

Visualizing Uncertainties,  
or How Albert Hirschman and The World  
Bank Disagreed on Project Appraisal  
and Development Approaches

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Information Management and Technology Network  
Knowledge and Information Services Unit  
November 2012



## Abstract

Since its birth in 1944, the World Bank has had a strong focus on development projects. Yet, it did not have a project evaluation unit until the early 1970s. An early attempt to conceptualize project appraisal had been made in the 1960s by Albert Hirschman, whose undertaking raised high expectations at the Bank. Hirschman's conclusions—published first in internal Bank reports and then, as a book in 1967—disappointed many at the Bank, primarily because they found it impractical. Hirschman wanted to offer the Bank a new vision by transforming the Bank's approach to project design, project management and project appraisal. What the Bank expected from Hirschman, HOWEVER, was not a revolution but an examination of the Bank's projects and advice on how to make project design and

management more measurable, controllable, and suitable for replication. The history of this failed collaboration provides useful insights on the unstable equilibrium between operations and evaluation within the Bank. In addition, it shows that the Bank actively participated in the development economics debates of the 1960s. This should be of interest for development economists today who reflect on the future of their discipline emphasizing the need for a non-dogmatic approach to development. It should also be of interest for the Bank itself, which is stressing the importance of evaluation for effective development policies. The history of the practice of development economics, using archival material, can bring new perspectives and help better understand the evolution of this discipline.

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# **Visualizing Uncertainties, or how Albert Hirschman and the World Bank disagreed on project appraisal and development approaches**

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Keywords: Economic history; Project Appraisal; Uncertainty; Project Evaluation;  
Development Economics

JEL codes: B20, B31, N00, O20

sector board: Economic Policy

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I am grateful to Jean-Jacques Dethier, Massimo Di Matteo, Valentina Kalk, Chris Kobrak, Philip Scranton, Judith Tendler and Christopher Willoughby for their extremely valuable comments and insights on an earlier version of this paper. I am also indebted to the Minda de Gunzburg Center for European Studies, Harvard University, where an early draft of this paper was written; the staff of the World Bank Group Archives; and the Princeton University Library, Department of Rare Books and Special Collection at the Seeley G. Mudd Manuscript Library, Princeton, for precious assistance during archival research.

*We decide not on the basis of what we know but on the basis of what we do not know.*

Bayless Manning to Albert Hirschman, August 29, 1967<sup>1</sup>

## **1. Introduction**

For an organization like the World Bank, with its commitment to development finance, project evaluation is an essential activity. Yet this function was not conceptualized by the Bank until the 1960s, and it was put into practice only in the early 1970s, more than twenty-five years after the Bank was created. In 1964, after twenty years of operations, the Bank carried out the first in-depth evaluation of its own projects; by that point it had already made 480 loans to 85 countries, totaling almost \$10 billion, in a broad spectrum of sectors including industry, agriculture and fishing, electric power, and education.<sup>2</sup> How this fundamental development occurred, and why it happened so late, is the subject of this paper.

This subject may at first seem narrow, but in reality, it opens a particularly interesting perspective on the evolution of development theories after the foundational phase of development economics in the aftermath of World War II, shedding light on the ways in which global development institutions reacted to those theoretical changes in order to foster effective development policies in less developed countries. Far from being a matter internal to the World Bank, the discussion on project evaluation that took place in the 1960s is important for the broader history of development theory and institutions: it marked a shift both in the theoretical landscape of development economics, and in the policy strategies of the World Bank, the most important multilateral player in the development field.

Up until the 1960s, the theoretical landscape had been characterized by debates about macro-approaches to development strategies, such as “balanced growth” vs. “unbalanced growth,” and project appraisal and evaluation had remained a somewhat marginal topic in the larger

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<sup>1</sup> Albert O. Hirschman Papers, Box 56, Folder 15.

<sup>2</sup> Data from the World Bank’s website, Projects & Operations, [www.worldbank.org/projects](http://www.worldbank.org/projects).

field of development economics. The World Bank was accustomed to making ex-ante evaluations of the “soundness” of projects – soundness being the jargon of those times – and was satisfied as long as its loans were repaid by the recipient countries. Of course, the usually prolonged relations between the Bank and client countries made it natural for the Bank’s officers to consider and discuss previous experiences, and a few evaluational studies of specific Bank projects had been promoted by the Bank in the early 1960s. Yet no systematic evaluation of Bank-financed projects or assessment of their success (or lack thereof) had been put into place. The Bank had no independent evaluation function in its organizational chart, and its first project evaluations were implemented by operational staff.

When Albert Hirschman – a prominent economist at Columbia University and a founding father of development economics in the 1950s – proposed joining forces with the Bank to study some general elements of project appraisal, he was venturing into almost completely unexplored territory. Hirschman showed the centrality of project appraisal for the design and implementation of effective development projects, thereby becoming a major contributor, as we will see, to the shift in development economics from broad development theories to more focused analyses of what happens at project level. His groundbreaking volume, *Development Projects Observed* (1967a), emerged from his study of a series of World Bank projects in the mid-1960s, and served as the first attempt to establish project evaluation as a standard practice in the development field (Picciotto 1994; Willoughby 2003). Yet his emphasis on the intrinsic uncertainty of knowledge derived from project evaluation, as well as his reluctance to make his reflections more “operational,” complicated his relationship with the Bank. The Hirschman study, for which Bank staff and management had such high expectations, soon disappointed most of them. Furthermore, the Bank all but ignored the final outcome of his project, the 1967 book, and especially disliked its first chapter, “The principle of the hiding hand,” which was widely circulated after appearing as a separate article in Daniel Bell’s and Irving Kristol’s journal *The Public Interest* (Hirschman 1967a and 1967b). In particular, Hirschman’s insistence on uncertainty as a structural element in the decision-making process did not fit in well with the operational drive of Bank economists and engineers.

This paper is based mostly on previously undisclosed archival material from the World Bank Archives and the Albert Hirschman papers held at Princeton University. It will tell the story of the genesis, development, and conclusion of Hirschman's collaboration with the World Bank, and discuss its relevance for the postwar history of development. The study of these dynamics

allows for a better understanding of how an institution thinks, how it produces and uses knowledge, and how it positions itself in the international market of development knowledge. As Judith Tendler has masterfully explained, strong tensions arise between the intrinsically uncertain nature of the knowledge acquired on development issues, the limits of knowledge transmission between donors and domestic recipients, and the status of “development experts” with which individuals and whole institutions present themselves on the development stage. Similar considerations to those discussed in this paper could be applied to the bilateral US Agency for International Development and the multilateral United Nations Development Programme (Tendler 1975; Murphy 2006). This discussion becomes particularly relevant due to the increasing importance that knowledge production, accumulation, and transmission have acquired in the development world. Since 1996, the World Bank has defined itself as a “knowledge bank”; that is, a bank transferring to developing countries not just financial resources, but also “knowledge assets” (for a recent reaffirmation of this, see World Bank 2011). There is thus a direct link between today’s reflections on how to shape efficient multilateral development institutions and those early discussions on what kind of knowledge is needed to design and implement more effective development projects.

## **2. Albert Hirschman and the 1960s turn in development economics**

Development economics as an autonomous field of study took shape at the end of World War II, as a result of the demise of colonial empires; the birth of many new, less-developed countries in Asia and Africa; and the industrialization efforts of Latin American countries. Early development theories were characterized by a high degree of abstraction; they discussed general sets of typical “conditions” of underdevelopment and “obstacles” to development, and were translated into broad approaches to policy and often comprehensive economic planning. Paul Krugman defined the first fifteen years of the new discipline as the “glory days of high development theory” (1994, p. 40; see also Krugman 1992). Those years were opened by a 1943 article by Paul Rosenstein-Rodan making the case for balanced growth, and ended with Albert Hirschman’s *The Strategy of Economic Development* (1958), which radically criticized the balanced approach, proposing instead an “unbalanced” strategy for economic growth, in the same vein as Paul Streeten (1959). In Krugman’s view, the publication of Albert Hirschman’s book in 1958 marked the end of that early period of confrontation between grand development theories, and coincided with a methodological crisis in the discipline which would effectively make development economics a marginal field of economic research. While

Krugman's thesis – which highlights the lack of formal modeling on the part of development economists as the main reason for their marginalization – is questionable (see, for example, Stiglitz 1992), it is nonetheless true that, between the late 1950s and the mid-1960s, the nature of analysis and debate within development economics was changing in profound ways. The years of broad, overarching development theories were giving way to more detailed, country- and time-specific analyses.

By the early 1960s, development economics had moved beyond its foundational phase, which was characterized by heavy, systemic discussions, and mutually delegitimizing general theories vying for hegemony within the discipline. Global and all-embracing theories, though still alive and well after this period, came no longer to represent the most advanced reflections in development studies.<sup>3</sup> A new wave in development economics brought increased complexity to the analytical landscape. Broad generalizations were considered increasingly inadequate to address country-specific bottlenecks; therefore, much more specific and targeted analyses were needed to tackle underdevelopment successfully. Furthermore, the centrality of per capita income as an indicator of development began to wane as additional factors were taken into consideration, such as nutrition, public health, education, and housing (Hirschman 1981).

Albert Hirschman was among the inspirational leading figures for this new season of development economics. In keeping with his role as a dissenter in the “old generation,” Hirschman was among the first to form new hypotheses to frame and test the process of development and the causes of economic and social backwardness. Following in the footsteps of Alexander Gerschenkron's studies in economic history, which had demonstrated that the process of economic growth had not followed the same pattern in different countries, but had unfolded for each country in a different way (Gerschenkron 1962, though his most important papers collected there date back to 1952 and 1957), Hirschman became increasingly aware that thorough historical reconstruction was the only way to unravel the mechanisms of development. He explicitly addressed this issue in his foreword to Judith Tendler's book on the economic and political consequences of technological choices in Brazil's electricity sector:

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<sup>3</sup> For introductory texts to development economics, see Arndt 1987, Meier 2001, Meier 2005, Meier and Seers 1984, Oman and Wignaraja 1991, and Hirschman 1981. For a reassessment of early development debates, see Alacevich 2011.

