Folder Title: Projects and Studies - Projects Evaluation - Professor Albert O. Hirschmann - Volume 2

Folder ID: 30036183

Series: Operations Policy and procedures

Dates: 05/18/1966 - 07/23/1968

Fonds: Central Files

ISAD Reference Code: WB IBRD/IDA ADMCF-04

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THIS FILE IS CLOSED AS OF
DECEMBER 1968.
FOR FURTHER CORRESPONDENCE SEE:

RECORDS MANAGEMENT SECTION
February 1969
July 23, 1968

Mr. Goran Nyberg, Economist
Head, Planning and Evaluation Section
Ministry of Agriculture
Chilalo Agricultural Development Unit
P.O. Box 3376
Addis Ababa
ETHIOPIA

Dear Mr. Nyberg:

I am writing you to acknowledge your letter of June 29 to Mr. J. Williams. Your proposal to devise a continuous project evaluation procedure interests us very much. Some of us in IBRD have been thinking along the same lines, but so far I could not cite a case or even a formalized proposal which would illustrate how one might carry out a type of evaluation you seem to have in mind.

On an informal basis our Projects Department has been requesting periodic reports on ongoing Bank-financed projects after they are completed and our own supervision missions collect information, particularly during the early disbursement stages of a project. However, the data thereby collected and their evaluation, particularly with respect to a project's benefits, are usually quite incomplete by comparison with the much more formalized ex ante appraisal procedures we have been using prior to the initiation of a project. In the Economics Department we have been concerned with ex post evaluations of projects but so far have not done many, mainly because of scarcity of data. The one study we have completed so far "An Economic Reappraisal of a Road Project: The First Iranian Road Loan of 1959" may be of interest to you and is mailed to you under separate cover.

As we see it, the problem of evaluating project effects is to devise a method whereby one can observe "with" and "without", rather than "before" and "after". In some cases, it may be reasonable, of course, to postulate that the "before" and "after" approximates the "with" and "without". "Control" areas which are not affected by the project but are otherwise identical are, of course, very difficult to find in the social sciences. For some problems a careful sample design prior to the initiation of the project leading to a systematic collection of data may be feasible and quite useful. With the introduction of a computer in IBRD and interest in accumulating data banks and the growing demand for ex poste evaluations, we hope that it will not be long until we can initiate systematic data collection with periodic evaluation. In the meantime I regret to have to give you a negative reply to your direct question. I hope that you will go ahead with your own evaluation design. We certainly would appreciate you keeping us informed of any progress.

Yours sincerely,

A. M. Kamarck (signed)

Andrew M. Kamarck
Director
Economics Department

cc. Messrs. J. H. Williams, J. H. Adler, G. Orcutt, H. G. van der Tak, M. Sreedhar
**Routing Slip**

**Date**: July 22, 1968

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**Remarks**

Please let me have a copy of your letter also.

**From**: M. A. Sreedhar
OK

final

Please send copy of original + my answer + Orcutt with a note.

This strikes me as a possibility for your people to get interested in along the lines of some of your writing to [name] for follow-up.

[Signature]
Attached are:
1) Ltr. from Mr. Nyberg
2) Draft reply from Mr. Reutlinger
3) Background memorandum dated May 10
   (Reutlinger to Schmedtje)
   for Mr. Kamarck’s information

From M. A. Sreedhar
**Routing Slip**

**Date:** 7/15/68

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**Remarks:**

Please prepare a reply for Mr. Kamarck's consideration. (with a copy to me, please)

Thank you.

**From:** S. K. Bhatia

(Note: Signature is incomplete)
July 15, 1968

Mr. Kamarck:

Could van der Tak, or, in his absence, somebody else in Economics Dpt. handle this for us? Any other suggestion? If the answer takes a long time, could you send an interim acknowledgement?

/s/ JHA

John H. Adler
Mr. Arrangement —
Could Van der Tak, or, in
his absence, someone else
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 Governor? If this happens
take a long time, could you
send an interim acknowledge
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From: Communications Unit, Room 244, Extension 2023
Mr. John Williams  
Director, Program Evaluation Dept.  
International Bank for Reconstruction and Development  
19th and H Streets, N.W.  
Washington, D.C. 20431  
USA

Dear Mr. Williams,

I had your name suggested to me by Mr. Thome of Skandinaviska Banken, Stockholm (earlier IBRD), when I discussed problems of project evaluation with him some time ago, and would be very grateful if I might ask you one or two questions in this field.

The background is that I am heading the Planning and Evaluation Section of the Chilalo Agricultural Development Unit, a joint Ethiopian-Swedish technical assistance project, and that I am looking for experiences in the field of project evaluation, especially as far as methodology is concerned. The aim of our project is to promote development within an agricultural area south of Addis Ababa by using an integrated approach: producing innovations in the fields of crop and animal production, agricultural implements etc., introducing them by a system of extension activities and also taking care of the products via an improved marketing system; in addition to this there are some activities in other fields such as public health and forestry.

The idea is to have this whole programme evaluated continuously from the very beginning. The plans for this can briefly be characterized in the following way. A number of key activities have been selected for separate evaluations. For each of these, a "before-measurement" is carried out in the project area and in a control area (where no project activities are carried out) with the purpose of describing the situation at the outset of the project activities. At later points of time (the first one probably in two years) "after-measurements" are intended to be made (with the same methods). The effect of an activity is then
Mr. John Williams
Director, Programs Evaluation Department
International Bank for Reconstruction
and Development
14th and E Streets, N.W.
Washington, D.C. 20433

Mr. Williams,

Dear Mr. Williams,

I am writing to request your assistance in evaluating the current operations of the Planning and Evaluation Unit of the Bank's Office of the President. I am particularly interested in gaining your views on the effectiveness of the Unit's program and its ability to support the Bank's strategic objectives.

The Unit has been a key player in the Bank's development, and I believe it is essential that we continue to improve its performance. I am particularly interested in understanding how the Unit can better support the Bank's mission and contribute to the achievement of its goals.

Please let me know your thoughts on how we can improve the Unit's operations and better align it with the Bank's priorities.

Thank you for your time and consideration.

Sincerely,

[Signature]

[Name]
defined as the difference in changes from the first to the second measurement between the project and the control area.

It is intended to have the "after-measurements" repeated at certain intervals, and to let their results influence the further implementation of the project as well as the planning of project extension to other areas. In addition to the evaluations "on project activity level" there will also be an evaluation "on project level", i.e. an attempt at estimating the aggregate effects (with analogous methods).

The reason for my contacting you is that I think I have heard so much about the need for project evaluation (e.g. from within the UN family), but seen so little evidence of action being taken in this field. We have been able to trace a number of ex ante-appraisals (usually as a basis for decisions on whether to launch a project or not) and also some ex post-evaluations (e.g. the one made by an IBRD-team in Central Africa). We have not been able to find, however, one single case of the kind of continuous evaluation that we are trying to make, i.e. with the purpose of increasing the efficiency of the further implementation of the same project. Consequently, we have had to start from scratch in developing criteria and methods for this kind of work.

Therefore, I would like to ask you these two questions: Do you know of any case of project evaluation of the same kind that I have described to you (i.e. neither ex ante nor ex post, but continuous)? Have you heard of any work going on in this field anywhere in technical assistance agencies throughout the world (bilateral or multilateral) or at any research institute?

We feel that it might be very economical to exchange views with others having the same problems. There does not seem to be anything published on the subject, however, so the only chance of collecting information probably is this. We would appreciate very much any piece of information you could give (also negative, since that would give us completely free hands in developing our own methods).

Thank you beforehand for any help!

Yours sincerely,

Goran Nyberg
Economist,
Head, Planning and Evaluation Section
February 13, 1968

Professor Albert O. Hirschman
Department of Economics
Harvard University
215 Littauer Center
Cambridge, Massachusetts 02138

Dear Albert:

Thank you very much for your letter of January 23. I enjoyed the second draft of your paper and I think you have tightened up your argument and made the second part quite a bit more concrete.

I am glad you found Stanley Please's and John Holsen's criticism useful and I have passed this on to John. Stanley Please is on a mission just now and will not be back for some time. I do not think, however, that he would mind your acknowledging whatever debt you feel to his criticism just so long as it is clear that neither he nor the Bank bears any responsibility with regard to the paper itself.

