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Albert Hirschman in Latin America: Notes on Hirschman's Trilogy on Economic Development

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Abstract:

This paper discusses Albert Hirschman's writings that resulted from his professional experience in Colombia, Brazil, Chile and other Latin American countries during the 1950s and 1960s. The focus is on the trilogy written by Hirschman in the field of development economics, which comprises: *The Strategy of Economic Development* (1958), *Journeys Toward Progress* (1963) and *Development Projects Observed* (1967). Some methodological aspects of those writings, which tend to be recurrent throughout the author's whole intellectual career, are emphasized.

Resumo:

Este trabalho discute os escritos de Albert Hirschman que resultaram de sua experiência profissional na Colômbia, no Brasil, no Chile e em outros países latino-americanos, durante as décadas de 1950 e 1960. Ele analisa a trilogia escrita por Hirschman no campo de desenvolvimento econômico, que compreende: *The Strategy of Economic Development* (1958), *Journeys Toward Progress* (1963) e *Development Projects Observed* (1967). Alguns aspectos metodológicos desses escritos, que tendem a persistir em toda a carreira intelectual do autor, são enfatizados.

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“Attempts to confine me to a specific area make me unhappy. When it seems that an idea can be verified in another field, then I am happy to venture in this direction.”

(Albert Hirschman, *Crossing Boundaries*, 1998)

Have political commitments shaped the theoretical work of individual thinkers? Was there any influence in the opposite direction?

In the case of Albert Hirschman [1915-], the questions posed by the organizing committee of the 9th Annual European Conference on the History of Economics can be answered with a double “yes”: yes, Hirschman's political commitments shaped his theoretical work; and yes, his theoretical framework heavily influenced Latin American politicians in their preachments and practices.

This paper will focus Hirschman's writings that resulted from his professional experience in Colombia, Brazil, Chile and other Latin American countries. More specifically, the subject matter of this paper will be the trilogy where Hirschman writes about development economics, which comprises: *The Strategy of Economic Development* (1958, hereafter *The Strategy*), *Journeys Toward Progress* (1963/1968, hereafter *Journeys*) and *Development Projects Observed* (1967, hereafter *Development Projects*). Other texts on the same topic published by the author will also be mentioned.

One interesting thing of writing about Hirschman is the fact that he goes back again and again to the same subjects, restating his propositions, looking them from a different angle and reintroducing his arguments in a modified manner. In a sense, it looks as if he has been writing a single book during all his life. Even after he moved away from development economics, he went back to concepts built up in his earlier writings in pieces such as *Exit, Voice and Loyalty* (1970, hereafter *Exit*), *A Bias for Hope* (1971, hereafter *Bias for Hope*), *Essays in Trespassing* (1981, hereafter *Essays*), “A Dissenter's Confession: Revisiting the Strategy of Economic Development” (1984, hereafter *Dissenter's Confession*), *Rival Views of Market Society and Other Recent Essays* (1986, hereafter *Rival Views*), *Crossing Boundaries* (1998, hereafter *Crossing Boundaries*) and *A Propensity to Self-Subversion* (1995, hereafter *Propensity*).

The fact that Hirschman goes back to the same topics defies the historian of ideas to distinguish what he wrote in an earlier phase of his career from what he later says about what he wrote. This challenge will not be met in this paper, due to its preliminary character. Rather, I will focus on the basic content of each book constituting the trilogy, to which the next three sections will be devoted. In the concluding section I will discuss a few methodological features of Hirschman's contribution to development economics.

1. *The Strategy*

When Hirschman first arrived in Latin America, in 1952, Colombia was a very poor country, with a population of 12,6 million people. Life expectancy at birth was 50,6 years and the annual rate of population increase exceeded 3 percent, one of the highest rates in the world. The Colombian economy was primarily agricultural, with 60 per cent of the population living in rural areas and the agricultural sector being responsible for 40 per cent of the GDP.