Underdevelopment having been diagnosed as something so multifaceted, tangled, and deep-rooted, it was often concluded that the situation called for revolution, massive redistribution of wealth and power from the rich to the poor countries, or at least coordinated attack on pervasive backwardness through highly competent central planning.

But what if none of these *dei ex machina* are available to take matters properly in hand? What if the fortress of underdevelopment, just because it is so formidable, can not be conquered by frontal assault? In that unfortunately quite common case, we need to know much more about ways in which the fortress can be surrounded, weakened by infiltration or subversion, and eventually taken by similar indirect tactics and processes. And I suggest that the major contribution to our knowledge of economic development must now come from detailed studies of such processes (Hirschman 1968a, pp. vii-viii).

Judith Tendler's book, the final output of Ph.D. research conducted under Hirschman's supervision at Columbia University, was among several to pioneer this new approach.<sup>4</sup> The book discussed how hydro vs. thermal power generation and distribution affected the Brazilian economic development between the 1950s and the 1960s. She asked: "should the work therefore be properly identified as a narrow case study, with no pretension of relevance to more general questions of economic development? The answer [...] is in the negative, for this study is meant to illustrate the general thesis that technologies vary as to their political vulnerability, their ability to draw out and train competent talent, and their capacity to brook the coexistence of politically antagonistic institutions. The lesson of this particular case is not that hydro should be favored in developing countries, but that the technological configuration of a project, program, or economic activity is a valuable source of information in the study of opportunities for economic development" (Tendler 1968, p. 6; for an earlier discussion of this question, see Tendler 1965). Following in Hirschman's footsteps, Tendler developed a historical analysis of a sector's development, taking into consideration technological choices and opportunities, professional incentives, and political behaviors.

Meaningful examples can be also drawn from Hirschman's work. Two-thirds of his 1963 volume, *Journey toward Progress*, is occupied by a detailed historical analysis of how three specific economic policy problems in three different countries had evolved over a long period of time. Hirschman examined the questions of drought in North-East Brazil, land reform in Colombia, and inflation in Chile. As he put it, "the essence of this volume is in the flow of the three stories" (Hirschman 1963, p. 1). To understand the problems faced by economic policy-

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<sup>4</sup> For other examples, see Weaver 1968 and Echeverría 1969.



makers in Latin America, Hirschman felt that “the best method of looking for answers was to scrutinize the record of a few specific, documented, protracted, significant policy problems” (Hirschman 1963, p. 2). This propensity for historically-grounded analyses would remain an important feature of Hirschman’s approach. As he suggested at a 1980 conference:

Following in detail the process of a revolution gives us a strong feeling, as the structuralist approach does not, for the many might-have-beens of history [...]. As a result, the event-minded historian is less likely than the sociologist to declare that, given such a structural condition, the outcome was preordained. [This] emphasis on the revolutionary process [...] in effect promises to restore a few degrees of freedom we were in danger of losing to the structuralists (Hirschman 1980, pp. 171-172).<sup>5</sup>

The research that resulted in Hirschman’s 1967 book, *Development Projects Observed*, followed the same approach. Although the book does not contain the stories of the individual projects analyzed, the research had an “intensive concern with ‘cases’” and the projects considered had “an extended history.” “Immersion in the particular,” Hirschman concluded, “proved [...] essential for the catching of anything general” (Hirschman 1967a, p. 3).

This tension between the particular and the general was an answer to the widespread disorientation, among development practitioners and scholars, regarding the state of knowledge about development. General and unifying theories had given way to a much more fragmented body of knowledge, and the promise of better insights had been coupled with the feeling of a lack of vision. A 1964 Brookings Institution report on foreign aid summarized this unresolved tension:

Aid is being extended, bilaterally and multilaterally, to 100 countries, democratic and authoritarian, allied and neutral, progressing and retrogressing, without satisfactory standards for evaluating competing claims, promoting particular strategies, harmonizing aid with other available instruments of policy, or appraising the results achieved. There is need for a better political, moral and economic framework within which to review our foreign aid programs and to prepare recommendations regarding their future.<sup>6</sup>

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<sup>5</sup> For one more testimony to Hirschman’s sensitivity to the role of historical reconstruction, see his opinion of Marx’s work: “*The Eighteenth Brumaire of Louis Bonaparte* was a particularly fine work. His historical books were much less orthodox than his economic ones. [...] I like to understand how things happen, how change actually takes place” (Hirschman 1998, p. 67).

<sup>6</sup> The Brookings Institution, Division of Foreign Policy Studies, “Proposal for a Program of Studies Dealing with American Foreign Assistance”, April 1964 (Revised), p. 5, Barcode 1070156 - Projects and Studies - Projects Evaluation - Professor Albert O. Hirschman - Volume 1, Series No. 4225: Operations policy files - Projects and studies - General Files - General 1946-1968, World Bank Group Archives (henceforth World Bank Hirschman Folders Vol. 1).

### 3. Albert Hirschman and the World Bank

In the spring of 1963, Albert Hirschman made a proposal to Burke Knapp, Vice President of the World Bank, for an analysis of specific projects financed by the World Bank in developing countries, which would be conducted through an in-depth worldwide field investigation.<sup>7</sup> His original idea was to look at Bank-financed projects in order to test the hypotheses elaborated in his two previous studies on development issues, *The Strategy of Economic Development* (1958) and *Journeys Toward Progress* (1963). He planned to conduct extensive on-the-ground investigations, paying attention “to the upkeep and performance of the project itself, to the economic activities that it has stimulated (or destroyed?), and very much also to the wider economic, social and political ramifications of the project such as its educational effects and its contribution to the formation of new local or national elites.”<sup>8</sup> An additional purpose of Hirschman’s, after two books heavily based on Latin American cases, was to expand his expertise in development issues by becoming acquainted with Asia and Africa.<sup>9</sup> From the early months of 1964, Hirschman’s study was framed within a larger collaboration between the Brookings Institution and the World Bank; more precisely, it became a Brookings Institution initiative endorsed by the Bank.<sup>10</sup> In addition to the involvement of Brookings, the Carnegie Corporation conceded a grant to the Brookings Institution to finance Hirschman’s travel expenses, and the Ford Foundation awarded Hirschman a Faculty Research Fellowship for 1964-1965.<sup>11</sup>

At that time, the Brookings Institution was setting up a wide-ranging program of studies on American foreign assistance; the quotation above comes from that program. The research program was ambitious: it aimed at building, in a period of five years, a general evaluation of post-war American foreign assistance, preparing supplementary studies on a variety of aspects

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<sup>7</sup> Albert O. Hirschman to Mr. J. Burke Knapp, March 14, 1963, Albert O. Hirschman Papers, Box 57, Folder 5. Hirschman had already collaborated with the World Bank ten years before. From 1952-54 he had been the World Bank’s economic advisor to the Colombian government. In that capacity, he reported to Burke Knapp, who was the Bank’s Vice-President for the Western Hemisphere.

<sup>8</sup> Albert O. Hirschman to J. Burke Knapp, March 14, 1963, Albert O. Hirschman Papers, Box 57, Folder 5.

<sup>9</sup> Albert O. Hirschman to J. Burke Knapp, March 14, 1963, Albert O. Hirschman Papers, Box 57, Folder 5.

<sup>10</sup> Robert E. Asher to Professor Albert O. Hirschman, January 24, 1964, Albert O. Hirschman Papers, Box 57, Folder 5, and the attached document “Proposal for a Study of Selected World Bank Projects,” January 23, 1964, Albert O. Hirschman Papers, Box 57, Folder 5; Robert E. Asher to Mr. Richard H. Demuth, February 5, 1964, World Bank Hirschman Folders Vol. 1.

of foreign aid, and reinforcing the role of the Brookings Institution as the leading think-tank on the relations between foreign aid and the economic, social, and political conditions of developing countries.<sup>12</sup> The role of the World Bank was of course fundamental in this research program. The first history of the World Bank would be published in 1973 by Brookings (Mason and Asher 1973).<sup>13</sup> The relations between the two institutions – Brookings and the Bank – were strengthened by their common location in Washington, D.C. In addition, their top managers belonged to the same intellectual and social milieu: an élite of development practitioners and intellectuals, who worked in different organizations but were part of the same social networks and circles, whether informal or formal (e.g. the Society for International Development).<sup>14</sup> Another equally fundamental part of the research was a detailed study of the impact of selected World Bank projects on the social and economic structure of client countries, that is, the study originally proposed by Albert Hirschman.

The principal purpose of Hirschman's study was, in his words, "to explore in detail the direct effects as well as the broad repercussions of a project on economy and society," as well as to reach "some improvements in the process of project evaluation and selection."<sup>15</sup> The aim was to gain a deep understanding of the salient features of a project, both at the planning stage and after its completion. The fact that Hirschman chose to analyze projects financed by the World Bank was not unexpected; the Bank's twenty-year-long experience constituted "the most ample, varied, and detailed source of information and documentation in this area" (Hirschman 1967a, p. 1). Also, none of the selected projects had developed without encountering serious problems. Therefore, this sample – albeit limited in number – could prove useful to the goal of building generalizations about the problems arising in project lending. More fundamentally, as Hirschman later put it, a comparison of the different projects would highlight similarities and differences in project experience, so as to inquire whether they could "be traced to what [...] may be called their 'structural characteristics'" (Hirschman 1967a, p. 4). These structural

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<sup>11</sup> Harold Larsen to Files, "Hirschman Study", May 22, 1964, World Bank Hirschman Folders Vol. 1; Albert O. Hirschman to Mr. Marshall A. Robinson, June 22, 1964, World Bank Hirschman Folders Vol. 1; Marshall A. Robinson to Professor Albert O. Hirschman, December 12, 1963, Albert O. Hirschman Papers, Box 57, Folder 5.

