



The Fallacy of Beneficial Ignorance: A Test of Hirschman's Hiding Hand

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Summary. — Albert O. Hirschman's principle of the Hiding Hand stands stronger and more celebrated today than ever. The principle states that ignorance is good in planning, because if decision makers knew the real costs and difficulties of projects, few ventures would ever get started. The paper presents the first systematic test of the principle of the Hiding Hand, including a test of whether Hirschman's theory may be replicated with more and better data. This was found not to be the case. First, statistical tests reject the principle of the Hiding Hand at an overwhelmingly high level of significance ($p < 0.0001$). In reality, the exact opposite happens of what the principle states: instead of project success being secured by "creative error" and "beneficial ignorance"—where higher-than-estimated costs are outweighed by even higher-than-estimated benefits—the average project is in fact undermined by a double whammy of substantial cost overruns compounded by substantial benefit shortfalls. Second, Hirschman was found to have made the error of sampling on the dependent variable, undermining the validity of his findings. Third, Hirschman's sample of projects, on which he built his principle, is too small to support his wide conclusions. Fourth, Hirschman misrepresented his findings and misled his readers. In sum, the data do not support Hirschman's proposition that ignorance is good in planning. Ignorance is bad, if by bad we mean that ignorance leads to starting projects that should not have been started. Finally, the data also do not support an interpretation of Hirschman as an early behavioral economist, as proposed by Sunstein. Hirschman was a victim, not a student, of bias.
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1. WHY THE HIDING HAND IS IMPORTANT

Recently, when San Francisco's new Transbay Terminal megaproject—a multi-billion-dollar transit and real estate development scheme—incurred hundreds of millions of dollars in cost overruns, Willie Brown, former California State Assembly Speaker and Mayor of San Francisco, tried to calm the public with these words in *The San Francisco Chronicle*:

"News that the Transbay Terminal is something like \$300 million over budget should not come as a shock to anyone. We always knew the initial estimate was way under the real cost. Just like we never had a real cost for the [San Francisco] Central Subway or the [San Francisco–Oakland] Bay Bridge or any other massive construction project. So get off it. In the world of civic projects, the first budget is really just a down payment. If people knew the real cost from the start, nothing would ever be approved. The idea is to get going. Start digging".

[Brown, 2013]

Willie Brown here expresses the essence of Albert O. Hirschman's principle of the Hiding Hand:

If people knew the real costs and difficulties from the start, nothing would ever be approved. Therefore it is good they don't know, because we need to get things going, to start digging.

This view is also the oldest and most common justification of why low-balled cost estimates and optimistic business cases are considered acceptable in large projects (Flyvbjerg, 2009). Following this idea, a certain amount of ignorance is desirable when beginning new projects, because without it projects would not get started. And starting projects is good, according to both Hirschman and Brown. Hirschman talked about "providential ignorance" (Alacevich, 2014, p. 157). Here we call it "beneficial ignorance."

It has been almost 50 years since Hirschman's principle of the Hiding Hand was first published, and the theory today stands stronger than ever.¹ It was recently republished as a

Brookings Classic (Hirschman, 2015) and celebrated by people like Cass Sunstein, Harvard Professor and administrator in the Obama White House, and Malcolm Gladwell, best-selling author and staff writer at *The New Yorker* (Gladwell, 2013; Sunstein, 2015a). The impact of the principle in the academy, policy, and practice is undisputed. And as more and bigger projects are built around the world in what has been dubbed the "biggest investment boom in history," the principle is becoming increasingly consequential in justifying rapidly growing project portfolios (Flyvbjerg, 2014a).² Below it will be argued, however, that the principle of the Hiding Hand is popular because it is politically convenient, and not because it is valid as an explanation of human behavior. We will see that instead of Hirschman's benevolent Hiding Hand, a malevolent Hiding Hand is typically at play. Hirschman's principle is popular because it gives theoretical justification to the "start digging" argument of the Willie Browns of the world. It perfectly fits the "propensity for action" found with project promoters and developers, a fact Hirschman (1967a, p. 21) was well aware of. Hirschman was that rare type of scholar who is as interested in practice as in theory, and he successfully sought influence on policy with his ideas, including the Hiding Hand. This makes the Hiding Hand particularly interesting, but also especially problematic, because it is the type of theory that for many policy makers and practitioners, even if wrong, is just too good to give up. And wrong it is, as we will see, with potentially disastrous consequences when applied in policy and practice.

This is not to question the general giftedness of Hirschman's work or his status as "eminent 20th century intellectual" (Offe, 2013, p. 584) and "one of the great heroes of economics" (Rodwin, 1994, p. 36).³ But it is time to rigorously test Hirschman's Hiding Hand principle, which has not been done before. In a private comment made to his close friend and later Nobel

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laureate, the Harvard economist Thomas Schelling, Hirschman explained, at the time of writing up the principle of the Hiding Hand for publication, that this work was “an exploration, an experiment and I need [as] a critic someone who can understand that in the first place, and *then* tell me where I may have gone wrong” (Adelman, 2013, p. 404, emphasis in original).⁴ Below, the present author proposes to be this critic, who Hirschman asked for but never had.

2. WHAT IS THE HIDING HAND?

After having studied the outcomes of a number of World Bank-financed development projects, Hirschman (1967a, p. 12) noticed, in *Development Projects Observed*:

“If the project planners... had known in advance all the difficulties and troubles that were lying in store for the project, they probably would never have touched it... advance knowledge of these difficulties would therefore have been unfortunate.”