Sarmiento (1992) points out that the economic structure then prevailing “was well geared to perpetuate underdevelopment”. While exports were based on highly inelastic primary products, the production of industrial and agricultural consumer goods was contingent on imports of intermediate and capital goods. Foreign exchange was scarce and there were limited opportunities for expanding primary exports, a bottleneck that had been well characterized by Raúl Prebisch in the introduction to a document issued by ECLA, the United Nations Economic Commission for Latin America (ECLA, 1951). In 1950 Colombia took its first steps towards industrial development: the government established a system of tariffs and refined and codified policy measures intended to protect new-born industries, which would soon generate its first fruits. (Sarmiento, 1992).

In a lengthy interview that he gave to three Italian researchers (*Crossing Boundaries*), Hirschman points out that the fact that his interests had shifted to the problems of development in the so-called backward countries was responsible for his decision to move to Colombia. He had spent the seven years immediately before that working as an economist with the Federal Reserve Board. His activities basically involved projects concerning Europe’s economic reconstruction, under the Marshall Plan’s concept. “A bit tired” of circling around the same problems, as he explains, he decided to move to Colombia, as a consultant to the newly established National Planning Council, by indication of the World Bank.¹

So Hirschman went to Colombia in 1952 working out a contract with the Colombian government. He was then almost 37 years and had already published several articles, but just one of the many books that he would publish later in his life. One year after his arrival the country experienced a *coup d’état* led by Rojas Pinilla, the head of the armed forces, which launched a period of civil strife, martial law and violent rule. From the viewpoint of its industrial development, however, there was progress in the 1950s.²

Hirschman’s stay in Colombia lasted almost five years. After working in straight connection with the Colombian Government, for the first two years, he spent the rest of his stay serving as a private economic and financial adviser. In 1956 he returned to the United States, where he settled at Yale University. But he made several other trips to

¹ Actually, Hirschman revealed in the interview that he had two possibilities: moving to Colombia (the preferred option) or going to Europe with the European Payments Union. He took the first road because he was attracted by the novelty of it. (*Crossing*, p. 80)

² In *Journeys* (pp.123-125) Hirschman talks about the dictatorship of Rojas Pinilla and his Minister of Finance, Carlos Villaveces.

Central and South America, to visit World Bank finance projects. The same interest in development economics took him to developing countries in Asia and Africa.

This was the overall scenario which inspired Hirschman to write the *The Strategy*, first published in 1958. The book builds on some basic processes making for economic progress in developing countries. It favors the establishment of industries with strong backward linkages, as a strategy to promote development. The unbalanced growth pattern resulting from the generalized adoption of this strategy -- which the author would later picture as a “remarkable social invention by means of which pluralist politics and the achievement of multiple social objectives can be reconciled” (*Dissenter’s*, p.109) -- generated much controversy in the field of development economics. Nevertheless, a formalized version of the notion of linkages was assimilated by mainstream economics, in the form of development indices that identify key sectors in the economy. It became common knowledge among economists who concentrate their research efforts in development theory.³

From the viewpoint of this central thesis, the main chapter in *The Strategy* is chapter 4, where Hirschman puts forward the idea of an unbalanced development strategy. The chapter’s title (“Unbalanced growth: an espousal”) explicitates this overall commitment to the idea of development as a “chain of disequilibria”:

...our aim must be to **keep alive** rather than eliminate the disequilibria of which profits and losses are symptoms in a competitive economy. If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions, and disequilibria. That nightmare of equilibrium economics, the endlessly spinning cobweb, is the **kind** of mechanism we must assiduously look for as an invaluable help in the development process. (*The Strategy*, p.66)

This bold proposition emphasizes the disorderly nature of economic development. It challenges the generalizations and theoretical viewpoints that prevailed among economists dealing with development problems up to that point in time.⁴ In the previous chapter (“Balanced growth: A critique”) Hirschman had attacked the balanced growth thesis that was advocated by his forerunners in the field. He argued that problems of industrialization did not require a simultaneous solution, as claimed by economists such as Rosenstein-Rodan, Nurkse, Lewis and Scitovsky. Quite the opposite: new industrialization processes would allow for a number of sequential solutions which were essentially different from those followed by the older industrial countries. Instead of emphasizing the various obstacles to economic progress -- land tenure systems, family structure, administrative instability, lack of savings and so on --, Hirschman chose to put stress on the need for inducement mechanisms. In his view, the fundamental problem of development consisted in generating and channeling human energies into a desired direction. (*The Strategy*, p. 25)

³ See Sonis et al (1995) for an application.