With kind regards,

Sincerely yours,

Alexander Stevenson
Deputy Director
Economics Department

AStevenson:js
January 28, 1968

Alexander Stevenson, Deputy Director
Economics Department
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433

Dear Sandy:

I was most grateful for your letter of December 29 and the enclosed memos of Stanley Please and John Holsen. When they arrived I had already completed a second draft to take account of some local critics who had addressed themselves to points rather similar to those covered by Mr. Holsen. In that respect I stand my ground, but hope to have made it clearer why I stand there.

Stanley Please's points were all excellent and most helpful and I regret that, because of all kinds of other commitments, we have not been able to do more with them than change a sentence here or there. But we both felt that he has given us the most valuable detailed critique we have received so far. Would it be permissible to acknowledge our debt to him should the paper be published in its present form?

I enclose our second draft.

Sincerely,

AOH/o
enc.
January 2, 1963

Mr. Albert O. Hirschman
Department of Economics
Harvard University
Cambridge, Massachusetts

Dear Al:

Thank you very much for sending me a copy of your new book Development Projects Observed. I am looking forward to reading the final version. I found the earlier version stimulating and useful disorientation for development economists and engineers who know all the answers.

Best wishes to you and Sarah,

Sincerely yours,

A. M. Kamarck (signed)
Andrew M. Kamarck
Director
Economics Department

AMK:ner
January 2, 1968

Mr. Robert Asher  
The Brookings Institution  
1775 Massachusetts Avenue, N.W.  
Washington, D. C.

Dear Bob:

Thank you for sending me a copy of Albert O. Hirschman's book. As you know, I think that he has produced a very useful mind-broadening manuscript.

Best wishes for the new year,

Sincerely yours,

A. M. Kamarck (signed)  
Andrew M. Kamarck  
Director  
Economics Department

AMK:ner
COMMUNICATION: SENIOR STAFF MEETING SSM/W/67-51

DATED: December 26, 1967

TO:

FROM:

FILED UNDER: SENIOR STAFF MEETING

SUMMARY:

PROFESSOR HIRSCHMAN'S PROJECT STUDY

5. Mr. Kamarck reported that it was expected that Professor Albert Hirschman's book entitled "Development Projects Observed" would be published the following week.
May 18, 1967

Professor Albert O. Hirschman
Department of Economics
Harvard University
215 Littauer Center
Cambridge, Mass. 02138

Dear Albert:

Since you wrote to me on May 1, I have moved to the Economics Department and am now Andy's Deputy. I was sorry to hear that you will not be putting into the published edition a chapter which, I think, would have made it considerably more helpful to practitioners in the field of economic development. I am afraid that, somewhat selfishly, I am most concerned about whether or not they take into account any of the factors you emphasize. I hope that you will take this letter as a not so gentle push that we are interested in seeing that your message gets to the audience which I think needs it most.

With all best wishes,

Sincerely yours,

Alexander Stevenson
Deputy Director
Economics Department

AStevenson:js
Dear Mr./Mrs. [Name],

Since you wrote to us on May 15, I have worked to the Recreation Department and am now able to know your needs. I am sorry to learn that you are not planning to use the playground. I think you have not yet been informed of the activity of the Recreational Department, which is to encourage various activities to acquaint and interest in the field of recreation development. I am glad to have the opportunity to explain this matter and to assure you that the Recreational Department is doing everything possible to make our work an enjoyable one. I have been informed of your expression and would like to say that we are doing our best to make the playground as interesting as possible. Your interest in the playground is greatly appreciated.

Sincerely yours,

[Signature]

[Name]

[Title]

[Department]
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**Remarks**

It is a pity I think the Act actually was not tried to add an operational charter before publication. This would have made it much more effective. The second best solution is to find him another job. By

From

[Handwritten Signature]
May 1, 1967

Mr. Alexander Stevenson
Asian Department
International Bank for Reconstruction
and Development
1818 H Street Northwest
Washington, D.C. 20433

Dear Sandy:

I am sorry to have delayed answering your letter of April 11 but this is a most active period here, and in addition I have been trying to write a paper on which I have a deadline. Within the next few days I'll probably get the manuscript back from the Brookings editor who tries hard to "brookinize" my style--something I'll have to fight tooth and nail. Then in mid-June I hope to take off for a few Latin American countries.

For all these reasons, I do not expect that I'll be able to do much in making my book more "operational" in the immediate future. But once it is published--hopefully in the fall--I intend to have some student try his hand at it under my close supervision. The Pakistani in van der Tak's division did a quite nice job, but it was more of a summary than a set of questions to ask (together with my hypotheses about likely answers from different types of projects).

I am glad you are pushing me gently in this matter. If I sense an interest on the part of the Bank I am obviously likely to give it a higher priority.

Sincerely,

AOH:hh
April 11, 1967

Professor Albert O. Hirschman
Harvard University
Department of Economics
Cambridge, Massachusetts 02138

Dear Albert:

As I recall, you and Herman van der Tak were engaged in an effort to make your book "Development Projects Observed" more "operational". I gather from Herman that he sent you a draft designed to make a start on this. I know you have a lot of other things in the mill but I was wondering how this job is getting on and if you had any idea when it might see the light of day.

With best wishes,

Sincerely yours,

Alexander Stevenson
Associate Director
Asia Department

AStevenson:js

cc: Mr. van der Tak
January 18, 1967

Professor Albert O. Hirschman
Harvard University
Department of Economics
Cambridge, Massachusetts 02138

Dear Professor Hirschman:

I enclose the result of our brief "experiment" that we had agreed to undertake in trying to extract something more operational from your "Development Projects Observed". I have not reviewed it. It appears to have turned out somewhere in between our suggestion of a summary and conclusions with guidelines on the side effects that practitioners should look out for in a particular project, and your suggestion of a series of annotated questions which should be asked in relation to projects.

We hope that it may be useful to you as a start in preparing the "operational version" of your book which, I think, we agreed would be highly desirable.

With best wishes,

Sincerely yours,

Herman G. van der Tak
Economics Department

Enclosure

cc: Mr. Kamarck
Mr. de Vries
December 20, 1966

Professor Albert O. Hirschman
Department of Economics
Harvard University
Cambridge, Mass.

Dear Professor Hirschman:

I finally had a chance to read your draft on "Development Projects Observed." Because of a strange mishap it took rather a long time to reach me. I tried to summarize my reactions in the attached memo to Mr. Kanarck. On re-reading them, my remarks may be a bit severe - at least that is how they have struck others - and I want to use this covering letter to put matters right.

I certainly did find the book interesting. My disappointment arises from perhaps exaggerated expectations. It is a bit like the frustrations you describe in your section on excess demand. Although I feel, as mentioned in the memo, that your stress on the importance of "side effects" in the design and evaluation of projects may not be quite as unorthodox as you think - and much questions about orthodoxy (of whom?) are always slippery - I should certainly have given you more credit for your comprehensive review, which is not available elsewhere.

The impact of the book would be much greater, I think, if you summarized more the positive and negative aspects of various types of projects from the point of view of the side effects discussed by you. I referred to this already in my memo. This would help in getting the message across. I realize that you may have difficulty in doing so because many of the pros and cons are somewhat ambivalent, depending on the circumstances. Nevertheless, a sort of classified guide to structural characteristics of various kinds of projects and the side effects that might be expected from them in various circumstances would be helpful. You may wish to consider - this was Andy's suggestion which I think is a good one - whether you could provide a more operational "summary and conclusions," possibly as a separate paper, which would provide practitioners with guidelines on the side effects that they should look out for in a particular project.
December 20, 1966

I hope this is of some use to you in preparing a final draft of the book. It would be much better, of course, and a great pleasure, if we could talk about it some time.

With best wishes, also for the Season,

Sincerely yours,

Herman G. van der Tak
Economics Department
October 28, 1966

Mr. Albert O. Hirschman
Department of Economics
Harvard University
Cambridge, Massachusetts

Dear Al:

This is just a short note to tell you that Kenneth Bohr has been appointed Deputy Bank Representative in New Delhi. He and his family are already there. As he was charged with maintaining contact with you, I have asked Mr. Herman van der Tak to take over this responsibility.

