



Contents lists available at ScienceDirect

World Development

journal homepage: www.elsevier.com/locate/worlddev

Planning Fallacy or Hiding Hand: Which is the Better Explanation?

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I want to thank the editor for giving me the opportunity to respond to the comments made above by Philipp Lepenies, Graham Room, and Lavagnon Ika on my paper “The Fallacy of Beneficial Ignorance: A Test of Hirschman’s Hiding Hand,” printed in *World Development*, vol. 84. First, I will briefly mention some of the points on which I agree with my critics. Second, I will respond to their main criticisms.

I agree regarding the richness and originality of Hirschman’s work and that he was a leading 20th century intellectual and economist, well worth reading today. His ideas may still open up a range of productive and unsuspected new vistas, as maintained by Room (pp. 1, 2). I also agree that many of Hirschman’s observations regarding the principle of the Hiding Hand, and the fundamentally anti-rationalist worldview they represent, are highly innovative, for instance that success may be more often stumbled upon than carefully planned for, as argued by Lepenies (p. 5). Or that the World Bank’s push for cost-benefit analysis as a synoptic project evaluation method might have some use, but was ultimately a misguided attempt at comprehensive quantification, as pointed out by Ika (p. 38). Finally, I agree that “the Hiding Hand is a possible empirical occurrence and it does happen,” as observed by Ika (p. 4), i.e., creative project managers are sometimes able to generate benefit overruns that are larger than cost overruns, securing the viability of projects.

My critics have the grace to similarly point out many instances where they agree with what I say. For example, Ika (p. 4) acknowledges that until he began working on his rejoinder to my paper he was under the impression that the principle of the Hiding Hand was not empirically testable, but now he shares my view that the principle is not only a theory for explanation but also an empirically testable hypothesis. Room (p. 2) says he finds it difficult to disagree with me that Hirschman had insufficient empirical evidence for affirming the Hiding Hand, just as Ika (p. 14) agrees with the limitations I identify for Hirschman’s work, including his small sample of 11 projects. “Admittedly, these methodological limitations plagued Hirschman’s findings,” Ika (p. 14) concedes. Finally, Ika (p. 4) further agrees with my critique of Hirschman for having sampled on the independent variable in his study of the Hiding Hand.

When it comes to dissent, my critics disagree not only with me, but also among themselves, which weakens their critique, needless to say. For instance, Ika (p. 4) accepts my claim that the principle of

the Hiding Hand is a testable theory, as mentioned above, whereas Lepenies (p. 7) rejects this. Furthermore, Lepenies (p. 2) takes at face value Hirschman’s success story about the paper mill in Pakistan, and uses this to argue that the Hiding Hand works. In contrast, Ika (p. 8, note 6) rightly observes that the paper mill turned out to be “a disastrous development failure.” This is the case, too, for several other projects that Hirschman identified as successes and took to support the Hiding Hand, but that turned into failures shortly after Hirschman completed his study, falsifying the Hiding Hand. Surely this is a problem, as pointed out in my paper. But Lepenies glosses it over, as did Hirschman when confronted with the facts.

1. What is Theory?

Lepenies (p. 6) further confuses normative and explanatory theory when he quotes Hirschman as having a “dislike for general principles” and theory. Hirschman, as quoted by Lepenies, was explicitly talking about normative theory, in terms of “prescriptions,” “recipe[s],” and “therapy” (p. 6; Hirschman, 1998: 88, 110). It is correct that Hirschman was against theory used in this manner, i.e., for design, where law-like ideas are used to prescribe and plan social action, or even the social order. Hirschman generally saw such social engineering—whether driven by experts or revolutionaries—as highly problematic and bound to fail. But Hirschman had no issue with explanatory theory, not for himself and not for other social scientists. And the principle of the Hiding Hand was developed by Hirschman as explanatory theory, with truth claims and causal mechanisms. By not distinguishing between normative and explanatory theory, as Hirschman does, Lepenies misses this important point and is led to wrongly claim that Hirschman was against theory as such, when he was only against normative theory. Hirschman (1994: 277–78) explicitly referred to his work as “theory building” and added, “I bristle a bit when I am pigeonholed as ‘atheoretical’ or ‘antitheoretical.’” Hirschman would bristle, and feel pigeonholed, if he read Lepenies’s take on his work.

Room (p. 2) claims I have “a particular view of theory—as hypotheses that can be subjected to quantitative empirical assessment in large datasets.” This is incorrect. If Room had read my paper more carefully, he would not have had to guess at my view

<https://doi.org/10.1016/j.worlddev.2017.10.002>

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of theory, and get it wrong. He would have found that I explicitly write in my paper (p. 186, n. 10), “[t]he term ‘theory’ is here used to denote an idea, or a system of ideas, used to account for or explain a situation.” This definition is not limited to “quantitative empirical assessment” or “large datasets.” It would apply just as well to qualitative phenomena and qualitative validity assessments. My definition of theory is therefore wider than the tired either/or of quantitative versus qualitative assessment that Room seems to allude to in his false critique. It is correct that I use quantitative data to test the principle of the Hiding Hand. But this is because the Hiding Hand makes truth claims in terms that are best tested quantitatively, for instance the claim that “people typically take on and plunge into new tasks because of the erroneously presumed absence of a challenge,” in Hirschman’s (1967, p. 13) words. By using the term “typically” this claim explicitly indicates that the depicted behavior applies more often than not, which is a specific truth claim that demands quantitative testing for its verification or rejection, as done in my paper. Or when Hirschman (1967, p. 15) states that according to the Hiding Hand “costs are underestimated and investment decisions activated in consequence,” which again is a truth claim that lends itself to empirical, quantitative test (the costs are underestimated or not, and the investment decisions are activated or not), as done in my paper. This is not me imposing a quantitative framework on Hirschman and the principle of the Hiding Hand, as Room suggests. This is me testing the principle on Hirschman’s own terms, chosen by him in his formulation of his truth claims, like those quoted above.