<sup>12</sup> The Brookings Institution, Division of Foreign Policy Studies, "Proposal for a Program of Studies Dealing with American Foreign Assistance", April 1964 (Revised), World Bank Hirschman Folders Vol. 1.

<sup>13</sup> In the already cited Brookings proposal for a research program, it was noted that "a serious [World Bank's] independent history and appraisal has yet to be issued," The Brookings Institution, Division of Foreign Policy Studies, "Proposal for a Program of Studies Dealing with American Foreign Assistance", April 1964 (Revised), p. 16, World Bank Hirschman Folders Vol. 1.

<sup>14</sup> For an assessment of the role of the Society for International Development as a development network, see Asher 1982, Rice 1982, and Alacevich 2007.

characteristics included economic, technological, administrative, and organizational features, and were closely connected to the broader sociopolitical environment.

An early draft of Hirschman's proposal was criticized by those at the Bank who thought it was oriented "too much towards 'side' effects and too little towards the economic analysis of the Bank-financed projects."<sup>16</sup> In a revised version, Hirschman identified three areas of focus for questions and analysis of project effectiveness. The first was the decision process in the recipient country. Who took the initiative for the project? What political and interest groups were for or against it? Did any of these groups shift their initial position about the advisability of the project? A second focus area was the decision process within the Bank. Here, too, Hirschman underscored the importance of comparing the Bank's initial positions with ex-post considerations. Thus, one question would be whether the original arguments for or against the loan, including qualitative arguments, would stand up even after the project's implementation; or how wise the Bank's choice would seem in the light of the consequences of implementing the project. Hirschman was particularly interested in understanding whether the Bank, in its decision-making processes, could reach correct conclusions despite analytical flaws; more generally, as will be discussed in section 6 below, his goal was to shape a method by which project planners could navigate the intrinsic uncertainties of a project's performance and predict probable lines of behavior. A third focus area was the project in retrospect. Relevant questions included a review of the effects of the construction phase (from a description of unexpected events, to the direct and indirect capacity-building effect on local engineering, managerial, and planning capabilities) and the project's ultimate impact on the society and economy of the recipient country.<sup>17</sup> Of course, Hirschman's curiosity dwelt on the linkage effects which could originate from the construction or the operation of the projects. The concept of "backward" and "forward linkage" had been introduced by Hirschman in 1958, and was at the center of his view of growth as a fundamentally unbalanced process. According to Hirschman, certain economic activities might create the conditions for establishing new activities for which there were previously no incentives. Thus, through these linkage effects, these new activities would in fact function as substitutes for entrepreneurial skills and as more efficient and pragmatic undertakings than central planning efforts, thereby fostering economic

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<sup>15</sup> Albert O. Hirschman, "A study of completed investment projects which have received financial support from the World Bank", June 1963, World Bank Hirschman Folders Vol. 1.

<sup>16</sup> Dragoslav Avramovic to Mr. Geoffrey M. Wilson, June 25, 1963, World Bank Hirschman Folders Vol. 1.

growth. Hirschman thus wondered whether “construction (as distinct from operation) had given rise to economic activities which have since then continued and expanded,” and “what linkage effects to other kinds of economic activity have resulted from the operation of the project.”<sup>18</sup> Finally, Hirschman recommended analyzing even the most far-reaching consequences, such as the effects of projects on the distribution of wealth, income, and power in the recipient country; the development of new entrepreneurial and administrative capabilities, in both the public and private sectors; and the introduction of “fundamental structural changes.”<sup>19</sup>

Candidate projects for inclusion in Hirschman’s study had to meet three basic criteria: they had to be diverse in sector and geographical area; they had to have a history; and, finally, they had to be identifiable activities which required continued maintenance and brought about identifiable linkage effects. Hydroelectric projects, specific highways, or industries (preferably basic ones) were the natural candidates, as opposed to loans for general highway reconstruction and maintenance activities, for the purchase of agricultural machinery, or for balance of payments purposes (Hirschman 1967a, p. 3). With the help of Bank officers in the Area Departments, the Technical Operations Department, and the Economic Department, Hirschman selected a list of projects.<sup>20</sup>

Feedback from Bank officers was positive. Dragoslav Avramovic – a senior economist, soon to become the Bank Director of Special Economic Studies – remarked that “probably for the

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<sup>17</sup> As will be clear below, Hirschman focused on the analysis of specific hydroelectric or industrial plants, as opposed to program loans or balance of payments loans. Hence, by “construction” Hirschman is here referring to the building of a plant or a specific road or a canal, to distinguish this phase from their “operation”.

<sup>18</sup> Albert O. Hirschman, “A study of completed investment projects which have received financial support from the World Bank”, June 5, 1963, World Bank Hirschman Folders Vol. 1.

<sup>19</sup> Albert O. Hirschman, “A study of completed investment projects which have received financial support from the World Bank”, June 5, 1963, World Bank Hirschman Folders Vol. 1.

<sup>20</sup> Dragoslav Avramovic to Mr. Hugh B. Ripman, “Investment in Developing Countries – Effects, Expectations and Reality,” February 18, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; S. Shahid Husain to Professor Albert Hirschman, February 19, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; Albert Waterston to Mr. Dragoslav Avramovic, “Investment in Developing Countries – Effects, Expectations and Reality,” February 20, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; E. P. Wright to Messrs. Stevenson, Mason, Brakel, Jeffries, “Professor Hirschman’s Research Project,” February 24, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; E. P. Wright to Mr. A. Stevenson and Mr. Escott Reid, “Professor Hirschman’s Research Project,” March 3, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; Pierre L. Moussa to Mr. Dragoslav Avramovic, “Hirschman Project,” March 3, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; S. S. Husain, “Projects suggested for study during Professor Hirschman’s discussions with Messrs Aldewereld, Sadove and Schmidt on 16<sup>th</sup> and 17<sup>th</sup> March 1964,” March 19, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; Jacques Vignes to Mr. Orvis A. Schmidt, “Hirschman Study – Suggestions on Projects to be Studied,” March 26, 1964, Albert O. Hirschman Papers, Box 56, Folder 13; S. S. Husain to Mr. Richard H. Demuth, “Hirschman Study,” April 3,

first time, the contemporary theory and practice of project appraisal in infra-structure will be subjected to a systematic *ex-post* methodological scrutiny on a wide basis.”<sup>21</sup> Because of these high expectations, the Bank became remarkably involved in the research, especially considering the fact that it was conducted by an external researcher. Robert Asher, a major officer at the Brookings Institution who worked with the Bank on the Hirschman study, noted that “it is an extraordinary thing for the Bank to open its project files to an outside researcher, to provide an assistant for the outside researcher, to request the collaboration of its member governments, and to do the other things the Bank has agreed in this case to do.”<sup>22</sup> Beyond the good reception of Hirschman’s proposal, however, one might particularly note those comments that, while acknowledging the proposal’s usefulness, attempted to expand the borders of inquiry. Some Bank officers argued that undertakings more complex than specific projects should be taken into consideration. The case was made for including the activities of local development banks and regional development agencies amongst the projects under investigation. These institutions were new in most developing countries, and their impact on the development of a country was not easy to weigh; still, according to many at the Bank, they should not be disregarded. As Einar Sekse put it, “the economic, financial and social effects of the activity of the development banks concerned are, mainly, a composite of the effects of the projects these banks have financed. This may make a study as proposed of a development bank much more complex than that of some other projects. [...] However, [...] such a study [...] will be most interesting and valuable.”<sup>23</sup> Eventually, the Industrial Credit & Investment Corporation of India (ICICI), the Damodar Valley Corporation, and the Cassa per il Mezzogiorno for the development of Southern Italy were included in Hirschman’s travel schedule.

Other voices in the Bank questioned the representativeness of the small and heterogeneous sample that Hirschman intended to examine: “one wonders,” wrote an officer, “whether in relation to the wide variety of projects and the widely differing economic and political backgrounds of the Bank’s and IFC’s member countries, such a small sample as a dozen

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1964, Albert O. Hirschman Papers, Box 56, Folder 13; Albert O. Hirschman to Mr. J. Burke Knapp, “Study of selected World Bank investments,” July 1, 1964, Albert O. Hirschman Papers, Box 56, Folder 13.

<sup>21</sup> Dragoslav Avramovic to Department Heads, IBRD and IFC, “Investment in Developing Countries – Effects, Expectations and Reality,” February 18, 1964, World Bank Hirschman Folders Vol. 1, italics in the original.

<sup>22</sup> Robert E. Asher to Mr. Robert D. Calkins, “Hirschman Project,” April 8, 1964, Albert O. Hirschman papers, Box 57, Folder 5.

<sup>23</sup> Einar Sekse to Mr. William Diamond, “Investment in Developing Countries – Effects, Expectations and Reality,” February 24, 1964, World Bank Hirschman Folders Vol. 1.

projects out of about 300 will be sufficient to bring out valid general conclusions.”<sup>24</sup> Along similar lines, another Bank officer proposed focusing on a specific sector (e.g. power or roads), and implementing a thorough analysis of all the projects financed in that particular sector.<sup>25</sup> This second suggestion was not followed at that time, but it was not forgotten by the Bank: among the first studies sponsored in the early 1970s by the newborn Bank’s Operation Evaluation Division, was a thorough analysis of the Bank’s accomplishments in the power sector (World Bank 1972).