I read your Chapter I, "The Principle of the Hiding Hand," and enjoyed it. You've helped in part to remove the unease that I have had in reflecting on the fact that if our modern project techniques had been used, much of the existing development in the world would never have been undertaken. It may be that with a further working out of the ideas that you explore in this chapter, we can avoid this future inhibitory role of economists.

I hope you and Sara are enjoying Cambridge. When you reach the stage that you feel free enough to be able to spend a day with us in the Bank, I would like very much to see you and to arrange a little seminar for you to speak at. This would entail lunch with me and a few of the people in the economics side of the Bank and a seminar from 1:00 to 5:30. We would pay travel expenses, of course, and an honorarium of $100.00.

With all best wishes,

Sincerely yours,

Andrew M. Kamarck
Director
Economics Department

cc: Mr. van der Tak
September 15, 1966

Mr. Robert Asher
Acting Director
Division of Foreign Policy Studies
Brookings Institution
1775 Massachusetts Ave., N.W.
Washington, D.C.

Dear Mr. Asher,

When we talked about my becoming a member of the Advisory Committee on Albert Hirschman's study I mentioned I might be out of the country on that date. It is now certain that I will be. I regret very much not being able to participate in this discussion and I shall submit my comments as soon as I can.

Sincerely yours,

Kenneth A. Bohr
September 17, 1966

Mr. Robert Ager
Acting Director
Division of Motor Pollution Studies
Proctor Research Institute
777 Massachusetts Ave., N.W.
Washington, D.C.

Dear Mr. Ager,

...When we last met on the subject of the Ager column...

Committee on Air Pollution, I mentioned the possibility of the column's name being changed. It is now certain that I will not... I regret very much not having the opportunity to give consideration to this suggestion and I pray you will... as I can...

Sincerely yours,

Kenneth A. Ager

[Signature]
September 13, 1966

Mr. Robert E. Asher
Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C.

Dear Bob:

As I have told you on the telephone, I must, for overriding reasons, beg off from attending the Advisory Committee meeting on Albert Hirschman's manuscript, scheduled for September 21. My colleague John Adler, with whom I have discussed the manuscript, will be at the meeting and, since he and I have the same general reaction to the document, his comments may be taken as an expression also of my position. Pursuant to my agreement with you, however, I am submitting in this letter a brief summary of my views.

As you know, I was one of the original supporters of World Bank cooperation with Professor Hirschman because of my conviction that the Bank still has a good deal to learn about project preparation and evaluation and because I thought that a fresh look by a perceptive and objective observer could add significantly to our knowledge of this important subject. However, I don't believe the manuscript does this. It is well written and contains a number of interesting observations. But by and large it does not contain any operationally useful analysis of the merits and priority of the particular projects observed by Professor Hirschman or of the kind of reshaping or rethinking of the projects which might have made them better. In short, I for one gained no significant new insights into the process of project preparation and evaluation.

The basic weakness of the manuscript, I believe, is that it emphasizes secondary factors and consequences and fails to state what the projects observed were intended to accomplish and to compare those intentions with what was in fact achieved. As a result, the reader is left ignorant of the degree of success or failure of the projects and of the importance to that success or failure of the particular secondary characteristics mentioned. Let me give two examples: There is a considerable discussion of the Nigerian railroad project in terms of tribal traits, vested interests, corruption, Nigerianisation, and efficient use of personnel. But there is no mention of what cargo the
Mr. Robert E. Asher
- 2 -

September 13, 1966

Mr. Hobert E. Asher

The railroad extension was intended to handle, or of any of the other economic factors which normally enter into a rail vs. road decision. I do not mean to argue that this particular railway extension was a successful project; I have no information about it other than that contained in the manuscript. My point is that the manuscript does not make a convincing case against the extension because it leaves the reader in the dark as to the objectives of the project, the reasons why rail transportation was believed to be preferable to achieve those objectives, and the extent to which the project succeeded or failed to live up to those expectations, and why. My second example relates to Hirschman's discussion of the use of quasi-autonomous authorities or agencies. A thoughtful analysis, based on empirical evidence, as to when and in what circumstances the advantages of autonomous agencies outweigh their disadvantages, and vice versa, would have been extremely useful. In the seven pages of the manuscript devoted to this subject, however, while there are some interesting observations, there is no evaluation of the experience of the projects observed, and this reader, at least, still lacks guidance as to when, and under what circumstances, the device should or should not be used. Hirschman's conclusion that the device is not a panacea and "must therefore be handled with considerable care and sophistication" is not particularly helpful.

The foregoing is perhaps epitomized by the heading of Chapter 5, "Project Appraisal: The Centrality of Side-Effects." It would take a good deal of evidence to persuade me that, as a general rule, side effects are really central to the merits of a project. But, quite apart from my own bias, I don't see how a manuscript which concentrates on the side effects and hardly mentions the major thrust of the projects considered could possibly be convincing on that proposition.

I have already commented to you orally about Chapter 1, "The Principle of the Hiding Hand," and I know that views coinciding with mine have already been persuasively presented to the author by Walter Salant and yourself, among others. Application of the "Hiding Hand" principle would mean, in effect, that developing countries and development assistance agencies should emphasize projects which promise to involve the greatest difficulties in order to build up the ability of the administrators in the developing country to analyze those difficulties and find solutions to them. Fortunately, while the argumentation is cleverly presented, few readers are likely to take it seriously.

I have a number of comments on specific paragraphs of the manuscript which I will give to Mr. Adler for whatever use he may wish to make of them at the meeting.

I am sorry that my reaction to this manuscript is so negative. Perhaps others may find it more useful.

Sincerely yours,

[Signature]

Richard H. Benish
Director
Development Services Department

cc: Mr. Adler and Mr. Bohr
September 2, 1966

Dear Albert,

Thanks for your note. I also heard from Bob Asher when I returned from leave this week and have told him that I would be most pleased to attend the Brookings meeting if I am in town on that date. It is not certain I shall be since I am to leave for India around that time. In any event I shall read your manuscript with great interest and give you my comments.

I assume a copy will be sent to Dick Demuth as in the case of Chapter 1. In addition I would suggest you might send copies to the following: Bernie Bell, Bob Sadove and Sam Lipkowitz as the senior economists in the Projects Department. William Gilmartin and Peter Wright as senior economists in the area departments with wide country experience and Ben King of the Economics Department who has both country experience and a special interest in project problems. You might also get useful comment from the EDI staff - in particular John Adler and Jim Baldwin (George B.).

Not all of these can be expected to comment; I would guess that Bernie Bell for one would be too busy at this time. However, I would hope you would get a fairly representative variety of reactions from those who do.

Sincerely,

Ken

KABohr:vmc

Mr. Albert O. Hirschman
Professor of Political Economy
350 Central Park West
New York, New York
10025
August 15, 1966

Mr. Kermit Gordon
Vice President
The Brookings Institution
1775 Massachusetts Ave., N.W.
Washington, D.C.

Dear Mr. Gordon:

Thank you for your letter of August 11 about the meeting of the Advisory Committee on Professor Hirschman's manuscript, scheduled for September 21. I look forward to being with you and to an interesting discussion.

Sincerely yours,

Richard H. Demuth
Director
Development Services Department
Dear Mr. Lead

At the request of your secretary, I write you to deliver some equipment to you. I am informed that you have requested equipment that we have in our inventory. I will deliver it to you personally at your convenience.

D.G. N. A. M.

Doreen Javda

07/17/93
Dear Ken,

This is just a note to express my personal hope that you will attend the Brookings meeting on Sept 21 which is to discuss my manuscript. I think your presence would add a great deal since the rest of useful mess of which I have more than is after all when that it and has any sense to someone with your interests.

In any event, I hope you will read the manuscript, p.s.
August 11, 1966

Mr. Richard H. Demuth
5404 Bradley Boulevard
Bethesda, Maryland

Dear Mr. Demuth:

As you know from Bob Asher, we have now received a manuscript from Albert O. Hirschman, tentatively entitled Development Projects Observed. As soon as copies have been reproduced, probably by August 18, a copy will be sent to you.

