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The Hiding Hand: A Rejoinder to Flyvbjerg on Hirschman

Graham Room

University of Bath, UK

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SUMMARY

In a recent article in *World Development*, Flyvbjerg confronted Hirschman's principle of the "Hiding Hand" and "providential" or "beneficial ignorance" (*World Development* Vol 84, pp 176–189). This states that development projects typically incur major cost overruns and other implementation problems, which put in question the decision to launch them in the first place. Indeed, had these difficulties been known in advance, the projects might never have been tried. Flyvbjerg challenges the empirical validity of this principle and the sloppiness of Hirschman's own argument. This rejoinder, while accepting that Hirschman presents his argument less than well, argues that Flyvbjerg is too quick to dismiss it, and that by taking account of Hirschman's scholarship more broadly, much of his approach remains valuable.

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JA = Adelman (2013), *Worldly Philosopher: The Odyssey of Albert O Hirschman*.

BF = Flyvbjerg (2016), "The Fallacy of Beneficial Ignorance: A test of Hirschman's Hiding Hand", *World Development* Vol 84, pp 176–189.

AH = Hirschman (1967), "The Principle of the Hiding Hand", *The Public Interest*, pp 10–23.

1. Flyvbjerg on Hirschman

In a recent article, Flyvbjerg has confronted Hirschman's principle of the "Hiding Hand" and "providential" or "beneficial ignorance". This states that development projects typically incur major cost overruns and other implementation problems, which put in question the decision to launch them in the first place. Indeed, had these difficulties been known in advance, the projects might never have been tried. Nevertheless, ignorance is often bliss, because human ingenuity often finds a way around these difficulties and can indeed discover unforeseen benefits, which may prove overall to justify the project after all. It is fortunate therefore that the obstacles are hidden when starting out, because otherwise people wouldn't even try, and the eventually positive outcomes would be left unappropriated. Hirschman neatly captured this in the phrase the "Hiding Hand"—reminiscent of Adam Smith's "Invisible Hand". The "Hiding Hand" makes the risk-averse more ready to take risks—and in the process enables them to learn better project appraisal and management. It may not apply in every case, but it is generally true.

Flyvbjerg sets out to test this proposition empirically. He has built a dataset incorporating over 2000 development projects of eight different types, primarily concerned with infrastructure such as roads and power plants. For each of these he has robust data on cost overruns and benefit overruns. He demonstrates that within each of the eight categories of project, there are significant cost overruns: evidence of just the sort of unforeseen difficulties that, had they been known in advance, might indeed have discouraged anyone from ever starting them. What then of the benefit overruns that Hirschman celebrated—evidence that human ingenuity and serendipity would find a way round these difficulties and even discover additional sorts of benefit? Across all eight types of project, the benefits proved less, not more than expected—no evidence therefore of a happy ending to the story. The Hiding Hand may be valid in some individual cases but across the data set as a whole it is resoundingly refuted.

Flyvbjerg also investigates the evidence for saying that the Hiding Hand enables decision-makers to learn over time how to judge acceptable and non-acceptable risks: and that in this sense their performance progressively improves. Across his 2000 projects however, his data reveal no such trend in cost and benefit risks. These results also are statistically robust.

Flyvbjerg is not finished with Hirschman. He unpicks Hirschman's argument and his whole approach to the empirical data and finds this wanting. In particular, he charges Hirschman with having taken a very small sample: and with having selected projects in which the "Hiding Hand" was especially apparent. This, he argues, runs contrary to the most basic principles of theory testing, whatever we may think of Hirschman as a stimulating and creative thinker on development practice.

More than this, Flyvbjerg charges Hirschman with confused, sloppy, and biased data collection. He refers (BF: 180: col 2) to Adelman's biography of Hirschman, as evidencing the confusion of Hirschman's data collection. Hirschman's "disordered approach" meant that his biases were never systematically tested.

Finally, Flyvbjerg argues, Hirschman tended to reject the views of his respondents that their projects had failed, instead seeking to instill a sense of hope and optimism: but then allowing this to shape his own judgement of the project. This "made it appear that the Hiding Hand was an attribute of the projects he studied, when it was ... more an attribute of his biases and the 'story he spun'" (BF: 180: col 2).

Subsequent authors simply glossed over these weaknesses. As Flyvbjerg argues: "Once a theory has become generally accepted and widely popular, apparently even highly regarded scholars do not bother to check and report on its empirical basis... Only by going back and checking the primary source would a reader get an inkling that ... a big question mark hovers over ... the Hiding Hand, ... [its] validity and reliability" (BF: 180: col 2).