⁴ As the author would later admit in his career: “To write in praise of lack of balance is evidently a provocation for which a price must be paid.” (*Dissenter’s*, p. 104)

In Hirschman's conception, backward linkages corresponded to the stimuli going to sectors that supplied the inputs required by a particular activity, whereas forward linkages were the inducement to set up new activities utilizing the output of the proposed activity. The main source of development would be activities with high potential linkage effects, mainly backward ones.

The idea that industrial development should (and in fact would) proceed largely through backward linkages was quite revolutionary at the time: instead of doing things in the conventional way, industrial development would work its way from the "last touches" to intermediate and basic industry. Industrialization of certain leading sectors would pull along the rest of the economy. In this sense, it was not feasible nor desirable to suppress the tensions and disequilibria created by the development process, since there was a "creative virtue" on them.

If disequilibrium is an intentional mechanism, how is balance to be restored? Hirschman pictures it as a result of pressures, incentives and compulsions. He suggests that the efficient path toward economic development is often found in circumstances where the country has to find solution for bottlenecks and shortages of skills, facilities, services, and products.

Although Hirschman talks about both the pecuniary and the technological effects in linkages, he gives more attention to the first ones. Important backward linkages would operate through increases in profits to supplying industries as the demand for their products goes up. As for forward linkages, they would derive from cost reductions that would increase the achievable profits of potential users.

Whereas in Chapter 4 of the *The Strategy* Hirschman relies on theoretical considerations to support his main thesis, in Chapter 8 he takes in account empirical evidence about the industrialization process going on in Colombia. He suggests that less developed countries might have a comparative advantage in tasks such as running of airlines, rather than in tasks such as building and maintaining highways. Why would that be so? Because in the latter the compulsion to maintain is not strong – lack of maintenance leads to a slow deterioration in the quality and quantity of output or to temporary damages to a few machines, without immediate drastic consequences. In contrast, lack of maintenance in the airlines sector implies severe penalties, including the massive loss of life and property. The conclusion logically follows: contrarily to common sense, underdeveloped countries might achieve considerable success in ventures with a complicated technology. The maintenance habit can be acquired and then spread to the rest of the economy. (*The Strategy*, p. 142)

Hirschman then proceeds to a generalization: under certain circumstances, it could be rational for governments in underdeveloped countries to concentrate on "show-pieces", since, when undertaking the construction of a large hydroelectric station or of a steel mill, governments "simply cannot afford to let such ventures go wrong ... it places itself under a far stronger compulsion to 'deliver' than if it were to spend the same funds on a large number of small projects". (*The Strategy*, p.144) Due to their strong backward linkages, certain highly capital-intensive industries are particularly well suited for

underdeveloped countries. Those ‘cart-before-the-horse’ sequences would characterize the process of economic and social development of latecomers.

Syrquin (1992) points out that, although similar ideas can be found in authors such as Rostow, Gerschenkron, and Perroux, Hirschman was the sole economist to bring over the idea of linkages as a feature to guide a deliberate strategy of development. Linkages, claims Syrquin, connote interdependence. We can use the term to point to interrelations in a general equilibrium system, where everything depends on everything, but also to denote a variety of multiplier effects, including spillover and other external effects. In the *Strategy*, the concept acquired a more specific and concrete meaning, standing for inducement mechanisms at work within the sector of directly productive activities.

Looking back at this thesis in *Propensity*, Hirschman claims that the core of his argument was making a case against “one thing at a time”. Latecomers in the industrialization process should follow an original path, defined as an “unbalanced growth” sequence. Industrial development in less developed countries typically proceeded by means of backward linkages, which was the correct way to go, since sequential problem-solving involved the risk of getting stuck (an idea that he would come back to in *Bias*).

A similar idea is found in the jeopardy thesis, which Hirschman developed at a later stage, in *Rhetoric* and again in *Propensity*. Defenders of this thesis claim that a step forward might jeopardize an earlier progressive step that is to be valued more highly than the one under discussion. For Hirschman, the jeopardy thesis would be well applied to countries like England, with a whole history of gradual political and social change. However, it did not apply to countries that did not have that sort of gradual history of political and social reform. With intermediate and capital goods being available from abroad, the latecomers were able “to move leisurely, in accordance with the backward linkage dynamic, from the last stages of production to the earlier ones and on to the production of capital goods”. (*Propensity*, p.73) This was not the case with pioneers, who were bound to produce concurrently all their industrial inputs including their own capital goods, “if only by artisan methods”.