The Advisory Committee, on which you long ago agreed to serve, will meet here at Brookings on Wednesday, September 21, at 12:45 PM, in Room 113 for lunch. Immediately after lunch, we will move to one of the conference rooms and continue until dinner time. The meeting will adjourn not later than 9:00 PM.

We look forward to seeing you on September 21. Bob Asher will be in touch with you before then in order to tell you who will be at the meeting.

Sincerely yours,

Vice-President
June 7, 1966

Dr. Echterholter  
Ministerialrat  
Bundesministerium fur Arbeit und  
Sozialordnung  
Bonn

Dear Dr. Echterholter,

Thank you very much for your kind letter of May 18, in which you refer to the study of Professor Hirschmann and in which you request that a copy of this study be sent to you.

Professor Hirschmann plans to publish his study approximately late 1966. This study will be published under the auspices of Brookings Institution - not the World Bank. Upon publication I will not fail to let you have a copy of it.

Unfortunately, we have no other material that would be readily available about the social aspects of our projects. We have, however, as I think I mentioned to you in Bonn, a study prepared by one of our senior officials about the lessons learned from agricultural investment in Africa. This is a voluminous study. I don't know whether the material in it is interesting to you, but I am sending you under separate cover a copy, hoping that it will be of benefit to you.

sincerely yours,

S. Aldewereld

S. Aldewereld  
Vice President

S. Aldewereld:mc
May 27, 1966

Mr. Richard H. Demuth
5404 Bradley Boulevard
Bethesda, Maryland

Dear Dick:

Our phone conversation of a few minutes ago prompted me to look up my 1961 thoughts on Hirschman's contribution to the February 1962 Brookings book, *Development of the Emerging Countries: An Agenda for Research*. The paragraph of mine that I was thinking of appears on page 217 and reads as follows:

Albert Hirschman's brilliant comments suggest some strategies for getting around alleged obstacles to development or finding new sequences for surmounting them. His catalog of the undulations and fluctuations in previous diagnoses of barriers to development, and his cautions against the wholesale swallowing of current clichés, deserve careful reading. His remarks are disconcerting, however, to those in quest of clearer criteria to govern eligibility for foreign aid. They would seem to lead to American involvement with the sinners and the unregenerated in the hope that, unwittingly, they will reform, and with the righteous because, wittingly, they have reformed.

I've talked to Kenneth Bohr and enclose a copy of the letter I've just written to Hirschman.

Sincerely,

Bob

Robert E. Asher
May 27, 1966

Mr. Albert O. Hirschman  
350 Central Park West  
New York, New York 10025  

Dear Albert:

I have just talked to Dick Demuth, who is still in the hospital but hopes to be released today. He has read your piece and, subject to such checking of the "facts" about the projects as Kenneth Bohr may wish to do, sees no reason for the World Bank to object to your submitting it to a journal for publication. I think it is fair to say, however, that he was less charmed by the style than I and considers the chapter a bit thin, particularly with respect to relevant guidance for those who must decide whether to undertake, continue, or complete a proposed project.

Since his reaction may not be unique — I myself employ a different standard when judging a piece for publication by Brookings than when giving it Brookings' o.k. for publication elsewhere — I would suggest changing the footnote to make it less "committal" with respect to whether the article will re-appear as Chapter I of your book. How about:

"This article has been prepared in connection with a study of World Bank projects that I have undertaken under the auspices of the Brookings Institution. Permission to print it here has been obtained."

Mr. Bohr will be writing to you directly within a week.

Sincerely yours,

Robert E. Asher

cc: Mr. Demuth  
Mr. Bohr  
Mr. Haviland  
Mr. Hoover
May 24, 1966

Mr. Richard H. Demuth
Director
Development Services Department
World Bank
1818 H Street, N. W.
Washington, D. C. 20433

Dear Dick:

Sorry you couldn't be with us on Sunday and hope that the infection is by now cleared up.

Albert Hirschman has sent me Chapter I of his proposed book and told me he would like to submit it to one of the professional journals for advance publication if we have no objection. He says it is more "far out" than the subsequent chapters. I found it delightful and predict that you will agree. My inclination in any event is to be more uncritical than I would be if this were being submitted to Brookings for publication as is, or if I had the full manuscript in front of me.

For journal publication, I would urge Albert to make clear in a footnote or some other way that "This article is expected to become Chapter I of a book on World Bank projects that I am writing for publication by the Brookings Institution. Permission to print this version has been obtained."

The latter sentence would, of course, be included only if permission were formally obtained. Our usual practice, which we would like to follow in this case, is for the journal that accepts the article to make the request for publication. Our Publications Office would grant permission.

I enclose a copy of the chapter and suggest that you send your o.k. or your comments as promptly as possible directly to Professor Hirschman at 350 Central Park West, New York 10025. Now that he's written it, he's eager to see it in print.

At Professor Hirschman's suggestion, I'm also sending a copy of this letter and its enclosure to Kenneth Bohr.

Sincerely yours,

Robert E. Asher
Chapter I

The Principle of the Hiding Hand

The Karnaphuli pulp and paper mill is one of the earliest large-scale industrial enterprises to have been set up in Pakistan after Partition and Independence. Planned by the official Industrial Development Corporation to utilize the vast resources of the bamboo forests of the Chittagong Hill Tracts along the upper reaches of the Karnaphuli river in East Pakistan, the mill started to operate in 1953. It had perhaps more than its share of technical and managerial teething troubles, but considerable progress had been achieved in these respects by 1959 when management of the mill passed into private hands. Soon thereafter, a major upset endangered the very life of the mill: the bamboo began to flower, an event entirely unforeseen and probably unforeseeable in the present state of our knowledge since it occurs only once every 50 to 70 years: given the resulting paucity of observations, the life cycle of the many varieties of bamboo is by no means fully known. In any event, the variety which supplied the Karnaphuli mill with some 85% of its raw material, flowered and then, poetically but quite uneconomically, died. It was known that flowering of the bamboo results in death of the whole plant and in regeneration from the seeds, rather than, as normally, from the rhizomes but it was not known that the bamboo that dies upon flowering would be unusable for pulping since it would disintegrate upon being transported and floated down the river.
river. Another unpleasant surprise was the discovery that, once flowering was over, a number of years would have to pass before the new bamboo shoots would grow up to the normal size fit for commercial exploitation. In its seventh year of operation the mill therefore faced the extraordinary task of having to find itself another raw material base. In a temporary and costly way, the problem was solved by importing pulp, but other, more creative responses were not long in coming: an organization to collect bamboo in villages throughout East Pakistan was set up (the waterways crisscrossing the country make for cheap transportation of bulky cargo), sundry lumber was cut in the Tracts, and, most important, a research program got underway to identify other fast growing species which might to some extent replace the unreliable bamboo as the principal raw material base for the mill. Permission was obtained to plan an experimental area of six square miles with several of the more promising species and plans to cover eventually a much larger area are underway. Thus, the crisis of the flowering bamboo may in the end lead to a diversification of the raw material base for the mill.

Looking backward it may be said that the Karnaphuli mill was "lucky": its planners had badly overestimated the permanent availability of bamboo, but the mill escaped the possibly disastrous consequences of this error by an offsetting underestimate or, more correctly, by the unsuspected availability of alternative raw materials.

The question which I wish to explore is whether this sort of offset is pure luck or whether there are reasons to expect some systematic
association of such providentially offsetting errors. A phenomenon very similar to the one just noted can be observed in successful irrigation and irrigation-hydroelectric projects: the river that is being tapped is frequently found not to have after all enough water for all the power, agricultural, industrial, urban etc. uses which had been planned or which are staking claims, but the resulting shortage can then often be remedied by drawing on other sources which had not been within the horizon of the planners: ground water can be lifted by tubewells, the river flow can be better regulated through upstream dams, or the water of more distant rivers can be diverted. Presently such plans are afoot for the San Lorenzo irrigation scheme in Peru, and for the Damodar Valley in India, among our projects; a similar overestimate of the waters available from the to-be-harnessed river which can, however, be corrected by "newly discovered" water from other rivers and areas has been reported for the Shakra Nangal project in India though no specific provision was made in the project for the investment on this account.¹

It would obviously be silly to expect that any overestimate of the availability of a given material resource is going to be offset by an underestimate of alternative or substitute resources; but if we generalize a little more, we obtain a statement which no longer sounds wholly absurd: on the contrary, it is quite plausible and almost trite to state that each

project comes into the world accompanied by two sets of partially or wholly offsetting potential developments: 1) a set of possible and unsuspected threats to its profitability and existence, and 2) a set of unsuspected remedial actions which can be taken whenever any of these threats materializes.

