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Beneficial or Detrimental Ignorance: The Straw Man Fallacy of Flyvbjerg's Test of Hirschman's Hiding Hand

Lavagnon A. Ika

University of Ottawa, Canada

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SUMMARY

In a recent paper in this journal, "*The Fallacy of Beneficial Ignorance: A Test of Hirschman's Hiding Hand*", Professor Bent Flyvbjerg claims that there is no such thing as beneficial ignorance and that ignorance is detrimental to project success. Moreover, he argues that if Hirschman's principle of the Hiding Hand were correct, then benefit overruns would exceed cost overruns. Thus, with a statistical test, he demonstrates that the Hiding Hand is in fact less common than its "evil twin", the Planning Fallacy. In this rejoinder, the author shows that Flyvbjerg's test is built on a straw man fallacy and that he fails to refute the Hiding Hand. Contrary to Flyvbjerg—who focuses on the narrow costs and benefits—this paper provides evidence that while the Hiding Hand is found among projects that are project *management* failures but *project* successes, the Planning Fallacy fits with projects that are both project *management* and *project* failures. On that basis, the author analyzes a sample of 161 World Bank-funded projects of different types and finds that the Hiding Hand prevails. While future research should ascertain this finding, the author then points out the methodological limitations of Flyvbjerg's test. Indeed, it is ironic that the Hiding Hand, a principle crafted against the very idea of cost–benefit analysis, is refuted on that very basis. Even worse, Flyvbjerg, in his cost–benefit analysis, ignores the full life-cycle project costs and benefits, the unintended project effects, the difficulties, and problem-solving abilities so dear to Hirschman, and, thus, treats the management of projects as a kind of "black box". Finally, the author submits that Hirschman was a behavioral project theorist, and argues that it is more important to shed light on the circumstances where the Hiding Hand works than to question whether the principle of the Hiding Hand is right.

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1. Introduction

Over the years, projects have made headlines for their time and cost overruns, and their blatant failures. Time and again, we hear the laments and read the evidence of project failures. This gives journalists fodder for their stories and provides consultants with a compelling rationale for offering their services. It is certainly true that some projects experience time and cost overruns but they are considered extraordinary successes in the end. Great examples include the Rideau Canal in Canada (e.g., Ika & Söderlund, 2016), the Sydney Opera House in Australia (e.g., Flyvbjerg, 2014), the first Ford Taurus project (e.g., Shenhar & Dvir, 2007), and the Hoosac Tunnel project in the USA (e.g., Gladwell, 2013).

Take the latter project as an example. In 1819, the Hoosac Tunnel was proposed as part of a canal project to connect the cities of Boston and Albany but the project was later shelved. Why? It was considered way too costly and far too risky with the Hoosac Mountain standing in the way. But later on, Alvah Crocker and other proponents of the project came up with a "better" and "remarkably feasible" solution: going through the mountain with a "providential" tunnel rather than over it with a canal. In 1851, work finally began on the Hoosac Tunnel, then a part of the Troy Greenfield railway line project that would connect Greenfield, Massachusetts to Troy, New York. Working with some of the best railway engineers, Crocker and his colleagues estimated that the project would cost approximately $2,000,000—a huge sum at that time. Faced with the stiff challenge of digging into the 7,645-m (25,081 feet)-long and nearly five-mile-wide Hoosac Mountain, the project turned out to be an implementation nightmare. It took 24 years to complete, had a final cost of more than ten times the initial budget, and experienced unprecedented challenges including the loss of more than 100 men.

If Crocker and the other promoters had known about the difficulties they would encounter, the longest tunnel in North America at the time would most likely never have been built. But had the controversial project, nicknamed the "Great Bore" by its critics, not been undertaken it would have been a great loss: this tunnel became one of the greatest engineering feats of the 19th century, and a very successful commercial link between the state of Massachusetts and the West, which later on was critical to trade and economic development (Schexnayder, 2015).

The late Albert Hirschman (1915–2012) was an economist who loved these kinds of paradoxes, serendipitous stories, silver linings, and "felicitous and surprising escapes from disaster" (Ika & Söderlund, 2016, p. 932; Sunstein, 2015, p. xiii). When playing around with Adam Smith's famous concept of the *Invisible* (Hidden) *Hand*, Hirschman first coined the failure–success paradox as the "Theory of Providential Ignorance" (see Alacevich, 2014, p. 157, 2015, p. 184), and later settled for the "*Principle of the Hiding Hand*" in his landmark book *Development Projects Observed* (Hirschman, 1967, 1995, 2015). Hirschman eloquently argued that we tend to be so unrealistically optimistic that we end up overestimating project benefits and the likelihood of project success, and we underestimate projects costs. Indeed, we have seen this in many reports, and it is where Hirschman started his own investigations for the World Bank. He argued that this over-optimism is in fact fortunate because decision-makers also underestimate their own creativity and ability to overcome the problems, difficulties, challenges, and obstacles they encounter while implementing the project. In other words, Hirschman believed that the Hiding Hand "beneficially hides difficulties from us" (Hirschman, 1967, p. 13) through "creative error" (Hirschman, 1967, p. 16), or a sort of "providential error" (Alacevich, 2015, p. 186).