In the conclusion of *The Strategy*, Hirschman looks to his own argument “in perspective” (p.208), and makes some cautionary remarks about the bold theses that he had proposed in the previous chapters. He admits a certain uneasiness about the importance and creative virtue that was attributed to pressures, tensions, and disequilibrium. Likewise, he concedes that the response to such situations might at times be destructive, a danger that “we certainly would not want to disregard”. (p.208)⁵ But this does not imply that such tensions were undesirable and should not occur (p. 209). In fact, underdeveloped countries were already operating under the grand tension that was triggered by “the universal desire for economic improvement oddly combined with many resistances to change”. How could one make the most of this positive relation between development

⁵ In “The Political Economy of Import-Substituting Industrialization in Latin America”, written 10 years later the *Strategy* and published in *Bias*, Hirschman recognizes the possibility of industrial development “getting stuck”, turning to be incapable of further extension.

and the tensions it creates? By means of extending technical assistance and policy advice to underdeveloped countries, answers the author.

In a paper published in 1962 with Charles E. Lindblom (reprinted in *Bias*), Hirschman presents a formalized version of the concept of linkages. The authors draw a simplified geometrical representation of balanced vs. unbalanced growth, based on a two sectors economy.⁶ They proceed by mentioning other writers who developed a similar work, a group that includes, besides Lindblom himself, B. Klein and W. Mecklin.

Hirschman attributes the success of his concept of linkages to the fact that it was more operational and less fuzzy than the alternative concepts, as he writes in an essay reprinted in *Essays* (p...).⁷ As national input-output tables rapidly accumulated, a substantial number of empirical estimates of backward and forward linkages began to be published, accompanied by methodological literature on the measurement of linkages. (Hirschman would return to this concept in 1977, adding several new linkages and further generalizing the concept.)

2. *Journeys*

The second book in Hirschman's trilogy, *Journeys Toward Progress*, published in 1963, deals with the political processes involved in the economic changes pictured in *The Strategy*. It was brought underway during the summer of 1960, when the author took an extended two-stages trip to Mexico, Colombia, Chile, Argentina and Brazil. He wanted to learn how public authorities in Latin America worked to solve their countries's severe social problems. This endeavor resulted in a successful attempt to grasp a Latin American peculiar way of handling policy problems, with its virtues and shortcomings.

As Heckscher points out in the introduction, while heading the XXth Century Fund, Hirschman realized the difficulties of generalizing about policy-making processes in Latin America, and proposed to the Fund a study "that would attempt to reach conclusions through painstaking observation of the sequence of policy-making around significant policy problems". *Journeys* is the fruit of this effort, defined by its author as "a hazardous expedition into the vast no man's land stretching between economics and other social sciences such as political science, sociology, and history" (*Journeys*, p.ix)

The book begins by analysing three concrete cases: Brazil, Colombia and Chile. These three stories, told in Part I, are seen by Hirschman as constituting the essence of the book.

The author begins the book by criticizing sociologists like McClelland and Hagen who stressed the role of entrepreneurial decision-making in the take-off for development. He argues, instead, that decision-making plays a considerable role in **all** stages of development (p. 3, emphasis). He also questions the *laissez-faire* doctrine in economics, which assumes that public decision-making is in average of poorer quality than private decision-making. (p.5) His own interest in policy-making, he explains,

⁶ This is a very peculiar article, where the two authors, Hirschman and Lindblom, explicitate the differences in their points of view.