As a case in point, Hirschman (1967a, pp. 9–10) highlights East Pakistan’s (now Bangladesh) Karnaphuli paper mill, the biggest in Asia at the time of its construction. The plan was to use vast, easily accessible bamboo forests as the main source for paper pulp. However, soon after the mill opened, as a freak incident of nature, 85% of the bamboo that supported production flowered and died. If the planners had known this, Hirschman argued, they probably would have never proposed and funded the mill. Instead, the managers were now forced to creatively find other sources of pulp, which they did from imports, collecting bamboo in other parts of the country, using lumber, and researching fast-growing bamboo species that might replace the unreliable original source, thus creatively diversifying the raw material base. To be sure, this was more costly and difficult than the original plan, but as a result the mill survived and created jobs for thousands of people, argued Hirschman.

Hirschman (1967a, p. 13, 16) was strongly influenced by Sawyer’s (2014/1952) concept “creative error” and was quick to label the workings of creativity in saving wayward projects a “general principle of action” and the Hiding Hand a “fairly general phenomenon.” He explained that the reason he saw advance knowledge about costs and difficulties as unfortunate was that such knowledge was likely to result in a “gloomy view” (12) of the ability to meet the budget and overcome challenges, which might stop projects before they got started. Ignorance was better, Hirschman argued, because humans tend to also ignore or underestimate their ability in dealing with difficulties. Ignorance therefore “tricked” (13) people into doing projects they would not otherwise have done:

“[S]ince we necessarily underestimate our creativity, it is desirable that we underestimate to a roughly similar extent the difficulties of the tasks we face so as to be tricked by these two offsetting underestimates into undertaking tasks that we can, but otherwise would not dare, tackle. The principle is important enough to deserve a name: since we are apparently on the trail here of some sort of invisible or hidden hand that beneficially hides difficulties from us, I propose the *Hiding Hand*... The Hiding Hand is essentially a way of inducing action through error, the error being an underestimate of the project’s costs or difficulties.”

[Hirschman, 1967a, p. 13, 29 emphasis in original]

In coining the name for his newfound principle, Hirschman played on one of the most famous concepts in economic theory, Adam Smith’s Invisible (Hidden) Hand. This indicates just how theoretically ambitious Hirschman was with the Hiding Hand and how significant he took it to be. He was explicit that he saw the principle as a theory, at first calling it the “theory of providential ignorance,” only later changing

this to the “principle of the Hiding Hand” (Alacevich, 2014, p. 157). Hirschman (1967a, p. 1, 3, 7, 13) also emphasized that although his focus was on development projects he saw the principle-cum-theory as a “general” one that applies across project types and geographies in both developed and developing nations. This is not to say that Hirschman (1967a, p. 13) thought the Hiding Hand—with its two offsetting underestimates of costs and benefits—would apply to each and every project across all time and space. He was well aware that projects exist, “from bankruptcies and white elephants to lost or ruinously won wars,” for which cost underestimates had not been offset by even larger benefit underestimates, but had instead been exacerbated by overestimated benefits followed by benefit shortfalls (Hirschman, 1967a, p. 30). Hirschman therefore duly presented his principle with a number of caveats, calling the Hiding Hand a “very broad” and “speculative” proposition useful only “[u]p to a point,” and warning that “by itself trouble does not constitute a sufficient condition for a ‘creative response’ [by project planners]” (Hirschman, 1967a, p. 7, 11, 12, 14).⁶ Stronger than the caveats, however, and prominently placed on page one of his book, Hirschman maintained that the Hiding Hand was aimed at understanding “project behavior in general” and that the principle “typically” applies, i.e., in more cases than not (Hirschman, 1967a, p. 1, 13). Accordingly, he gave the Hiding Hand what he later called “pride of place” in *Development Projects Observed*, giving name to and taking up the first chapter of the book (Hirschman, 1995, p. ix). Sunstein (2015a, pp. 1–2), in his foreword to the 2015 edition, rightly calls the Hiding Hand the “largest idea” in the volume and explains that “the result of the Hiding Hand is to produce an outcome that is as good as what the planner originally thought—or perhaps even better.”

The key mechanism driving the Hiding Hand is optimism caused by an ignorance of difficulties, including costs, which leads people to take on tasks they would not have taken up had they known the real challenges involved:

“The principle [of the Hiding Hand] suggests that far from seeking out and taking up challenges, people typically take on and plunge into new tasks because of the erroneously presumed absence of a challenge, because the task looks easier and more manageable than it will turn out to be.”

[Hirschman, 1967a, p. 13]

Behavioral economists would later use terms like overconfidence bias, the planning fallacy, and optimism bias to describe and problematize the type of behavior Hirschman observed (Gilovich, Griffin, & Kahneman, 2002). Sunstein (2015a, p. 4) goes so far as to say that Hirschman “can easily be seen as an early behavioral economist” and that *Development Projects Observed* “can plausibly be counted as a work in behavioral economics.” Further on, we will see whether this is a reasonable interpretation and what may be learned from Hirschman and the Hiding Hand in terms of behavioral economics. For now, we conclude that the key to understanding the principle of the Hiding Hand is its emphasis on the “two offsetting” or “double” underestimates of costs/difficulties and benefits/problem-solving abilities, where the latter comes to the rescue of projects that have been tripped up by the former (Hirschman, 1967a, p. 13, 16).

Hirschman does not stop here, however. He further describes the functioning of the Hiding Hand as a learning process where the trickery of the Hand serves as a pair of “crutches” for the decision maker or planner,

“permitting him to go forward at a stage when he has not yet acquired enough confidence in his problem-solving ability to make a more candid appraisal of a project’s prospective difficulties and of the risks he is assuming. The experience of meeting with these difficulties and risks and of being able to deal with them should then enable him to discard these crutches and

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