#### **4. The Genesis of the Bank’s Evaluation Department**

The coming-together of the Bank and Hirschman, under the umbrella of the Brookings Institution’s research, was a timely joint venture. Like several other institutions, the World Bank was devoting increasing efforts to establishing and refining methods for evaluating the impact of its policies on less developed countries, often in collaboration with the Brookings Institution (see for example Fromm, ed. 1965 and Adler 1967 on transportation; specifically on roads, Wilson, Bergmann, Hirsch, and Klein 1966; de Weille 1966; Walters 1968; van der Tak and de Weille 1969; on power production, van der Tak 1966; the largest comparative coverage of World Bank’s development projects and their evaluation in the late 1960s is probably King 1967). These early reflections were progressively institutionalized within the Bank in an evaluation function, embodied first in a Programming & Budgeting Department (from 1970) and subsequently in an Operations Evaluation Department (from 1973).<sup>26</sup> The most ambitious outcome of the initial phase of evaluation were two reports that presented a full analysis of the Bank’s activity in one specific sector, electricity, and in one specific country, Colombia (World Bank 1972a and 1972b).<sup>27</sup> In subsequent years, the operations evaluation function struggled, not always successfully, to define and strengthen its role within the Bank.

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<sup>24</sup> P.M. Mathew to Mr. William Diamond, “Investment in Developing Countries – Effects, Expectations and Reality,” February 24, 1964, World Bank Hirschman Folders Vol. 1.

<sup>25</sup> Robert F. Skillings to Mr. Syed S. Husain, “Professor Hirschman’s Forthcoming Study,” February 26, 1964, World Bank Hirschman Folders Vol. 1.

<sup>26</sup> In December 2005 the Operations Evaluation Department, together with two other evaluation entities of the World Bank Group, was renamed Independent Evaluation Group.

<sup>27</sup> Electricity was a typical infrastructural investment financed by the Bank; Colombia historically had a privileged relation with the Bank, since it was considered among the most dynamic and endowed developing countries. The first Bank’s general survey mission to a developing country was to Colombia in 1949. For an analysis of early Bank-Colombia relations see Alacevich 2009.

A history of the evaluation function at the World Bank has yet to be written. The few available recollections usually focus on organizational or governance matters, in particular on establishing an arms' length relationship with operational staff and on how to strengthen the independence of evaluators from the Bank's top management, so as to report in an unbiased way to the Executive Directors.<sup>28</sup> As for the contents and methods, in the late 1960s a Bank publication described the Bank's approach to project appraisal as all-embracing: a project would be examined "in terms of what it can be expected to contribute to the over-all development of the country" (King, Jr. 1967, p. 5). Yet the six different aspects that were considered fundamental in project appraisal (economic, technical, managerial, organizational, commercial, and financial) belonged to the economic or business spheres. This was understandable in light of the fact that, up until the mid-1960s, more than two-thirds of the money lent by the Bank went to electricity and transportation projects. Less than a decade later, the scope of project appraisal – in all international agencies, but especially within the World Bank – had significantly expanded to encompass "not only financial and technical viability [of the project], but also broader and less easily quantifiable 'developmental impacts': sectoral, spatial, and environmental effects. [...]. All projects are generally subjected to some form of cost-benefit analysis incorporating economic and social – qualitative as well as quantitative – variables" (Rondinelli 1976, p. 585).

Early exercises in project evaluation were based on a thick description of the cases under examination, often written in a narrative style. "In the old days," remembered Robert Picciotto, who later became the head of the Operations Evaluation Department, "OED would write a book about the history of the Bank's relationships with [a] country. It was a beautiful history, actually, a very solid piece of work" (Picciotto 2000, p. 16). King's and Tendler's reports testify to a tradition of consistently accurate and detailed reconstructions of facts and dynamics (King, Jr. 1967; Tendler 1982; 1993).

Thus, in the mid-1960s, the World Bank and Albert Hirschman, along with several other major players in the development field, were in agreement that it was essential to focus on specific case studies in order to derive insights into the mechanisms that governed development projects. It was a shift away from broad comprehensive strategies as the main methodological focus of development economics, and the World Bank was actively involved

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<sup>28</sup> For recollections of former OED top managers, see Grasso, Wasty, and Weaving (2003); for recent



in this shift. Dani Rodrik recently emphasized, among the major features of the so-called new development economics, its being diagnostic rather than presumptive, experimental (in the broad sense of “a predisposition to find out what works through policy innovation”), based on monitoring and evaluation, aimed at selective and targeted reforms, suspicious of universal recipes and best practices and, instead, focused on policy reforms (Rodrik 2008, pp. 27-28). These were also characteristics of Hirschman’s analysis of development projects and policies. During the 1980s and early 1990s, and until the disavowal of the mid-1990s, the World Bank often applied a universalistic, one-size-fits-all approach, especially with its emphasis on macro policies (World Bank 2005). It is thus interesting to note that well before, in the early 1960s, the Bank was agreeing with Hirschman on positions that are in tune with today’s most articulate analyses of development economics. At that time, although it was perhaps a rather experimental stage, nobody in the business of development doubted the importance of building development policies based on thorough case diagnostics.

## 5. Diverging views on project appraisal

Albert Hirschman and his wife, Sarah, spent one year between July 1964 and August 1965 traveling to four continents. Sarah was not simply an accompanying spouse but, as often in Albert Hirschman’s work, a partner in field research and an important intellectual interlocutor. Her contribution was fundamental in the late 1950s, enabling Albert Hirschman to expand his 1958 book into the sort of anthropological literature relevant to development studies. Likewise, she participated in field research during the summer of 1960 in Mexico, Colombia, Chile, Argentina and Brazil that would serve as the basis for Hirschman’s 1963 book, *Journeys toward Progress*.<sup>29</sup> In 1964-65 Sarah was again “a member of the ‘team’,” and this explains why several field notes we will be using in the following pages are authored by her.<sup>30</sup>

Once returned from his travels, Albert Hirschman circulated a memo with some preliminary observations.<sup>31</sup> These focused on what Hirschman called “Behavioral Characteristics of

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information about the Bank’s evaluation function, see World Bank 2006a and 2006b.

<sup>29</sup> Hirschman 1958, p. vi, and Hirschman 1963, p. ix. Charles E. Lindblom was the third participant in the 1960 Latin American trip.

<sup>30</sup> Albert O. Hirschman to Dean [of Harvard’s Graduate School of Public Administration] Don K. Price, October 19, 1964, Albert O. Hirschman papers, Box 57, Folder 5.

<sup>31</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

Development Projects in Different Sectors.”<sup>32</sup> As he put it: “having learnt in fairly rapid succession about a wide variety of projects, I became alerted to the characteristic advantages or handicaps under which power projects, say, proceed as compared to irrigation projects.”<sup>33</sup>

***Table 1. Hirschman’s Journey and Project Loans He Examined***

El Salvador	July 20-August 1, 1964	Electric power
Ecuador	August 3-20, 1964	Roads in Guayas Province
Peru	August 21-Sept 11, 1964	San Lorenzo irrigation
Uruguay	Sept 20-Oct 7, 1964	Pasture improvement
West Pakistan	Oct 28-Nov 8, 1964	Karnaphuli paper mill
India	Nov 9-Dec 16, 1964	Damodar Valley development
East Pakistan	Dec 17-Jan 3, 1965	Karnaphuli paper mill
Thailand	Jan 4-28, 1965	Chao Phya irrigation
India	Jan 29-Feb 25, 1965	Selected ICICI-financed industries in Mysore
Italy	Apr 26-May 28, 1965	Irrigation in Southern Italy
Uganda	May 29-June 18, 1965	Electric power transmission and distribution
Ethiopia	June 21-July 9, 1965	Telecommunications
Nigeria	July 10-Aug 12, 1965	Railways modernization and Bornu extension

*Source:* Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations”, August 1965, World Bank Hirschman Folders Vol. 1.

*Note:* Italy was added to the list only as a second thought, after the advice of several World Bank’s officials who maintained that the Bank’s loans to the Italian Cassa per il Mezzogiorno – the Italian agency for the development of Southern Italy – would be very relevant to Hirschman’s study; see Douglas J. Fontein to Prof. Gabriele Pescatore, April 9, 1965, World Bank Hirschman Folders Vol. 1.

The principal aim of Hirschman’s interim observations was clearly methodological. Far from addressing questions such as the economic return of the Bank’s loans, or the traditional distinctions of, say, infrastructure vs. agricultural and industrial projects, or human vs. physical capital, Hirschman emphasized the need for a change in perspective. What really affects projects is their degree of uncertainty: “the element of the unknown, the uncertain and the unexpected which deflects projects from the originally chartered course is considerable in

<sup>32</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>33</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

all projects. But it is far more important in some projects than in others and it may be of interest to the Bank to gain an approximate idea about the principal determinants of this uncertainty.”<sup>34</sup> Among these determinants, Hirschman listed the ability to completely map out the project upon its launch (for example, electricity projects can more easily be mapped out than agricultural improvement projects); the direct link between the new supply produced by the project and the actual demand to absorb it (a power station will present different degrees of uncertainty depending on the level of economic development of the region where it is established); and the degree to which economic, social and political change can interfere with a project’s implementation (e.g. to what degree the rise in cost of labor affects irrigation projects, or to what extent it is possible to insulate projects from political interference).<sup>35</sup> Notes taken during his trips into the field also elaborate on the difficulty of computing and quantifying benefits in several types of projects. Hirschman, referring to Ethiopia, underscored the case of telecommunications: “how do you compute [the] benefits of easier communications, [the] ability of scarce managerial talent to spread itself over wider areas, better information of market information, etc.”<sup>36</sup> Hence, these kinds of projects are often ignored, even if they may be the most productive.