⁷ Syrquin (1992), however, argues that this operatinality was more illusory than real.

goes considerably beyond the traditional concept of good government, which refers normally to the quality of public decision-making within a given social and institutional framework. Good government includes for us emphatically, if rather unusually, the ability to effect important changes or reforms in this framework itself. (*Journeys*, p. 6)

In Chapter 1 Hirschman describes the various steps and political discussions that led to the creation of the Superintendency for the Development of the Northeast (SUDENE), by the Brazilian president Juscelino Kubitschek, in 1959. He begins by characterizing Brazil's Northeast as a national problem area for the (then) last 80 years or so, periodically suffering from severe droughts, which affected a huge population, and with a very uneven land tenure system. He describes the creation of a new financial agency, the *Banco do Nordeste*, a regional banking institution, and mentions the important role played by the Brazilian economist Celso Furtado, who was appointed Superintendent of Sudene.⁸

Chapter 2 is devoted to land use and land reform in Colombia. After a thorough historical reconstruction, in which he challenges the dominant idea of the persistence of "feudal patterns" in Latin America, Hirschman proceeds to analyse the several laws that were issued by the Colombian authorities to reform the land tenure system. Those included Law 200 of 1936, followed in 1949 by the implementation of fiscal measures for bringing pressure on landowners to cultivate their holdings, and by the land reform established through the adoption of Law 135 in 1961, signed by President Alberto Lleras. An interesting section of the chapter focusses the advantages and limitations of a foreign mission's recommendations (*The Strategy*, p.117), a subject to which he would go back many times in *Journeys*.

Chapter 3 deals with the problem of inflation in Chile. Once again, the subject is introduced by a detailed historical reconstruction, beginning with in the 1830s and passing through Courcelle-Seneuil, the University of Chile's first professor of economics. In 1860 Courcelle-Seneuil helped the government to produce a banking law which established the principle of free banking. The return to the gold standard in 1925 is defined as a significant episode in Chile's recent history, marked by the the influence of the Kemmerer Mission, named after the North American professor who came to the country as a consultant to the government. Although the bills enacted in 1925 avoided some of the mistakes committed in the previous years, claims the author, they once more conveyed the risks associated with a strict application of imported doctrines in foreign countries. In his own words,

...the experience again left a most bitter taste. It displayed once more that propensity [...] to take imported doctrines more seriously and to apply them more rigidly and dogmatically in a foreign country than in their country of origin."
(*Journeys*, p.180)

Then came the "radical" years of 1939-1952, when inflation rates rose steadily at an average yearly rate of 18 per cent, reaching 70 per cent in 1954. Hirschman attributes the "prolonged complacency toward inflation" in Chile during this period to the atmosphere

⁸ Before that, Furtado had worked for the ECLA.

of world-wide inflation prevailing during WWII and the immediate postwar years. Inflation was seen by the Central Bank's authorities as the price to be paid for rapid economic expansion. Nevertheless, in 1949 the government addressed to the UN and subsequently to the IMF a request for a foreign advisory mission. The two missions came to Chile approximately at the same time. Although there were prestigious economists in both teams, adds Hirschman, those missions "were condemned to futility from the start". (*Journeys*, p. 191)

In 1955-6 a new foreign mission came to help the monetary authorities to fight inflation: the Klein-Saks Mission. Hirschman reports that public order in Santiago was then constantly threatened by strikes and other public demonstrations, to a point where the army began to camp in the streets, trying to assure constitutional order. The Ibañez government then decided to contract a consulting firm (Klein & Saks) headed in Washington, who had previously worked in Peru.

Discussing the effectiveness of the recommendations set up by this new mission, Hirschman concludes that its technical contribution was minimal, since it relied on existing plans and ideas.⁹ However, replicating what happened in the Kemmerer case, the role of this mission was important in cementing a new political coalition. At this point, Hirschman concludes that

The mission appears in this context essentially as a device permitting the contending groups to evade once again their responsibility to hammer out a workable compromise in face-to-face discussions. (*Journeys*, p. 209)

Hirschman then proceeds to discuss the tenets and main propositions of the so-called structuralist school of inflation, an original doctrine elaborated by Latin American economists. Instead of seeing inflation as the fundamental evil of the Chilean society to inflation, as was the case with other currents of thought, structuralists argued that the search for general causes underlying inflation problems may help society to fight these various problems. In order to eliminate inflation, basic structural reforms in the economy were necessary.