2. Hirschman's Hostages to fortune

It is difficult to disagree with Flyvbjerg: that Hirschman affirmed a principle for which he had insufficient empirical evidence. Nevertheless, anyone who sets out to critique another scholar unavoidably re-constructs the latter's project, if only so as to fill gaps in the original exposition. Indeed, to make explicit the understanding that one has of the scholarship being criticized is a necessary part of good critical practice: and one that Flyvbjerg respects. For this reason in what follows I revisit Hirschman and consider how far Flyvbjerg in some degree misses the point.

Nevertheless, it is worth noticing that Flyvbjerg himself is guilty of some careless practice. He himself does not go back to the primary source, Hirschman's own notebooks, but relies instead on Adelman's account. What is more, Adelman's comments on Hirschman's "confused data collection" and "disordered" approach turn out to be comments by Adelman not about Hirschman but about the data made available by the projects which he was visiting (JA pp 388–9). This was Hirschman as fieldworker, faced not with a neat dataset but with the messy and practical reality of project teams. No wonder that he stuck to a small number of projects, so that he could personally visit and observe each of them, so as to make sense of their idiosyncratic experience.

Hirschman is himself somewhat to blame however, if the more critical of his readers have missed his main point. First, he seems to relish announcing a principle which runs counter to all our hopes for a society governed by reason: a principle which states that it is not through reason, but through human error, that the Hiding Hand will induce action for the public good. He knows that such an audacious claim will grab our attention, curiosity, and indignation. Nevertheless, there is a price to pay, if his readers then make inferences alien to his own.

Second, he also evidently relishes announcing a principle in terms which resonate with Adam Smith's "invisible hand". This is then however something of a hostage to fortune: we do not know how far Hirschman wants us to develop this juxtaposition of the "Hiding Hand" and the "invisible hand". Like any simple framing concept or metaphor—think for example of "nudge" or "tipping point"—the reader may draw implications and resonances which are quite misplaced. Adam Smith sought to show that the invisible hand of the market would align private interests with each other and with the public good. The hiding hand aligns present action with overall future net benefit and the public good. Both Adam Smith's pin manufacturer and Hirschman's development project manager could act in the confidence that a wider good would

result. However, in the real world both the hiding hand and the invisible hand can malfunction. Whether these parallels were in Hirschman's own mind is however unclear: as also therefore the conceptual development which he wishes to encourage.

Finally, Hirschman insists he is a theorist, not interested only in practice. This encourages Flyvbjerg to re-construct Hirschman's argument in the way that he does. Flyvbjerg seems to have a particular view of theory—as hypotheses that can be subjected to quantitative empirical assessment in large datasets: Hirschman might have done more to articulate his own view.

3. Hirschman's strategy of economic development

Let us seek to rescue and re-construct Hirschman's argument, in terms that may be fruitful both theoretically and practically. It may be best to see the "Hiding Hand" as itself an (intellectual) project under development, whose benefits the Flyvbjergs of the world may reckon as yet paltry, but which with a bit of ingenuity and persistence on our part can open up a range of productive—albeit initially unsuspected—new vistas.

A decade before the "Hiding Hand" essay, Hirschman published his book on *The Strategy of Economic Development* (1958). This posed the question: what are the preconditions for economic development? The mainstream literature answered in terms of particular resources—natural resources, capital, entrepreneurs, etc. Hirschman offers an alternative view. What seems to matter more than any particular resource are the "interlocking vicious circles" that hold development back; and, in contrast, the "upward spirals" that can bring forth all the resources that are needed. The focus must therefore be not on the resources themselves but on the "essential dynamic and strategic aspects of the development process" (p. 6).

He adds however that many of these resources may be latent rather than immediately available. It is commonplace to refer to labor in these terms: underemployment and "disguised unemployment" which can readily yield the additional laborers required; and workers with skills which can quickly be developed and upgraded on the job. The same however goes for many of the other resources required for development, which lie "hidden, scattered or badly utilised" (p. 5): but which with a little ingenuity can be adapted to new uses. Development depends on mobilizing and combining these purposefully but in a spirit of experimentation—trying out different makeshift adaptations and finding which ones will work—and maybe even work well.

It is this spirit—the capacity to mobilize and combine, to adapt and redeploy—that Hirschman places at the center of the challenge of development; and it is the scarcity of this capacity in developing countries that he deems the real constraint. Given this scarcity, it is inappropriate to embrace a strategy of "balanced growth", hoping to make simultaneous progress across all the sectors to which the country in question aspires. Instead the government must choose carefully where this capacity should most usefully be invested.

Hirschman argues for development through a succession of imbalances, with each inducing a new phase of energetic investment. "If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibria." (p. 66) Hirschman thus embraces a form of "critical path analysis": a "turnpike theorem" which insists that the quickest path between two points is not necessarily a straight line.

It is not just that development capacity is scarce and cannot therefore be applied across a broad front; it is that general advance can best be assured by mobilizing in force against particular critical points. Having secured these, the broader advance will be greatly expedited. With the achievement of the initial goals, it is possible to be much more precise as to what is needed at phase two. The

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