This change in perspective called for a corresponding change in the Bank’s behavior. The Bank, Hirschman wrote, should avoid the “air of pat certainty” that emanated from project prospects and instead expose the uncertainties underlying them, exploring the whole range of possible outcomes. Moreover, the Bank should take into account the distributional and, more generally, the social and political effects of its lending. As a matter of fact, an excessively uneven distribution of the benefits of a project, besides jeopardizing political and social stability, was likely to create threats to the project itself. A new road project, for example, would open up new land for agricultural exploitation. According to Hirschman, the Bank should have explicitly addressed the issue of ownership of that land, with the aim of spreading the benefits of the project to the largest possible population. Of course, Hirschman was aware that spreading the benefits might require time: frequently, a project initially contributes to the development of the already more advanced segments of a country, and only in a second phase does it reach larger segments of the population and territory. This trickle-down mechanism

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<sup>34</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>35</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>36</sup> “Ideas – Miscellaneous,” no date, Albert O. Hirschman Papers, Box 57, Folder 2.

was even clearer, for example, in the establishment of a power station, usually conceived to serve the largest city, and only subsequently capable of also supplying smaller cities or the countryside. Still, Hirschman thought it important that “such a second benefit-spreading phase of projects [...] either be explicitly foreseen or at least its possible emergence be carefully watched and seized upon when it occurs.”<sup>37</sup> Hirschman also criticized the inadequate consideration of social and political factors in project analysis. In his opinion, many projects had encountered huge difficulties during their implementation because of too cursory an analysis of their political and social context. Regional, tribal, or center-periphery antagonisms, and the political power of specific interest groups, are important elements that affect the success or failure of a specific project.

In addition to the influence that social and political factors might have on a project, Hirschman was interested in studying the reverse as well: were there projects that would help the development of political skills and ease intergroup agreements? In their travels, the Hirschmans noted that irrigation projects often brought in new resources that initially were believed to be available in strictly limited quantities: irrigation almost immediately creates disputes over the distribution of water, and related problems of administration and coordination between engineers and farmers, as well as between various organizations such as farmers’ organizations, extension services, etc. At the same time, these problems may have an unexpected positive spillover, as they become “a veritable school for bargaining, adjustment, etc.”<sup>38</sup> The case of an electrification project in Uganda provided another example of possible community-building to come out of project management. In the town of Masaka, Indians and Africans lived completely separate lives, carrying on distinct economic activities and following different patterns of urban migration and settlement. The Indians all lived in town and could connect to the electric power network for a nominal fee; the Africans, on the other hand, lived scattered in the countryside, and in order to connect to the power network, they were required to make a capital contribution that could be more than five times the fee paid by the Indians. The Ugandan project of power distribution had thus highly exacerbated the conflicts between ethnic groups in the country. At the same time, Hirschman noted, there was room to restructure the project, bringing the Indians and the Africans together to cooperate in managing the project, or to coordinate in having the two communities manage the project in

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<sup>37</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>38</sup> “Ideas – Miscellaneous,” no date, Albert O. Hirschman Papers, Box 57, Folder 2.

different areas: “the technical nature of the common task,” the Hirschmans ventured to hope, “helps in making both [ethnic groups] ‘forget’ about the other’s skin.”<sup>39</sup> If properly reorganized, the Ugandan electric project would yield strong social benefits.

At the opposite side of the spectrum of projects with institution-building potential, one might consider highways. As a matter of fact, highway construction always left ample margins for improvisation, sloppiness, cutting corners, and sacrificing quality for quantity without any specific drive toward the implementation of more structured and effective institutions.<sup>40</sup> Moreover, no natural or technical constraint limited road constructions, thereby making them an activity particularly prone to political pressures and the disrupting effects of political struggle on national cohesiveness. This characteristic was shared by thermoelectric power as opposed to hydro. While hydroelectric power generation is limited by the actual availability of natural resources, a thermoelectric plant can be built virtually anywhere. Investments in thermoelectric plants therefore appeared to be much less protected from political pressures. In Hirschman's terminology, this was an opposition between “foot loose” (roads and thermoelectric power generation) and “resource tied” public utilities.<sup>41</sup> If we consider projects from the point of view of institution-building, irrigation would produce the maximum effect, highways the minimum, and railroads and electric power would fall somewhere in between.<sup>42</sup>

Highways were nonetheless an interesting case study for the links between social phenomena and economic development. Often, Hirschman argued, road maintenance is prompted by a combination of physical deterioration and public protest: there is no doubt that the truck drivers refusing to pay road tolls because of the roads' poor condition will negatively affect the financial resources needed to repair the roads, but, at the same time, their actions signal that the roads have reached an unacceptable level of deterioration, and this will probably induce a reaction (i.e., road maintenance).<sup>43</sup> In his *The Strategy of Economic Development* (1958), Hirschman had discussed at length the fact that in less developed countries, often the resource that was actually lacking was not capital or any other physical asset, but rather the ability to make decisions; he urged to introduce “inducement mechanisms” that function as substitutes for this missing ability. The circular mechanism of (i) road use, (ii) lack of

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<sup>39</sup> “Uganda,” no date, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>40</sup> Sarah Hirschman, “Latin America,” April 19, 1965, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>41</sup> Sarah Hirschman, “Nigeria,” August 18, 1965, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>42</sup> “Ideas – Miscellaneous,” no date, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>43</sup> Sarah Hirschman, “Latin America,” April 19, 1965, Albert O. Hirschman Papers, Box 57, Folder 2.

maintenance, (iii) road disruption, (iv) public protest, and (v) road maintenance was one of these “inducement mechanisms.” This observation was the seed for a particularly productive yield in Hirschman’s intellectual journey: as a matter of fact, it would become the starting point for the discussion of “voice” in Hirschman’s analysis of social interactions in his 1970 book, *Exit, Voice and Loyalty*.

In his “Interim Observations,” Hirschman argued that the Bank had thus far ignored those questions: “the projects appear to be judged wholly on their technical merits.”<sup>44</sup> In the notes taken during their field trips – but not in the “Interim Observations” – Albert and Sarah Hirschman fully elaborated on the limits of judging projects by only their technical merits, directly addressing the fundamental question of social equality and redistributive issues. “Profitability alone,” they maintained, “is no yardstick for social desirability of investment.”<sup>45</sup> Hirschman also focused on some specific Bank policies usually set forth as pre-conditions of lending: the Bank’s preference for dealing with development agencies independent from the national government and with contractors selected through international biddings; the Bank’s insistence that governments should profit from public utilities established through its loans; and the Bank’s insistence on exerting strict control over the internal administrative processes of the borrowing countries. Hirschman underscored instead the need to adapt to specific circumstances.<sup>46</sup> During his travels, he had noticed that certain agencies, which in principle were supposed to be autonomous from the national government, were actually impeded in effective decision-making by disunited Boards, whereas more streamlined chains of command in governmental ministries could prove to be more effective. In other cases, autonomous authorities were turning into semi-feudal centers of power, effectively making coordination among different branches of the national government impossible and destroying the principle of the unity of the budget.<sup>47</sup> As for the Bank’s attempts to control the internal administrative processes of the borrowing countries, Hirschman noted that very often this was plainly impossible: internal difficulties within recipient governments and intra-governmental conflicts were a common characteristic of borrowing countries, and the first casualty of these difficulties was reliable and open communication with external subjects.<sup>48</sup>

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<sup>44</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>45</sup> Sarah Hirschman, “Ethiopia,” August 19, 1965, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>46</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>47</sup> Sarah Hirschman, “Ethiopia,” August 19, 1965, Albert O. Hirschman Papers, Box 57, Folder 2.

<sup>48</sup> “Ideas – Miscellaneous,” no date, Albert O. Hirschman Papers, Box 57, Folder 2.

Most of Hirschman's observations were dismissed by Bank officers as either fairly obvious or definitely wrong. Some critics underscored that on several occasions, Hirschman had based his conclusions only on partial analyses of specific matters. "As for the tendency 'to clothe the prospects of all projects with an air of pat certainty'," said one comment, "the Doctor may have a point, but it must be remembered that our project reports are not economic dissertations. They must be brief and [the] many points considered are not always included in the reports."<sup>49</sup> Considering that Hirschman, in his studies, had traditionally been interested in processes of decision-making and "reform-mongering," it is noteworthy that reactions from Bank officers underscored the need to calibrate messages to the audience and the situation, and insisted that at different stages of the decision-making process, different levels of complexity and thoroughness were advisable. As explained by Duncan S. Ballantine, a Bank officer and former professor of history at MIT and Harvard University, "in presenting a positive recommendation for action to the [Executive] Directors, a report must be positive [...] at some expense to the uncertainties. Nevertheless, during the process of appraisal leading up to the inevitable simplification of the issue, the staff [...] does 'make a sustained effort at visualizing' the uncertainties."<sup>50</sup> Warren Baum, in addition, listed several Bank projects "explicitly described as 'experimental'."<sup>51</sup>

Had Hirschman taken more elements into account, the critics pointed out, he would have probably discovered that his proposals were actually very much in line with the Bank's thinking and practices or, as another officer put it, that "there is relatively little in [Hirschman's] observations which has not normally been taken into account by Bank staff during project work."<sup>52</sup> For example, when addressing the conflict that might arise between the Bank and a borrowing country over the borrower's obligation to consult the Bank prior to key personnel changes, Hirschman had emphasized the need for a systematic look at the Bank's previous relevant experience, adding that "efforts should be made to limit requirements of prior consultations to a few matters deemed essential."<sup>53</sup> It was easy for a

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<sup>49</sup> A.D. Spottswood to Mr. Bernard Chadenet, "Comments on Dr. Hirschman's 'Interim Observations'," September 8, 1965, World Bank Hirschman Folders Vol. 1.

<sup>50</sup> D.S. Ballantine to Mr. B. Chadenet, "Comment on Interim Observations by A.O. Hirschman," September 15, 1965, World Bank Hirschman Folders Vol. 1.

<sup>51</sup> Warren C. Baum to Mr. B. Chadenet, "Comments on Mr. Hirschman's Paper," September 17, 1965, World Bank Hirschman Folders Vol. 1.

<sup>52</sup> P.A. Reid to Mr. L.J.C. Evans, November 16, 1965, World Bank Hirschman Folders, Vol. 1.