2. Will wider impacts save the day?

Room (p. 4) appeals to “dynamic linkages” and a “wider development calculus” in an attempt to problematize the focus on direct benefits and costs in my tests of the Hiding Hand. Ika (p. 5) similarly conjures up “unintended effects of projects” and “full life-cycle costs and benefits” as “critical for a valid assessment of the Hiding Hand.” Such wider impacts are often invoked in attempts to justify projects that may not be viable in terms of direct benefits and costs. It would be nice—and good academic practice—if proponents of the wider impacts argument, including Room and Ika, would provide empirical evidence that wider impacts are in fact significant and may move the needle from non-viable to viable, if included in project appraisal. The fact is that proponents rarely provide such evidence, and for good reason. The evidence does not exist. Roger Vickerman—a leading expert on wider impacts—recently did a study of the state-of-the-art of research in this area. Choosing transportation infrastructure projects as his example, as such projects are often argued to have large wider impacts, he looked at the existing evidence and concluded (Vickerman, 2017, pp. 401–402):

1. Positive wider impacts, where they exist, typically account for an additional 10–20% of benefits.¹
2. Positive wider impacts are not guaranteed for every project.
3. Where positive wider impacts do exist for some geographical regions they could be negative for others, reducing the aggregate effect.
4. The common assumption is deeply problematic that wider benefits will come to the rescue of a project which is marginal on the basis of its direct benefits and costs.
5. Only in “very particular cases” are wider benefits likely to rescue a project from non-viability.

¹ This does not take into account negative wider impacts, like environmental and social costs, which are often substantial for large infrastructure projects, and which, if included, would reduce the aggregate effect of wider impacts.

6. Wider impacts were never intended to be a cure for investment appraisals, especially marginal ones, but only a way to ensure completeness.
7. Some wider impacts, as currently measured, are argued by some to be a “mirage essentially involving double counting of direct benefits,” in the words of Vickerman.

Room, Ika, and other proponents of the wider impacts argument may hope that such impacts will come to the rescue of non-viable projects, and of the Hiding Hand. But hope is not a useful strategy in scholarship. Evidence is. And given the available evidence on wider impacts there is no indication that their inclusion would significantly alter my conclusions about Hirschman’s Hiding Hand being atypical; quite the opposite.

3. Strawman, what Strawman?

Ika (p. 15) states that the Hiding Hand “fits well with ‘optimism bias’.” This must be an oversight on Ika’s part. The Hiding Hand says that both costs and benefits will be underestimated in project appraisal, whereas optimism bias predicts that costs will be underestimated while benefits will be overestimated. Empirical tests show that the theory of optimism bias, as formulated by Daniel Kahneman and others, is sound: its predictions are accurate in a majority of cases. Conversely, empirical tests show that the principle of the Hiding Hand is unsound: its predictions are inaccurate in a majority of cases, as documented in my paper. The Hiding Hand and optimism bias therefore do not fit each other well, as Ika says they do, but are directly opposed regarding the prediction of benefits.

Ika (pp. 28–29) further claims that I ignore Hirschman’s considerations on “project difficulties” and “problem-solving abilities” in my depiction of the Hiding Hand, and that therefore my version of the Hiding Hand is a “weak version,” compared to that of Hirschman. Ika (p. 29) goes so far as to call my alleged weaker version of the Hiding Hand a “straw man.” Again this is wrong. I do not ignore project difficulties and problem-solving abilities, and I agree with Hirschman and Ika that these are important for understanding project management. To the extent that difficulties have impacted the projects in my dataset this is taken into account in my measurement of the projects’ costs and benefits, unless we are talking about the wider impacts dealt with above. Difficulties impact projects in two ways, either as (a) an increase in costs, for instance where a project proved more difficult to build than anticipated, or (b) a reduction in benefits, for example where a project was delivered late or proved more difficult to operate than expected. Not only are such difficulties included in my analysis in the measurement of costs and benefits, they are in accordance with Hirschman’s view of the relationship between project difficulties on one hand and project costs and benefits on the other. Similarly for problem-solving abilities, which may impact projects by (a) lowering costs, for instance where a cheaper delivery method than expected was found, or by (b) increasing benefits, for example where ways were found to engage more users than anticipated. Again, such problem-solving abilities are included in my analysis in the measurement of costs and benefits, and again they are in accordance with Hirschman’s view of the relationship between problem-solving abilities on one hand and project costs and benefits on the other. The only strawman here is Ika’s portrayal of my depiction of the Hiding Hand.

4. Data and “data

Finally, Ika (pp. 30–36) presents a remarkable set of data together with conclusions that would be truly revolutionary, in

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