The experience of several among the projects visited fits this very broad proposition. For example, the San Lorenzo irrigation project in Northern Peru suffered serious and at times exasperating delays caused by political change and second thoughts on the kind of irrigation farming which the project should promote; but the economic losses implied by these delays were perhaps more than compensated by the fact that, as a result of these second thoughts, the San Lorenzo irrigation eventually became a pilot project for the subdivision of land into small but viable family farms; with credit and technical assistance being given to previously landless farmers; the project thus set an entirely new pattern for Peruvian agriculture and turned into a breeding ground for administrators who would be ready to apply elsewhere in Peru the lessons learnt in San Lorenzo.

The Uruguayan livestock and pasture improvement project also experienced extraordinary delays, first because of slowness in political and administrative decision-making and then because the key technical task of improving the natural grasslands by introduction of legumes into the soil turned out to be unexpectedly complex; yet the solutions that were gradually found through scientific research and practical experimentation and were then applied over an expanding area have now started to make this program into a particularly successful operation.
Somewhat similar sequences can be found in other projects although the experience of the Nigerian Railway Corporation serves as an emphatic warning that by itself trouble does not constitute a sufficient condition for a "creative response".

The common structure of the Pakistani, Peruvian, Urugueyan projects can now be recapitulated as follows:
1) If the project planners (and this includes usually the World Bank officials involved in financing the project) had known in advance all the difficulties and troubles that were lying in store for the project, they probably would never have touched it, because a gloomy view would have been taken of the country's ability to overcome these difficulties by calling into play political, administrative or technical creativity.
2) In some, though not all, of these cases advance knowledge of these difficulties would therefore have been unfortunate, for the difficulties and the ensuing search for solutions set in motion a train of events which not only rescued the project, but this very search and travail often made it into a particularly valuable development experience.

II

We may be dealing here with a general principle of action: Creativity always comes as a surprise to us; therefore we can never count on it and we dare not believe in it until it has happened. In other words, we would not consciously engage upon tasks whose success clearly requires that creativity be forthcoming. Hence, the only way in which we can bring our
creative resources fully into play is by misjudging the nature of the task, by presenting it to ourselves as more routine, simple, undemanding of genuine creativity than it will turn out to be. Or, put differently: since 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 which we can, but otherwise would not dare, tackle. The principle is important enough to deserve a name: since we apparently on the trail here of some sort of Invisible or Hidden Hand that beneficially hides difficulties from us, I propose The Hiding Hand.

Before relegating the Hiding Hand to the developing countries as its special realm, we must briefly elaborate the statement that we may be dealing here with a fairly general phenomenon which permits to understand or reinterpret certain aspects of human behavior and history. For example, it is here suggested that, far from seeking out and taking up challenges, people are apt to 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.

What we are trying to say can be well conveyed by taking Marx's famous sentence: "Mankind always takes up only such problems as it can solve" and by modifying its wording slightly, but its meaning fundamentally, to read: "Mankind always takes up only such problems as it thinks it can solve." Our addition of the two underlined words thoroughly blurs the neat determinacy of Marx's original statement: for, with this version, it is possible that,
as a result of various misconceptions about its problem-solving ability, "mankind" will take up either less or more problems than it actually can solve at the moment it takes them up. Up to a point, the Hiding Hand can help accelerate the rate at which "mankind" engages in problem-solving: it takes up problems it thinks it can solve, finds they are really more difficult than expected, but then, being stuck with them, attacks willy-nilly the unsuspected difficulties - and sometimes even succeeds. Note that, looking backward on this kind of sequence the Toynbocean interpretation seems to be quite consistent with the facts and, of course, it is so much more flattering to our ego. Indeed, it is likely that people who have stumbled through the experience just described will retell it as though they had known the difficulties all along and had bravely gone to meet them - foro bellis figura is a strong human propensity. While we are rather willing and even eager and relieved to agree with a historian's finding that we stumbled into the more shameful events of history such as war, we are correspondingly unwilling to concede - in fact we find it intolerable to imagine - that our more lofty achievements such as economic, social or political progress, could have come about by stumbling rather than through careful planning, rational behavior, and the successful response to a clearly perceived challenge. Language itself conspires toward this sort of asymmetry: We fall into error, but has anybody ever heard of falling into truth?

1. Exceptions to this rule are provided by exceptional men such as Luther who, upon looking back on his life, acknowledged the role of the Hiding Hand most explicitly: "Had I known all in advance, God would have been put to (continued on p. 8)
But I did not really set out to engage in general speculations about human nature. While some presence of the Hiding Hand may be helpful or required in eliciting action under all latitudes, it is no doubt specially needed where the tradition of problem-solving is weak and where invention and innovation have not yet been institutionalized or routinized. In other words, in developed countries less hiding of the uncertainties and likely difficulties of a prospective task is required than in underdeveloped countries where confidence in one's creativity is lacking: in the former, there are large numbers of achievement-motivated actors who have acquired "the conviction that /they/ can modify the outcome of an uncertain situation by /their/ own personal achievements"; in the latter, on the contrary, new tasks harboring many unknowns must be presented as though they were all "cut and dried" in order to be undertaken. Hopefully, the experience that difficulties could be successfully handled will permit later on a more candid appraisal of tasks and projects.

The Hiding Hand principle is in effect a close relative, or perhaps a generalization, of an idea proposed several years ago by an economic historian, John Sawyer. Having looked at development projects that were

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1. (continued from p. 7) great trouble to bring me to it...God has led me on as if I were a horse and he put blinkers on me so that I could not see who came running up upon me." Quoted from the Tischreden in Wilhelm Junck, The Heritage of the Reformation, rev. ed. (Free Press of Glencoe, 1961), pp. 20-21. This passage was shown to me by Lisa Hirschman.
undertaken in the first half of the 19th century in the United States he noted that underestimates of cost resulting from "miscalculation or sheer ignorance" were, in a number of great and ultimately successful economic undertakings, particularly in transport and in the opening up of new resources, "crucial to getting an enterprise launched at all." Had the total investment required been accurately and objectively known at the beginning, the project would not have been begun. The eventual success of these ventures, in spite of the large initial miscalculation and the consequent financial trouble at various stages, derived from the fact that, once the necessary funds were secured and the project was brought to completion "the error in estimating costs was at least offset by a corresponding error in the estimation of demand." ¹

The model thus presented has a close resemblance to the Marding Hand principle. There is a double underestimate of both costs and benefits in Sawyer's scheme while we have observed similarly, if more broadly, a double underestimate of the various difficulties that lie across the project's path, on the one hand, and of the ability to solve those difficulties, on the other. The difference is that Sawyer's model is focused primarily on the underestimate of costs which is presented as being due to the entrepreneur's activity drive and optimism combined with the knowledge that there is a ceiling to the amount that can be raised for the project. The underestimate of the benefit is unexplained and acts rather as a deus ex

machine to save selected projects from becoming failures, once they turn out to cost so much more than expected.

In our Hiding Hand principle, Sawyer's unexplained underestimate of benefits becomes the underestimate, on the part of the project planner, of his own problem-solving ability and, as we have seen, this underestimate has a satisfactory rationale, particularly in underdeveloped countries. The principle then simply goes on to state that in view of this underestimate a similar underestimate of the difficulties themselves is required for projects that in the end turn out to be perfectly feasible to be actually undertaken. Which are the projects which thus are chosen because their difficulties tend to be underestimated? And which ones tend to be systematically neglected because their difficulties are too obvious? By asking these questions we realize that the Hiding Hand principle, while permitting an increase in the rate at which projects are taken up, also leads to a bias in project selection whose nature must now be explored.