<sup>53</sup> Albert O. Hirschman, "A Study of Selected World Bank Projects – Some Interim Observations," August 1965, World Bank Hirschman Folders Vol. 1.

critic to note that the Bank was already doing what Hirschman proposed: “Dr. Hirschman is not well aware of the Bank’s practice concerning consultation. In the 253 loans and credits made in the last five years [...] only 40 loan and credit agreements required consultation [...]. These were ‘deemed essential’.”<sup>54</sup> Other critics remarked that “the Bank does do just what is suggested,”<sup>55</sup> and Hans Adler concluded: “some of his suggestions are now a regular part of our appraisal. It might therefore be useful for Hirschman to read some of our recent reports.”<sup>56</sup>

In other cases, Hirschman’s assumptions were considered plainly wrong. In his “Interim Observations” he had stated that the Bank’s task was “to undertake projects that are unattractive to private capital because uncertainty surrounding their success is too high.”<sup>57</sup> A commentator sharply noted that “it has been the policy of the Bank *not* to make loans for projects where uncertainties surrounding their success were high on the ground that the borrower’s welfare and development would be best served if his investments were made, and Bank money used, only for sound projects.”<sup>58</sup> As for Hirschman’s claim that the Bank insisted on dealing with agencies that were autonomous from government, it was remarked that the point was not, as Hirschman seemed to see it, the theoretical opposition of politically autonomous agencies vs. politically dependent agencies, but rather the practical separation of political and managerial functions.<sup>59</sup> In this respect, Warren Baum argued that the Bank was far from doctrinaire, while those familiar with Hirschman’s chosen examples considered them “singularly inappropriate.”<sup>60</sup> Some Bank officials also doubted that it would be useful for the

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<sup>54</sup> A.D. Spottswood to Mr. Bernard Chadenet’, “Comments on Dr. Hirschman’s ‘Interim Observations’,” September 8, 1965, World Bank Hirschman Folders Vol. 1.

<sup>55</sup> C.P. McMeekan to Mr. H.B. Ripman, “Project Study – A.O. Hirschman,” September 22, 1965, World Bank Hirschman Folders Vol. 1; see also Adler’s comment: “in projects with a significant range of outcomes, we have been using two approaches. The first is exactly the one suggested by Hirschman,” Hans A. Adler to Mr. Warren C. Baum, “Comments on Professor Hirschman’s ‘Study of Selected World Bank Projects – Some Interim Observations’,” September 22, 1965, World Bank Hirschman Folders Vol. 1.

<sup>56</sup> Hans A. Adler to Mr. Warren C. Baum, “Comments on Professor Hirschman’s ‘Study of Selected World Bank Projects – Some Interim Observations’,” September 22, 1965, World Bank Hirschman Folders Vol. 1.

<sup>57</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>58</sup> A.D. Spottswood to Mr. Bernard Chadenet’, “Comments on Dr. Hirschman’s ‘Interim Observations’,” September 8, 1965, World Bank Hirschman Folders Vol. 1, italics in the original.

<sup>59</sup> Warren C. Baum to Mr. B. Chadenet, “Comments on Mr. Hirschman’s Paper,” September 17, 1965, World Bank Hirschman Folders, Vol. 1. Hans Adler considered Hirschman’s position on this issue to be based on a “mistaken premise.” The Bank’s concern, in his words, had not been the independence of the agencies, but “to define the respective areas,” Hans A. Adler to Mr. Warren C. Baum, “Comments on Professor Hirschman’s ‘Study of Selected World Bank Projects – Some Interim Observations’,” September 22, 1965, World Bank Hirschman Folders Vol. 1.

<sup>60</sup> C.P. McMeekan to Mr. H.B. Ripman, “Project Study – A.O. Hirschman,” September 22, 1965, World Bank Hirschman Folders Vol. 1; see for example the comments of Spottswood on Hirschman’s analysis of the Damodar Valley Corporation, of Reid on the loans to Uruguay and Peru, of Baum on Ecuador and Nigeria, and of Piccagli on Uganda, A.D. Spottswood to Mr. Bernard Chadenet, “Comments on Dr. Hirschman’s ‘Interim



Bank to explicitly address political and social factors in project appraisal. The Bank was perceived by its staff as relatively free from political pressures and driven by a technocratic approach. An explicit inclusion of political and social considerations in project appraisal, therefore, meant that the Bank would be “vulnerable to every variety of reaction from member countries and would lose its fortunate position.”<sup>61</sup>

An important cause for criticism from Bank officers was that Hirschman showed a complete disinterest in quantitative evaluations, focusing instead on a qualitative analysis or, as he wrote, on “comparing ‘personal profiles’ of projects in different sectors.”<sup>62</sup> To a bureaucracy that expected Hirschman’s study to shed some light on issues such as the measurement of indirect economic benefits of projects and the feasibility and the effects of applying shadow prices for products and factors of production, this was most likely disappointing.<sup>63</sup>

Furthermore, criticism may have been intensified by Hirschman’s claim that his reflections were “strictly policy-oriented,”<sup>64</sup> and thus had an immediate consequence for the Bank’s loan policies, while many Bank economists considered that they did not have any application. A Bank engineer commented that Hirschman was “not well aware of the choices facing the Bank.”<sup>65</sup>

As a matter of fact, when the Bank’s economists had the opportunity to read the final output of Hirschman’s research, published in 1967 by the Brookings Institution as *Development Projects Observed*, they were not excessively critical of it; rather, they highlighted the fact that “his conclusions have only very limited applicability.”<sup>66</sup> Robert Asher reported that Dick Demuth, the Director of the Bank’s Development Services Department, considered the book’s

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Observations’,” September 8, 1965, World Bank Hirschman Folders Vol. 1; P.A. Reid to Mr. L.J.C. Evans, November 16, 1965, World Bank Hirschman Folders Vol. 1; Warren C. Baum to Mr. B. Chadenet, “Comments on Mr. Hirschman’s Paper,” September 17, 1965, World Bank Hirschman Folders Vol. 1; Mario Piccagli to Mr. H. B. Ripman, “Comments on Mr. Hirschman’s Observations,” September 22, 1965, Albert O. Hirschman Papers, Box 57, Folder 4.

<sup>61</sup> D.S. Ballantine to Mr. B. Chadenet, “Comment on Interim Observations by A.O. Hirschman,” September 15, 1965, World Bank Hirschman Folders Vol. 1.

<sup>62</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>63</sup> Dragoslav Avramovic to Department Heads, IBRD and IFC, “Investment in Developing Countries – Effects, Expectations and Reality,” February 18, 1964, World Bank Hirschman Folders Vol. 1.

<sup>64</sup> Albert O. Hirschman, “A Study of Selected World Bank Projects – Some Interim Observations,” August 1965, World Bank Hirschman Folders Vol. 1.

<sup>65</sup> A.D. Spottswood to Mr. Bernard Chadenet, “Comments on Dr. Hirschman’s ‘Interim Observations’,” September 8, 1965, World Bank Hirschman Folders Vol. 1.

<sup>66</sup> Hans A. Adler to Mr. Warren C. Baum, “Comments on Professor Hirschman’s ‘Study of Selected World Bank Projects – Some Interim Observations’,” September 22, 1965, World Bank Hirschman Folders Vol. 1.

first chapter, “The principle of the hiding hand,” “a bit thin, particularly with respect to relevant guidance for those who must decide whether to undertake, continue, or complete a proposed project.”<sup>67</sup> This was not unexpected, since Asher himself had previously called Hirschman’s theses “disconcerting [...] to those in quest of clearer criteria to govern eligibility for foreign aid” (Asher 1962, p. 217). In “The principle of the hiding hand,” Hirschman stated that the underestimation of problems is a powerful mechanism that allows projects to be taken up that would never otherwise be initiated. According to Hirschman, the problems that arise when a project is under implementation usually trigger a creative effort that leads to their solution. Differently from Toynbee’s theory of challenge and response, Hirschman’s principle posited that “people undertake some new task not because of a challenge, but because of the assumed *absence* of a challenge.”<sup>68</sup> Toynbee’s thesis, according to Hirschman, was an ex-post rationalization, “*per fare bella figura*.”<sup>69</sup>

Though rhetorically forceful and “Hirschmanesque” (Walter Salant’s term), this principle left many unconvinced. Even the members of the Brookings Advisory Committee who were more favorable to Hirschman’s approach, such as Walter Salant or Edward Mason, considered the principle one-sided.<sup>70</sup> Salant, for example, noted that this principle, far from being a general principle as Hirschman seemed to imply, was only one of the many possible associations between the estimation of problems and the estimation of one’s ability to solve them: of course problems might be underestimated, but they might also be either correctly estimated or overestimated, and the same would be true for the ability to solve them. Nine outcomes were actually possible, from the successful Hiding Hand to sheer disaster (when an underestimated problem is coupled with an overestimated ability to solve it).<sup>71</sup>

Years later, Hirschman admitted that his opening chapter “was close to a provocation. Nothing could be less ‘operationally useful’ than to be told that underestimating the costs or

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<sup>67</sup> Robert E. Asher to Mr. Albert O. Hirschman, May 27, 1966, Barcode 30036183 - Projects and Studies - Projects Evaluation - Professor Albert O. Hirschman - Volume 2, Series No. 4225: Operations policy files - Projects and studies - General Files - General 1946-1968, World Bank Group Archives (henceforth World Bank Hirschman Folders Vol. 2); the same criticism was made by Kenneth Bohr to Albert Hirschman, July 14, 1966, Albert O. Hirschman Papers, Box 56, Folder 15.

<sup>68</sup> Albert Hirschman to Katia and Lisa, April 4, 1965, Albert O. Hirschman Papers, Box 57, Folder 8, emphasis in the original.

<sup>69</sup> Original Italian, Albert Hirschman to Katia and Lisa, April 4, 1965, Albert O. Hirschman Papers, Box 57, Folder 8.

