that determines what kinds of methods will be credible and acceptable.

Although study of the formal properties of individual methods is a valuable contribution to mathematics and an important discipline for any forecaster to master, it is only one facet of the job of a forecaster who hopes to influence decisions. We believe in that facet and try to summarize it and make some contributions to it. But what is important in this book is the emphasis on other facets. The theme of the book is that an exclusive emphasis on formal methods, particularly complex quantitative methods, will often prove self-defeating. The brilliantly successful student of formal methods will usually find him- or herself in the position of someone who has mastered the tongue twister "Peter Piper picked a peck of pickled peppers." The achievement is a source of great pride, but it is difficult to work it into a useful conversation.

Both of us found ourselves in this position upon completion of our formal training. Having recognized that forecasting is primarily a discipline that is intended to be useful to decision makers, we have devoted much of our intellectual efforts over the last decade to fashioning new approaches—approaches that went very much against the 1970s trend toward ever-greater emphasis on formal techniques. The present book is the third major product of these efforts. The first was William Ascher's *Forecasting: An Appraisal for Policy Makers and Planners* (Baltimore: Johns Hopkins University Press, 1978). The second was William H. Overholt's *Political Risk* (London: Euromoney Publications, 1982).

The present book is the culmination of a series of individual and collaborative efforts that developed while we worked as consultants to, or employees of, two major universities, a large number of corporations, several commercial banks, two investment firms, the World Bank, the U.S. Department of State, the Department of Defense, the Arms Control and Disarmament Agency, the National Security Council, the Council on International Economic Policy, various consulting and advisory firms, and some foreign governments. The book is intended to be useful to forecasters and planners in this whole range of organizations, and it is intended to provide a new perspective for scholars who study such organizations.

It is appropriate to locate this effort in relation to the central thrust of recent intellectual history in the social sciences: the behavioralist movement. The behaviorists taught two major lessons: first, the importance of studying actual human and institutional behavior, rather than just formal structures and legal relationships; and second, the value of formal quantitative methods of analysis. This book shows that pursuing quantification sometimes sacrifices the study of behavior. We affirm the importance of studying forecasting in the context of the actual behavior of people and institutions rather than in a formalistic fashion. In so doing, however, we show that formal quantitative methods have severe inherent limits and that an exclusive focus on formal quantitative methods has often led forecasters, and students of forecasting, to disregard the first and more important commandment of behavioralism.

To set forecasting in its own behavioral context, this book views forecasting as part of a larger decision-making process. It locates forecasting as one logical component of the decision-making or strategic-planning process. It analyzes the psychological and bureaucratic relationship between the forecaster and the decision maker. It identifies the properties of different analytic methods in the context of different purposes, resources, and organizational settings. It emphasizes the importance of political forecasting and the importance of political assumptions in nonpolitical forecasting—and shows how to interrelate political and nonpolitical factors. It offers an organizational approach to political forecasting that is systematic but nonquantitative. It recommends the use of systematic scenarios and an emphasis on forecasting as heuristics, rather than an excessive emphasis on predicting discrete outcomes. It makes recommendations for structuring the relationship between forecaster and decision maker, and for presenting the results of forecasts, in order to ensure maximum effective use of forecasting results.

Baltimore, Maryland
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We are grateful for permission to use material in Chapter 4 on complex models previously published by William Ascher in *Policy Sciences* **13**, 3 (June 1981) and for material in Chapter 5 on the distinctiveness of political forecasting published in the *Journal of Forecasting* **1**, 3 (1983). A version of Chapter 8 was published by William H. Overholt in *American Behavioral Scientist* **20**, 4 (March-April 1977). Chapter 1 on forecasting and planning was originally a Hudson Institute paper by William H. Overholt. A subsequent version, with slight revisions, was printed by the military team which had originally contracted for the paper, with the team listed, military-style, as the author. Still another version was presented by Overholt as a paper for the annual meeting of the Military Operations Research Society in Monterey, California, December 1977. While the larger part of Chapter 10 draws on unpublished research by William Ascher, key sections draw on "Mexico and the Politics of Financial Collapse," *Global Political Assessment*, 14 (edited by Overholt), which in turn relied heavily on ideas from Multinational Strategies, Inc., and from John Purcell.

Elaboration of some of the purposes of political forecasting, of aspects of the organizational approach to political analysis advocated here, and of many practical managerial concepts are contained in William H. Overholt, *Political Risk*, published in London by Euromoney Publications in 1982.

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W.A.
W.H.O.

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