First of all it becomes clear that projects derive a crucial advantage from being based on a technique that looks transferable even though it may not actually be nearly as transferable as it looks. This is perhaps a principal reason which gives infrastructural and industrial projects so large an edge over others: not that the techniques involved are in fact so exceedingly transferable, for time and again industrial projects, particularly those that are not limited to administering "last touches" to a host of imported semi-finished inputs, run into very considerable technical and managerial difficulties when they are transplanted to a
different environment; but factories look as though they could be picked up and dropped anywhere whereas in other activities, such as agriculture and education, the need for adaptation and the concomitant problems are immediately obvious. Industry thus lends itself eminently to the operations of the Hiding Hand whereas agricultural projects suffer in comparison from the abandon and sincerity with which they flaunt their prospective difficulties.¹

These conclusions are reinforced when the principle of the Hiding Hand is viewed in the perspective of time. For its mechanism to work it is necessary that the operators be thoroughly "caught" by the time the unsuspected difficulties appear; caught in the sense that having spent considerable money, time, and energy and having committed their prestige, they will by that time be anxious to generate all the problem-solving energy of which they are capable.

Just as the Hiding Hand principle states that the to-be-experienced difficulties should be hidden at the moment of the decision to go ahead with the project, so it implies that these difficulties should not appear too early after the execution of the project has started, for the propensity to tackle the difficulties will be roughly proportional to the effort, financial and otherwise, already furnished. Therefore, a given level of difficulties may be wholly discouraging for the prosecution of the project

¹ In the last section of this chapter, we discuss the exaggeration of benefits as an action-inducing mechanism which is an alternative to the Hiding Hand when a project's prospective difficulties are too obvious to be hidden away. But agricultural projects do not lend themselves too well to the operation of this mechanism either.
if it turns up early while it would be tackled with alacrity and perhaps solved if it arose at a later stage.

In spite of the somewhat paradoxical ring of this assertion—paradoxical only because medical science has thoroughly impregnated us with the notion that the sooner a malady is recognized and diagnosed the better—it appears to be confirmed by experience with development projects and it again underlines the disadvantageous position of agricultural as compared with industrial and infrastructural projects. With the (important) exceptions of irrigation and of tree crop projects, agricultural projects have a short gestation period and therefore production or marketing difficulties unfold rather soon after the projects have been started; hence, attempts to rescue them are often half-hearted and they are readily pronounced failures and abandoned. This is the story of many colonization projects in Latin America and Africa.¹

In the case of projects with longer gestation periods and permanent structures, similar difficulties tend to appear much later and then lead to far more serious efforts to overcome them. Occasionally, of course, such efforts may be cases of misguidedly throwing good money after bad; in the case of short-gestation projects, the corresponding mistake is the failure to throw some good money after what looks bad, but is not beyond redemption.

¹ It is difficult to gain an understanding of the history of these projects; for they leave hardly any trace behind as the once-to-be-colonized lands revert to bush and the project planners and operators to silence. One good case study is in K.D.S. Baldwin, The Njoror Agricultural Project: An Experiment in African Development, 1939.
This difference between projects with short and long gestation periods is well exemplified by the contrasting fates of the East African Groundnut Scheme and the Owen Falls Hydroelectric Station in Uganda. Undertaken at the same time, in the same region, by the same kind of colonial administrators wishing to turn over a new progressive leaf and harboring similar illusions about the nature of the development process, both schemes met with similar financial insuccess during their early years. After a very few years, the Groundnut scheme was abandoned and nothing remains of it; the Owen Falls Hydro station, on the other hand, has had many lean years, but it has endured and finally come into its own and will soon have to be supplemented by new generating capacity. Once it had become clear that the originally anticipated industrial boom in the Owen Falls area was not going to materialize, the Uganda Electricity Board made an effort to tap, through the building of transmission lines, new markets for its power to neighboring Kenya at first and then to a host of smaller industries and towns of Uganda.

The foregoing remarks permit a policy conclusion: Projects whose potential difficulties and disappointments are apt to manifest themselves at an early stage, should be administered by agencies having a long-term commitment to the success of the project; also such projects should be developed as much as possible in an experimental spirit, in the style of a pilot project gathering strength and experience gradually, for in that case they will be able to escape being closed down as failures when they are still in their infancy. The Uruguyan livestock and pasture improvement project followed both these precepts and has thus been able
to survive and to achieve maturity and success.

IV

In general, entrepreneurs and activist promoters and developers must long have been dimly aware of the Hidden Hand principle; for they have been most adept at finding ways in which projects that would normally be discriminated against because they are too obviously replete with difficulties and uncertainties, can be made to look more attractive to the decision maker.

One widely practiced method consists in pretending that a project is nothing but a straightforward application of a well-known technique that has already been used successfully elsewhere. For example, for a number of years in the post-World-War-II period, any river valley development scheme, whether it concerned the São Francisco River in Brazil, the Papaloapan River in Mexico, the Cauca River in Colombia, the Dez in Iran or the Damodar River in Eastern India was presented to a reassured public as a true copy, if possible certified expressly by David Lilienthal, of the TVA. Although obviously two river valley development schemes will differ vastly more from one another than two Coca Cola bottling plants, the impression was created by the appeal to the "TVA model" that clear sailing lay ahead for the proposed schemes. To be acceptable, it seems, a project must often be billed as a pure replica of something that already exists as a successful venture in an advanced country.
It may seem a pity that ventures which are 90% indigenous initiative and execution and 10% imitation of a foreign model are regularly presented to the public as though the percentages were, in fact reversed, but this seems to be the price that must sometimes be paid to "sell" projects which would otherwise look too forbidding.

This attempt at making a project's path look more smooth than it actually is may be termed the "pseudo-imitation" technique. When the novelty or difficulty of the task is too obvious for the use of this technique to be plausible another method is often resorted to: it consists in dismissing previous efforts at solving the task as "piecemeal" and in pretending to more insight than is actually available by drawing up a "comprehensive program." We shall call it the "pseudo-comprehensive-program" technique.¹

An excellent example of this technique is supplied by the Uruguayan livestock and pasture improvement project. It started with the avowed aim to "implement" a joint IBRD-FAO mission report issued in 1951 whose recommendations covered an extremely wide spectrum as will appear from the following incomplete list of topics: subdivision of pastures by fences, grazing trials, tree plantings on permanent grasslands, introduction of legumes, increased use of lime and phosphate, shrub eradication, works to control runoff water, establishment of fodder reserves through silage and

¹ This technique is a close relative of the "pseudo-creative" response which I discussed at some length in Journeys Toward Progress: Studies of Economic Policy-Making in Latin America (Twentieth Century Fund, 1963), pp. 259 ff.
hey, better storage facilities, changes in the cropping system to include legumes, establishment of diversified farming combining harvested crops and livestock, improvement in productivity by irrigation, tillage practices, weed and pest control, erosion control, control of animal disease, improvement in transportation, storage and marketing, organization of research and technical services, appropriate price and other economic policies, etc...

Such a report tends to give the policy makers and project planners the illusion that the "experts" have already found all the answers to the problems and that all that is needed is faithful "implementation" of these multifarious recommendations. In fact, Uruguayan agriculture had shown prolonged and stubborn resistance to many of the report's proposals which were by no means new; the reason was that very considerable and difficult breakthroughs remained to be achieved in the technical, organizational and other realms. But the comprehensive program technique underplays this need for imagination, insight, and for the application of creative energies and the project planners are, as it were, tricked into undertaking a program with whose real difficulties they will only gradually become acquainted.

The comprehensive program whose many components all are given the same emphasis and are pronounced to be interrelated in effect covers up the ignorance of the experts about the real cure of the malady they have been summoned to cure; if they knew, they would be proposing a far more narrowly focused program. At the same time, the diffuse kind of program

provides an excellent alibi to the experts in case anything goes wrong: since it is practically impossible to carry out all the proposed actions, any insufficiency can always be blamed on the failure to follow the experts' instructions rather than on the shortcomings of their advice.