<sup>70</sup> “Advisory Committee for *Development Projects Observed* by Albert O. Hirschman,” September 21, 1966, Albert O. Hirschman Papers, Box 57, Folder 1.

difficulties of a project has on occasion been helpful in eliciting creative energies that otherwise might never have been forthcoming” (Hirschman 1994, p. ix). But this was the point: the principle of the hiding hand, based as it was on the actor’s ignorance, was not intended to be a policy tool. It was a way for Hirschman to elaborate on the need to include uncertainty and limited rationality in the Bank’s epistemology. While this principle received its final name in juxtaposition to Adam Smith’s “invisible hand,” its original name was perhaps more revelatory: in January 1965, from India, Hirschman wrote a long explanation of what he then used to call his “theory of providential ignorance” to his two daughters in New York:

The Pakistan project, the Karnaphuli paper mill, is perhaps most interesting because it shows that it isn’t so easy to ‘transfer’ an industry from one country to another. It *looks* easy – why shouldn’t the same machines perform just as well in East Pakistan as in Sweden? The fact is, however, that there are many differences, from the raw materials (bamboo instead of pine) to the demand in the market which require far more ‘creative’ adaptation than the country had probably expected it would be. One almost feels that had they known all the troubles they were headed for, they would never have founded this industry, but having founded it they managed to solve their problems one by one. The secret of creativity is then to place yourself in situations where you’ve got to be creative, but this is done only when one doesn’t know in advance that one will have to be creative. This, in turn, is so because we underestimate our creative resources; quite properly, we cannot believe in our creativity until we experience it; and since we thus necessarily underestimate our creative resources we do not consciously engage upon tasks which we know require such resources; hence the only way in which we can bring our creative resources into play is by similarly underestimating the difficulty of a task.<sup>72</sup>

More generally, Hirschman underscored the centrality of side-effects, and in his 1967 book he described project appraisal as the art of visualizing them. In his definition, side-effects are not just “secondary effects,” mere spillovers or repercussions of a project. More often than not, they turn out to be “inputs essential to the realization of the project’s principal effect and purpose” (Hirschman 1967a, p. 161). They are called “effects” instead of, for example, “conditions” or “prerequisites” because they are “eventual requirements,” essential for the project to survive after the start-up and mature into a long-lived endeavor, although they are not needed from inception. A project for the development of highways (as opposed to railways) would serve as an example. It is commonly held that investment in highways

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<sup>71</sup> Walter S. Salant to Albert O. Hirschman, “More on ‘The Hiding Hand’ and other comments on *Development Projects Observed*,” January 26, 1967, Albert O. Hirschman Papers, Box 57, Folder 1.

<sup>72</sup> Albert Hirschman to Katia and Lisa, January 1, 1965, Albert O. Hirschman Papers, Box 57, Folder 8, emphasis in the original.

develops the trucking industry and therefore enhances entrepreneurship. But this secondary effect may have much wider consequences: “entrepreneurship means political power, which in turn means the ability to change the rules of the transportation game decisively in favor of the highways” (Hirschman 1967a, p. 162), and what might seem a mere secondary-effect (enhanced entrepreneurship) becomes a decisive element, making the decision to develop motorways instead of railways irreversible. For this reason side-effects are at the same time necessary and unpredictable, and therefore central in Hirschman’s approach: “a search for the indirect effects is to be recommended if only as a heuristic device, as a means of identifying some of the basic conditions for the project’s success” (Hirschman 1967a, p. 169).

Cost-benefit analysis and its attempt to make precise calculations of the secondary effects of investments, according to Hirschman, turned this search for indirect effects into an excessively rigid process, hampered by too many arbitrary assumptions, and made the quest for a unique ranking a futile exercise. “How could it be expected,” wondered Hirschman, “that it is possible to rank development projects along a single scale by amalgamating all their varied dimensions into a single index when far simpler, everyday choices require the use of individual or collective judgment in the weighing of alternative objectives and in the trade-off between them,” especially when the aim is not to facilitate the decision-maker’s exercise of informed judgment, but to make him dispense with such judgment altogether (Hirschman 1967a, p. 179). The following passage captures Hirschman’s unsystematic approach, his idea that it is impossible to detect a set of criteria uniformly applicable to all projects:

Upon inspection, each project turns out to represent a *unique constellation* of experiences and consequences, of direct and indirect effects. This uniqueness in turn results from the varied interplay between the structural characteristics of projects, on the one hand, and the social and political environment, on the other. To facilitate the understanding of this interplay I focused [...] on various properties of projects – primarily uncertainties and latitudes – that condition their *total* behavior and career [...]. There was no intention to erect these manifold aspects of project behavior into full-fledged criteria that should be applied to all projects; rather I was seeking to provide project planners and operators with a large set of glasses with which to discern probable lines of project behavior, in the expectation that the analysis of each individual project would require different and rather limited subsets of the full set of glasses which has been exhibited (Hirschman 1967a, p. 186, emphasis in the original).

By the time Hirschman was drafting the manuscript of his book, it had become clear that his research agenda was at variance with the Bank’s. The comment of an early supporter of

Hirschman's project summarizes the discouragement within the Bank at the end of their collaboration:

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.<sup>73</sup>

## 6. The Roots of the Disagreement

Hirschman's attempt to establish a qualitative approach to project appraisal had as its cornerstone the detailed historical reconstruction of the "personal profiles" of projects as well as their larger political and social context. It aimed at underscoring "the element of the unknown, the uncertain and the unexpected," as Hirschman put it, in order to understand what deflected the projects from their originally charted course. Finally, its goal was to assess the broader impact of a project, such as its effects on the distribution of wealth, income and power in the affected population. Hirschman's approach to project appraisal was a natural evolution of his previous work, which had marked an increasing distance from the early debates in development theories. The "failure of several of the earlier ideas as *practical* policy solutions," as Tony Killick put it (Killick 1978, p. 27, italics in the original), prompted Hirschman's detailed inquiries into the mechanisms of economic policy-making, as well as the early evaluation studies that the Bank undertook in the 1960s and the convergence of the Bank and Hirschman on the need to develop a more systematic method for appraisal.<sup>74</sup> But the shared perspective on what was needed did not become a shared perspective on how to meet this need. Hirschman tried to transform the *Weltanschauung* of the Bank and the Bank's approach to project design, management and appraisal. The Bank, instead, expected Hirschman to analyze the Bank's projects without any revolution in perspective, and to work

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<sup>73</sup> Richard H. Demuth to Mr. Robert E. Asher, September 13, 1966, World Bank Hirschman Folders Vol. 2.

<sup>74</sup> As Killick noted, among the most renowned "casualties" of this counter-revolution was also the strategy of import-substituting industrialization (ISI), of which Hirschman had been a strong supporter. Hirschman, however, questioned the "exhaustion" of the usefulness of ISI in Hirschman 1968b.

on making the Bank's project design and management somehow more measurable, predictable, and possibly replicable. Referring to the contemporary literature on cost-benefit techniques of project appraisal, Bank economists expected that Hirschman would shed some light on questions such as "the causes of cost run-ups and of delays in execution, [and] the feasibility and the effects of applying 'shadow' prices for products and factors of production."<sup>75</sup> Herman van der Tak suggested that Hirschman ought to have "summarized the positive and negative aspects of various types of projects" into "a more operational 'summary and conclusions,' [...] which would provide practitioners with guidelines."<sup>76</sup> An attempt to write this operational guide was eventually made by the Bank's Economics Department, resulting in a hybrid between a "summary and conclusions" for practitioners as proposed by van der Tak, and a series of "annotated questions" about projects as proposed by Hirschman. However, a proper operational version of Hirschman's book never saw light.<sup>77</sup>

While the Bank was struggling with the seeming inapplicability of Hirschman's reflections, cost-benefit analysis received a tremendous boost from research pursued by other multilateral organizations. Cost-benefit analysis had been taking shape in the 1920s as a technique in water-resources development, cultivated mostly by engineers, which subjected public investment decisions to economic analysis and evaluated alternative projects in terms of the maximization of public "utility." It received a further stimulus during the 1930s expansion of public investment activity in the United States, especially thanks to the Flood Control Act of 1936, which dictated that only projects whose benefits were projected to exceed their costs could receive federal funds. However, the intrinsic difficulties of quantifying the projects' effects, compounded with competing views among the different bureaucracies that had authority on water management in the United States, made it impossible to agree on a standardized method of cost-benefit analysis until the 1960s (Porter 1995, pp. 148-189). Moreover, as Stephen Marglin observed, "benefit-cost analysis was introduced as a means of project 'justification' alone [...], not as a tool for project planning; in American practice (as distinct from theory) it often has served as window dressing for projects whose plans have already been formulated with little if any reference to economic criteria" (Marglin 1967, p.

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<sup>75</sup> Dragoslav Avramovic to Department Heads, IBRD and IFC, "Investment in Developing Countries – Effects, Expectations and Reality," February 18, 1964, World Bank Hirschman Folders Vol. 1.

<sup>76</sup> Herman G. van der Tak to Professor Albert O. Hirschman, December 20, 1966, World Bank Hirschman Folders Vol. 2; Andy is Andrew M. Kamarck, Director of the Bank's Economics Department.

<sup>77</sup> Herman G. van der Tak to Professor Albert O. Hirschman, January 18, World Bank Hirschman Folders Vol. 2; Albert O. Hirschman to Mr. Alexander Stevenson, May 1, 1967, World Bank Hirschman Folders Vol. 2; Alexander Stevenson to Professor Albert O. Hirschman, May 18, 1967, World Bank Hirschman Folders Vol. 2.

18).<sup>78</sup> A push toward standardization and uniformity came only in the late 1940s and especially the 1950s, as a way to overcome conflict among agencies and because of the increasing interest in cost-benefit analysis among economists: the development of the new welfare economics after World War II gave intellectual legitimacy to the attempt to turn, as a critic put it, “a useful way of roughly assessing the promise of a particular project, or comparing various ways of carrying out a project,” into “a precision tool for attaining general economic efficiency” (Hammond 1966, p. 222).