The question of whether ignorance is an impediment or a precondition to project success is at the core of the Hiding Hand and at the heart of the argument presented against it by Flyvbjerg (2016) in his recent paper in this journal. In the main, Flyvbjerg (2016) argues that there is no such thing as "beneficial ignorance" as suggested by Hirschman (1967) and, thus, that ignorance is always bad as it leads to "starting projects that should not have been started" (p. 176). He then goes on to refute the Hiding Hand on the basis of "biased, too-small data, fraught with the statistical fallacy of sampling on the dependent variable" (p. 185), and brings Hirschman down to earth by considering him a "victim, not a student, of bias" because of Hirschman's relentless optimism or self-declared "bias for hope" (Hirschman, 1971) and hidden agenda to "celebrate, to "sing" the epic adventure of development—its challenge, drama, and grandeur" (p. 186). Equally, Flyvbjerg equates the principle of the Hiding Hand with the claim that higher-than-estimated project costs are typically outweighed by even higher-than-estimated project benefits, and then tests this claim against a sample of 2,062 *infrastructure* projects to refute it statistically. He finds out that instead of Hirschman's *Benevolent* Hiding Hand, its "evil twin" or what Sunstein (2015) names the *Malevolent* Hiding Hand or the Planning Fallacy (Flyvbjerg & Sunstein, 2016) prevails: "the average project is in fact undermined by a double whammy of substantial cost overruns compounded by substantial benefit shortfalls" (Flyvbjerg, 2016, p. 176).

Scholarship, in Flyvbjerg's view, progresses through argument and counter-argument (2016, p. 186). I accept this view and offer a counter-argument to his original argument and criticism of Hirschman's work. Indeed, it is a great honor to have been invited by Flyvbjerg himself, a scholar who I admire, to comment on his paper.[1] Let me note upfront that Flyvbjerg and I agree on a number of essential issues. First, we agree that Hirschman is a father of project scholarship and a pioneer of research on large-scale projects (Ika & Söderlund, 2016). As Flyvbjerg argues, "Hirschman was that rare type of a scholar who is as interested in practice as in theory, and he successfully sought influence on policy with his ideas, including the Hiding Hand" (2016, p. 176). Second, until working on this rejoinder, I was under the impression that the Hiding Hand was not empirically testable (Sunstein, 2015) but now I share Flyvbjerg's view that the Hiding Hand is not only a "theory for explanation" (p. 179) but perhaps an empirically testable hypothesis.[2] Third, we also believe that the Hiding Hand might be the upshot of what social scientists and statisticians call "sampling on the dependent variable" (Sunstein, 2015, p. xii), "or in this case, populating the sample with mostly successful projects that faced difficulties, yet were able to overcome them through entrepreneurial and creative acts" (Ika & Söderlund, 2016, p. 938). Fourth, we agree that the Hiding Hand is a possible empirical occurrence and it does happen. Fifth and finally, along the lines of Sunstein (2015), we agree that the principle of the Hiding Hand is the central argument in Hirschman's book (1967).

However, Flyvbjerg and I also disagree on a number of issues. In my view, there are three flaws with Flyvbjerg's refutation of the Hiding Hand. The first is logical and rhetorical. Flyvbjerg's entire argument is aimed at knocking down a straw man: the claim that if the Hiding Hand turns out to be true, then on average benefit overruns would be greater than cost overruns. Flyvbjerg *weakens* the Hiding Hand claim by completely dropping "difficulties", "problem-solving abilities", and "creativity", and therefore over-

[1] From a personal communication with Flyvbjerg on April 26, 2016. *Source:* my archives.

[2] When commenting on the first draft of my paper, Jeremy Adelman, the author of "*Worldly Philosopher: The Odyssey of Albert O. Hirschman*" (see Adelman, 2013) notes: "I am still not convinced that Hirschman imagined his metaphor to have the same kinds of predictive powers or testable properties that Flyvbjerg ascribes; in fact, I think he would be pleasantly amused but skeptical himself. But that does not mean one can't turn the principle into a different kind of claim". From a personal communication with Jeremy Adelman on November 5, 2016. *Source:* my archives.