The foregoing criticism on the diffuse kind of comprehensive program is not meant to deny that there are real interdependencies and that often a multi-pronged attack on a problem is necessary. But a comprehensive program that stems from real insight into the problem will be easy to tell from one that is a smoke screen for ignorance, for in the former the nature of the interdependencies will be clearly spelled out and an effort will have been made, in the interest of feasibility, to limit the number of activities that have to be undertaken concurrently. This sort of minimization of balanced growth requirements which has all the marks of insight into the problem is for example evident in a 1964 plan for the creation of an industrial pole in the Taranto-Bari-Brindisi area in Southern Italy: Here a deliberate effort was made to determine a strictly limited number of establishments producing intermediate goods and providing services, such as tool making which would have to be available if a certain group of newly planned mechanical industries were to find it attractive to locate at the "pole".

1. A recent, very interesting attempt to formulate a theory of design has come to a similar conclusion: the correct method for solving design problems when the ultimate solution has to satisfy numerous interdependent requirements is not to treat the system of requirements as an interdependent whole, but to define "isolable subsystems", i.e. subsystems among which there is a minimum amount of interdependence, and then to adjust the resulting partial designs to each other. Christopher Alexander, Notes on the Synthesis of Form (Harvard University Press, 1964), pp. 40-43 and passim.

Regional development programs supply us with additional illustrations for the point that certain comprehensive programs are in effect functioning as "servants" of the Hiding Hand. Here also the programs traced out in advance must be as comprehensive and multifarious as possible to build up the morale of the slightly frightened decision-makers who, in addition to their ignorance about the real path to progress for their region or valley, must do battle with various powerful contrary interests and must therefore form as broad a coalition as possible by promising something at least to every important section within the region or valley. The foregoing is a fairly accurate description of what happened in the case of the development program for Italy's South. The Cassa per il Mezzogiorno was charged with undertaking a vast complex of programs and its activities reached virtually into every nook and cranny of its huge territory. But in the course of undertaking its public works programs the Cassa soon learnt that some were far more efficient and growth-promoting than others and in 1952 a prominent meridionalist coined a phrase by distinguishing between the (unserviceable) "bones" and the (valuable) "meat" of Southern agriculture. It turned out that the "meat" - i.e. the portion where Cassa investments could be expected to yield high returns - comprised only about half a million hectares of irrigated or irrigable valley lands, so that most of the rest of the area where the Cassa had operated - some 11 (? million hectares - were now dismissed as "bones". ¹ This proposed

¹. Mario Rossi-Doria, Dieci anni di politica agraria nel Mezzogiorno (Laterza, 1958), p. xix. In this, his original formulation of the meat-bones (polpa-osso) dichotomy, Rossi-Doria included 1.5 million hectares suitable for highly productive non-irrigable tree crops and vineyards into the "meat". But in later usage, this term became increasingly restricted to irrigable lands.
concentration of effort became in effect the Cassa's new agricultural program when the agency's life was extended for a further period of 10 (7) years in 1969; it was far removed from the all-inclusive approach which the Cassa had set out to implement; but just as the managers of Uruguay's livestock program had come to realize that the key to agricultural progress was the introduction of legumes, so the Cassa had found out in 15 years of "implementation" of its comprehensive program that the larger payoffs of its agricultural program were to be obtained by concentration on the few fertile flat areas which dot the coastal lands of the South.

V

The two Hiding Hand techniques which have been reviewed at some length, the pseudo-imitation technique and the pseudo-comprehensive-program technique are nicely complementary: the former makes projects appear less difficulty-ridden than they really are whereas the latter gives the project planners the illusion that they are in possession of far more insight into the project's difficulties than is as yet available. Both techniques act essentially as crutches for the decision-maker, 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 to achieve a more mature appraisal of new projects.
The recourse to the Hiding Hand thus becomes less necessary as development
proceeds and one of the indirect benefits of projects is precisely that
the willingness of the decision-maker to face uncertainty and difficulty
is increased. The Hiding Hand is essentially a mechanism which makes a
risk-avoider take risks and turns him, provided all goes well, into less
of a risk-avoider in the process. It is thus a device which opens an
escape from one of those prerequisites which abound in the literature of
economic development; it permits the so-called prerequisite to come into
existence after the thing to which it is supposed to be the prerequisite.
In our model, risk-taking behavior is engaged in actively though involun-
tarily prior to the arrival on the stage of the "risk-taking, achievement-
motivated personality"; instead, it is this personality which is fashioned
by risk-taking behavior.1

The Hiding Hand model is helpful in understanding the process of
growth from yet another point of view. It has often been remarked that
what is most needed at an early stage of development is that the ventures
that are undertaken meet with unqualified success so that the spirit of
entrepreneurship may become strong and widely spread.2 The objection to
this prescription is of course that it is singularly unhelpful since

1. For a general argument about this sort of inverted sequence, and an
appeal to the theory of cognitive dissonance for explaining it, see my
article "Obstacles to Development: A Classification and a Quasi-Vanishing
395-93.

2. e.g. Harvey Leibenstein, Economic Backwardness and Economic Growth,
numerous disappointments are inevitable in the early stages of the development effort when false starts abound and success is never easy. How is development possible then? Perhaps because among the ventures that survive, there is a large number in which the Hiding Hand has been at work: They have been undertaken without a proper appreciation of the difficulties they were going to face, but have then overcome these difficulties, so that the entrepreneurs’ experience has been neither wholly better nor entirely worse than expected, but in a sense both worse (getting into unsuspected trouble) and better (getting unexpectedly out of it); and even if their financial success is not substantial, the infusion of confidence, and perhaps the discovery of a more “exciting” way of life deriving from this experience, may lead to a greater propensity to undertake new ventures during the next period.

What we are in effect saying here is that in appraising the contribution to development of various ventures we must take into account not only their — properly discounted — financial returns, but important side effects connected with the time shape of these returns; specifically, a venture which has gone through considerable teething trouble, presumably as a result of the intervention of the Hiding Hand, is likely to deserve a higher ranking than one with a similar return, but no such experience.

We have ended up here with an economic argument strikingly paralleling Christianity’s oft expressed preference for the repentant sinner over the righteous man who never strays from the path. And essentially the
same idea, even though formulated, as one might expect, in a vastly different spirit, is found in Nietzsche's famous maxim "That which does not destroy me, makes me stronger." This sentence admirably epitomizes several of our project histories.

VI

Having achieved, in a roundabout way, a convergence of benefit-cost analysis with the teachings of philosophy and religion, I should probably stop right here. Unfortunately, however, this dramatic effect must be spoiled; for it must be made clear that while, like any discoverer, I am no doubt pleased in various ways with the object of my discovery i.e. with the Hiding Hand, I am by no means blind to its failings and dangers. As noted before its principal usefulness is in inducing risk-avoiders to commit themselves to risk-taking behavior. This commitment permits an acceleration of economic growth; through the experiences and stresses mediated by what the cognitive-dissonance theorists call discrepant behavior, the decision-makers are likely to become readier to look newly emerging risk-laden situations straight in the face. The Hiding Hand is thus essentially a transition mechanism through which decision-makers learn to take risks and the shorter the transition and the faster the learning the better. For this on route and ex post learning about risk is not without grave dangers. One has to be rather lucky to be lured by the Hiding Hand into ventures whose emergent problems and difficulties can
be successfully tackled. As long as one needs this "crutch" in order to act, the probability of committing major errors and of undertaking projects which will turn into failures, is obviously higher than when he is able to differentiate between acceptable and non-acceptable risk.

Moreover, my description of those servants of the Hiding Hand, the pseudo-imitation and the pseudo-comprehensive-program technique, will already have conveyed that I have a positive distaste for them. While they facilitate decision-making these techniques can easily be habit-forming rather than self-liquidating. The camouflage which they use to disguise pioneering entrepreneurship may go undetected for a long time and may possibly still be used when there is no longer a real need for them.

The pseudo-imitation technique will not permit the country using it to reap the full psychological benefit of the ventures successfully launched under its auspices since there will remain a lingering feeling that any achievement is due to the imitation of a foreign model. As to the pseudo-comprehensive-program technique, a favorable outcome may even leave a sense of disappointment and frustration behind; for, if our description of the process by which insight into the problem is finally achieved is correct, then a number of originally enunciated measures and objectives which were important elements in the "comprehensive program" will no longer be actively pursued as the most promising approach is discovered; but instead of rejoicing over this discovery, public opinion will tend to lament the abandonment of originally much touted programs and the project, even though a success, will leave behind a vague sense
of failure. This is exactly what happened when the Cessa decided to pick the "meat" from the "bones" or when the Damodar Valley Corporation concentrated its work more and more on power generation.