Hirschman had already shown doubts about the accuracy of cost-benefit analysis in his preliminary work for the Bank. In that specific case, however, Hirschman seemed more concerned about the possible inhibitory role of cost-benefit analysis than about its role as ex-post justification: “were costs underestimated as is frequently the case? If so, was this error matched by an underestimate of benefits (also frequent) so that the Bank’s judgment of the actually experienced cost-benefit ratio would have been *poorer* if just its cost estimate had been more nearly correct?”<sup>79</sup> Between the late 1960s and early 1970s, a new wave of studies in cost-benefit analysis appeared. In 1968 the Development Centre of the Organisation for Economic Co-operation and Development (OECD) published the second volume of its *Manual of Industrial Project Analysis in Developing Countries*. While the first volume focused on the profitability of industrial investments from the firm's point of view, the second volume, authored by Ian M. D. Little and James A. Mirrlees, centered on social cost-benefit analysis. The Little-Mirrlees volume, republished in a hugely modified version in 1974, was immediately regarded as a ground-breaking contribution in project appraisal in developing countries, especially for their use of shadow-prices, i.e., prices that were meant to reflect the social effects of projects, as opposed to their private profitability (Little-Mirrlees 1968; 1974). In the turn of a few years, this approach had become “a school” that directly influenced “the thinking of economists engaged in planning in developing countries” (Kornai 1979, p. 76). In 1972, the United Nations Industrial Development Organization (UNIDO) published another milestone volume in project appraisal, authored by Partha Dasgupta, Stephen Marglin and Amartya Sen (Dasgupta, Marglin and Sen 1972). Although the differences from Little-Mirrlees' approach were important (see, for example, the comparison of OECD and UNIDO

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<sup>78</sup> See the several examples in Porter 1995. “Especially on quantitative matters,” Porter writes, “the responsible congressional committees could be dazzlingly uninquisitive. They asked many factual questions, but it rarely mattered what the answer was. Often the record was left blank for a time, and the response to a statistical query would be inserted afterwards” (Porter 1995, p. 156).

approaches by Dasgupta 1972, and a critique of the OECD volume by Frances Stewart and Paul Streeten 1972), the two approaches still had enough in common to be viewed “in some immediate sense [as] similar” (Dasgupta 1972, p. 41) or having “a similar spirit” (Kornai 1979, p. 76). To be sure, both these approaches discussed the role of uncertainty in project design and appraisal. But in practical matters, they tended to conflate this term with what is usually meant by “risk,” that is, something subject to measurement.<sup>80</sup> Hirschman, instead, following the usual Knightian dichotomy between “risk” and “uncertainty,” considered uncertainty a quality that was impossible to measure. In an article from the early 1960s, co-authored with political scientist Charles Lindblom, Hirschman elaborated on the impossibility of quantification at a more general level: “it is clearly impossible to specify in advance the optimal doses of [...] various policies under different circumstances. The art of promoting economic development [...] consists, then, in acquiring a feeling for these doses” (Hirschman [1962] 1971, pp. 83-84).

By the early 1970s, in any case, Hirschman’s book had been completely forgotten. The 1974 Little-Mirrlees book dismissed it as “a stimulating essay on the theme that any assessment leaves things out” (Little and Mirrlees 1974, p. 379), and the rest of the literature completely ignored it. When, in 1975, the World Bank published its own reference text in project appraisal – very much in the tradition of Little-Mirrlees – it did not include a single reference to Hirschman’s work for the Bank (Squire and Van der Tak 1975).

Another issue may have accounted, if not for the oblivion into which Hirschman’s book fell, at least for the reaction it prompted in the Bank – a reason that has more to do with the sociology of organizations than the history of development economics. The dismissal of Hirschman’s work by several Bank staff may have been due to the fact that he was an outsider to the institution, but commented on (and criticized) its core activity, and the ability of its staff to read and interpret development patterns. This distrust had first appeared in the “Interim Observations” that Hirschman had circulated. On that occasion, a staff member dismissed Hirschman’s observations on Bank policies as “the echo of some of the most frequently recurring beefs we heard from the other side of the fence, but only from some people on the

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<sup>79</sup> Albert O. Hirschman, “A study of completed investment projects which have received financial support from the World Bank”, June 5, 1963, World Bank Hirschman Folders Vol. 1, italics in the original.

<sup>80</sup> In the chapter “Project evaluation under uncertainty,” Partha Dasgupta wrote: “In this chapter we shall be concerned with projects that are risky and, violating the established convention, we shall use the term ‘risky’ and



other side of the fence, not necessarily representative people,” and accused Hirschman of having been heavily one-sided and uninterested in the Bank’s viewpoint.<sup>81</sup> Another staff commented: “what [Hirschman] is trying to do is to call our attention to some of the pitfalls inherent in our operations. [...] It is useful to have an outsider’s reminders and the advantage of his perspective. But we should be sure that Mr. Hirschman has access to all the facts, and all the points of view, before completing his book. In the academic and literary professions, criticism seems to draw higher marks than does praise, and while Mr. Hirschman is very knowledgeable and capable, he may not be above succumbing to this temptation.”<sup>82</sup> Even when there was no suspicion from the Bank’s commentator that Hirschman might be fishing for praise through indiscriminate criticism, there remained concern that his academic perspective would render his effort irrelevant to the operations of a development institution like the World Bank. Duncan Ballantine – a former academic himself – noted that Hirschman was attempting a “marriage between two inherently incompatible points of view – that of the decision maker and that of the academician or seeker of truth.”<sup>83</sup> While he recognized the value of such an exercise, the risk of irrelevance due to the prevalence of the academic perspective was high. The common note was that an outsider was not equipped to understand the Bank’s operations.

The legitimacy of comments, criticisms, and advice from external subjects is a sensitive issue at the heart of the evaluation function. Even for the Bank’s internal (but independent) Operations Evaluation Department, balancing independence and objectivity with collaboration and communication between operational and evaluation staff has always been a major challenge. This equilibrium is highly unstable, and subject to recurrent swings. At times, the evaluation unit has seemed insufficiently independent and credible, as a Bank officer underscored in 2003: “the latest review by the Bank’s Quality Assurance Group shows that among the Bank projects entering the portfolio last year, 93 percent were satisfactory. If you put out a report showing that 93 percent of your projects are satisfactory, do you have a credibility problem?”<sup>84</sup> At other times, independence has come at the price of apparent

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‘uncertain’ interchangeably” (Dasgupta, Marglin and Sen 1972, p. 108; see also Little and Mirrlees 1974, pp. 306-331)

<sup>81</sup> Mario Piccagli to Mr. H. B. Ripman, “Comments on Mr. Hirschman’s Observations,” September 22, 1965, Albert O. Hirschman Papers, Box 57, Folder 4.

<sup>82</sup> Warren C. Baum to Mr. B. Chadenet, “Comments on Mr. Hirschman’s Paper,” September 17, 1965, World Bank Hirschman Folders Vol. 1.

<sup>83</sup> D.S. Ballantine to Mr. B. Chadenet, “Comment on Interim Observations by A.O. Hirschman,” September 15, 1965, World Bank Hirschman Folders Vol. 1.

<sup>84</sup> Cited in Grasso, Wasty, and Weaving 2003, p. 43.

irrelevance: Robert Picciotto, the OED Director-General from 1992-2002, reported that “under Preston, basically Management had a benign neglect of evaluation. That was also Ernie Stern’s view: ‘You are independent. You do your thing. Don’t talk to me....’ [...] Basically [evaluation] was viewed as [a] sideline kind of occupation” (Picciotto 2000, p. 16). Perhaps even more discouraging is the testimony of a former OED Director, who maintained that when he worked in Operations he was not influenced, either directly or indirectly, by OED’s output: “the typical reaction of operational staff to [OED’s] findings was still to dispute the factual details and to question the usefulness of the findings, and to attack OED’s methodology” (Köpp 2003, p. 55). No wonder that Albert Hirschman experienced similar criticisms.

## **7. Concluding Remarks**

This paper discussed the relationship between Albert Hirschman and the World Bank in the 1960s. Initially, Hirschman and the Bank agreed on a common objective: a thorough and systematic analysis of development projects, in order to draw generalizations for the Bank’s decision-making process. Subsequently, Hirschman and the Bank diverged: most of the Bank’s officers considered Hirschman’s observations and his final book to be either useless or wrong, and no further discussions took place between Hirschman and the Bank.<sup>85</sup> Several remarks are in order. The first remark concerns the unstable equilibrium between evaluation and operations within the institution, a very complex issue of which this paper has only scratched the surface. Instability is a structural feature of the relation between evaluation and operations, and historical analysis can provide useful elements for understanding this structural instability. The other remark relates to the Bank’s participation in a new avatar of development economics during the 1960s: the Bank participated in and encouraged a series of studies that linked theoretical and practical analyses for the purpose of gaining a better understanding of the outcomes of its development efforts. It is commonly believed that, prior to the presidency of McNamara at the end of the 1960s and his hiring of a new cohort of economists, the Bank had little relation with the field of development economics. History shows that, on the contrary, the Bank was an active participant in the development economics debates and the shift in focus that took place in the 1960s. This may be of interest for today’s

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<sup>85</sup> As has been stated, the attempt to write a more operational version of Hirschman’s book did not succeed, and Hirschman included only minor revisions in his book, mainly after Stanley Please’s comments (unfortunately the

development economists who reflect on the future of the discipline and emphasize the need for a non-dogmatic approach to the study of development issues, and for the Bank itself, with its renewed attention to the importance of evaluation for effective development policies (see for example Ravallion 2008). The history of the practice of development economics, together with the use of archival material, can bring new perspectives to a better understanding of the discipline's evolution.<sup>86</sup>

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Bank's Archives do not have a copy of Please's letter to Hirschman), Albert O. Hirschman to Alexander Stevenson, January 28, 1968, World Bank Hirschman Folders Vol. 2.

<sup>86</sup> Robert Tignor's biography of W. A. Lewis, for example, vividly demonstrates this point (Tignor 2005).

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