VIII

Before concluding it may be of interest to place the phenomenon here described in a wider context. The Hiding Hand is essentially a way of inducing action through error, the error being an underestimate of the project's costs or difficulties. As Sawyer noted for his related theory of entrepreneurial error, the argument smack uncomfortably of "praise of folly" - a praise which is sometimes deserved, but always needs to be narrowly circumscribed.

We could bestow limited praise on the Hiding Hand because, in causing an underestimate of costs and difficulties it serves to offset another error on certain occasions, namely when project planners tend to underrate their inventiveness and problem-solving ability; in these cases, the chances for correct project decisions to be taken will actually improve, up to a point, as the Hiding Hand does its handiwork.

Suppose now that, in the same situation, it fails to do so and that prospective difficulties stand therefore clearly revealed: since, by assumption, the actors are afflicted by the same lack of self-confidence, the difficulties (i.e., costs) will now loom larger than they really are and the only remaining way by which action on perfectly feasible projects
can still be induced is through an overestimate of the prospective benefits - we need a magnifying glass for benefits to take the place of the Hand that hid the costs or difficulties. Thus, the same basic infirmity, namely lack of confidence in one's ability to overcome difficulties, requires correction either by concealing them or by compensating the exaggerated image they project of themselves by a similar exaggeration of the expectations entertained about the project's future accomplishments.

Exaggeration of prospective benefits is at least as common a device to elicit action as underestimation of costs. This error, specially when it is combined with an underestimate of costs, has of course often led to disaster - history abounds with examples, from bankruptcies and white elephants to lost or ruinously "won" wars. But occasionally the exaggeration of benefits can serve, just as the hiding of costs, to ward off another, less visible, but nonetheless real, disaster: missed opportunity.

This is the case when difficulties in the project's path tend to be overestimated and are unhideable. Take, for example, projects that clearly require from the start the making of politically difficult decisions such as a change in existing administrative structures around which considerable vested interests have gathered. This was the case of the Damodar Valley Corporation whose basic charter meant surrender of important powers previously held by the States of West Bengal and Bihar (and to some extent also by the Central Government) to the new agency. To justify so unprecedented a move, it became necessary for the promoters of the DVC to stake extravagant claims for the agency such as that it would transform the
Dodar Valley into "India's Ruhr" or that it would promote rapid, harmonious and integrated development of all of the Valley's natural and human resources - when in effect its task was rather narrowly limited to flood control, electric power generation and some irrigation.

This sort of extravagance in promising future benefits can be found and plays a useful role in some types of development projects - precisely those that require difficult initial decisions, be it a change in existing institutions or a fiscal sacrifice demanded of some or all of the citizenry. Actually the promise of some sort of Utopia is for this reason more characteristic of larger-scale social undertakings such as the launching of large-scale internal reform moves or of external aggression, just because initial sacrifices are then rather likely to be required.

Recourse to the utopian vision as a stimulant to action has on occasion been advocated far more sweepingly than we have endorsed here exaggeration of benefits. We considered a specific and, hopefully, temporary infirmity of some societies, i.e. inadequate acquaintance with man's ability to solve difficulties, as the reason for which the Hiding Hand or, in its absence, the exaggeration of benefits can play a useful role. A far more generalized pessimism about human nature as weak-willed, routine-ridden and decadence-prone led Georges Sorel to the belief that humanity required "myths" - inspiring images of battle and triumph - for any substantial forward movement. He was so well aware of the disproportion between the promises of these myths and the ensuing reality that he simply vetoed what we call today project evaluation! "We should be especially careful," he said,
"not to make any comparison between accomplished fact and the picture people had formed for themselves before action. It is strange that Sorel did not realize how unlikely it was that his injunction against looking back would be heeded any more than that of Hades to Orpheus.

A far more appealing and convincing defense of the occasional need for exaggeration of prospective benefits appears in an essay by Kolakowski, the Polish philosopher:

"The simplest improvements in social conditions require so huge an effort on the part of society that full awareness of this disproportion would be most discouraging and would make any social progress impossible. The effort must be prodigally great if the result is to be at all visible ... It is not at all peculiar then that this terrible disproportion must be quite weakly reflected in human consciousness if society is to generate the energy required to effect changes in social and human relations. For this purpose, one exaggerates the prospective results into a myth so as to make them take on dimensions which correspond a bit more to the immediately felt effort... [The myth acts like] a Fata Morgana which makes beautiful lands arise before the eyes of the members of a caravan and thus increases their efforts to the point where, in spite of all their sufferings, they reach the next tiny waterhole. Had such tempting mirages not appeared, the exhausted caravan would inevitably have perished in the sandstorm, bereft of hope."

This fine passage permits two observations. First of all, in contrast to what must have been Sorel's assumption when he issued his injunction against looking back, the Kolakowski image definitely conveys the message that the effort of the caravan was worth the cost and the suffering since it permitted survival. Secondly, the effort would not have been forthcoming

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1. Reflections on Violence (Peter Smith, 1941), p. 22.
had there not been the Fata Morgana, i.e., a rather serious overestimate of the benefits.

The similarity with our two points describing the Hiding Hand mechanism (see pp. 4-5) is striking. In Kolakowski's thought (which again is concerned of course with large-scale socio-political movements and action rather than with development projects), the reason for which the exaggeration of benefits is required is precisely the one we indicated earlier: the actors underestimate the strength that is left in them, therefore the to-be-furnished effort is felt as "impossible" until the required social energy is generated by the mirage.

The Fata Morgana image actually contains one other suggestion, rather different from the use Kolakowski makes of it: there may be special difficulties in visualizing in advance intermediate outcomes or partial successes such as the "tiny waterhole." In other words, the utopian vision may not originate so much in a need to offset the inflated costs of the enterprise under consideration, as in an infirmity of our imagination which, even without costs appearing unduly high, is simply unable to conceive of the strictly limited, yet satisfactory, advances, replete with compromises and concessions to opposing forces, which are the very stuff of "incremental politics" as well as the frequent result of ambitious socio-economic development moves. The Damodar Valley story furnishes a good illustration also for this kind of development from the early

fifties on, the DVC was increasingly hemmed in on all sides by encroachments on its original powers by the States of West Bengal and Bihar and little remained in the 1960's of the majestic vision of integrated development of the Valley's resources under the DVC's command; yet the contribution of the DVC's installations to industrial, urban and resource development has fully justified the major portion of the investments that were undertaken by the agency.

We have now identified two situations in which overestimates of benefits can play a positive role: 1) when, because of inexperience in problem-solving, the actors have an exaggerated idea of the costs and difficulties of action, and 2) when, because of inexperience with the actual processes of change, the actors are unable to visualize intermediate outcomes and limited advances. As the Hiding Hand with its underestimate of costs and difficulties and pending the correction of these various inexperiences, the overestimate of benefits must therefore be recognized as a useful development mechanism for a transitional phase.

But, for the reasons already given in connection with the Hiding Hand, it is much to be desired that the transitional phase be short. A contribution to this end could be hoped from the very description-expose of these mechanisms of self-deception which has been attempted here: it may persuade project planners to dispense with these crutches if at all possible.

A more effective cure could come with improved knowledge of various aspects of project behavior. To acquire elements of such knowledge is the purpose of the next chapters.
Herrn
Simon Aldewereld
Vizepräsident der Weltbank
Washington

Hochverehrter Herr Präsident!


Ich hoffe, Ihnen mit dieser Anfrage nicht zu viel Mühe und Arbeit zu bereiten, und danke Ihnen auch meinerseits herzlich für die hochinteressanten und aufschlußreichen Ausführungen in Ihrem Vortrag und in der anschließenden Diskussion.

Mit dem Ausdruck meiner vorzüglichen Hochachtung verbleibe ich

Ihr sehr ergebener

[Unterschrift]