After this long review of the economic history of Brazil, Colombia and Chile, Hirschman devotes Chapter 4 to the following question: is there a Latin American style of problem-solving and policy-making? To answer this question, he introduces on p. 238 a French expression which would turn out to be central in his thinking: *la rage de vouloir conclure* (the anger of wanting to conclude). By using this expression he intends to characterize the problem-solving style of latecomers. No doubt, this characterization is highly contextual: pressing social problems such as the ones expressed by Colombian *campesinos*, the hungry *Nordestinos* in Brazil and the Chilean workers demanded quick answers from the policy-makers, who needed to address their actions, at first, merely to pacify the protests. This would often lead them to jump to a ready-made solution, since

⁹ Hirschman goes back to the "visiting-economist syndrome" in *Dissenters* (p. 93), defining it as "the habit of issuing peremptory advice and prescription by calling on universally valid economic principles and remedies (...) after a strictly minimal acquaintance with the 'patient'". I will go back to this point in the conclusion.

Urged on by pressing problems and by the desire to catch up, and liberally supplied with recipes communicated to them by the advanced countries of both East and West, their policy-makers are only too ready to believe that they have achieved full understanding and to act on the basis of this belief. (*Journeys*, p. 240)

At this point Hirschman goes back to a subject about which he had already talked in *The Strategy*, which concerns the special problems of latecomers in the industrialization process. All they can do, he had argued in *The Strategy*, is to follow a trail that others opened a long time ago. However, by assuming this derived type of development, they might face additional obstacles of a psychological nature, which involve “a vague resentment against the new ways, a secret hope that the equipment/ methods will not work out in our milieu.” (*The Strategy* p.139)

This ambivalent attitude is further discussed in *Journeys*, where Hirschman coins a significant expression to picture it: “failure complex” (p.240). From the *rage de vouloir conclure* he moves to this second expression, which denotes what he considered to be a “self-deprecatory style of policy-making” observed among Latin American politicians. In a nutshell, failure complex – *fracasomania*, as he calls it in an article published in 1968 and reprinted in *Bias* – refers to the tendency to consider problems as either wholly unsolved or as totally solved. Driven by a compulsive desire to solve all problems as rapidly as possible (*la rage...*), policy-makers are bound to search for a “fundamental” solution, for which they count on foreign counselling.¹⁰ The often excessive enthusiasm with which foreign missions and experts are greeted at their arrival in a Latin American country¹¹ would be part of this ambivalent pattern. There was no rejection, but, instead, an attitude of acceptance qualified by (unconscious) sabotage.

The three stories told in *Journeys* have some examples of this collective psychological trait, as Hirschman would later explain in more details. The agrarian reform promoted by the Colombian government in the 1930s did induce changes in a desirable direction, but it was always interpreted as a complete failure. In Brazil’s Northeast some public initiatives to fight the repeated drought problem were seen as totally inefficient, although they were rather successful. (*Crossing*, p.100)

Against this search for the all-encompassing solution to problems of development Hirschman argues in favor of emphasizing incremental gains and a problem-solving strategy. As Coser (1984, p. 166) points out, the author sees development as the creation of institutional means to bring potential resources to life. There is no predetermined royal road to this end; everything depends on creative solutions applied to concrete circumstances.

¹⁰ It is interesting to point that the fact that Hirschman called his new book on development economics “A Bias for Hope” clearly reveals his intention to counteract this *fracasomania*.

¹¹ Hirschman states that although the concept occurred as a result of his experience with policy making in Latin America, it also reflects his Italian experience. (*Crossing*, p. 100)

3. *Development Projects*

The book *Development Projects Observed*, published in 1967, concentrates in the analysis of the microeconomic aspects of development, such as the construction and maintenance of highways, electric power stations and irrigation schemes. The empirical material in the book concerns 11 World Bank's projects that were then scattered around the world, comprising irrigation projects in southern Italy, Peru and Thailand, telecommunications in Ethiopia, railways in Nigeria, a pulp and paper industry in Pakistan etc. In beginning of the book Hirschman explains that he made an effort to look "beyond technology", emphasizing, rather, the social and cultural environment where development projects are embedded.

A major chapter, entitled "Latitudes and Disciplines" (Chapter 3), deals with a large variety of pressures for performance stemming from various characteristics of the project: spatial or locational latitude, temporal discipline in construction, tolerance for corruption, latitude in substituting quantity for quality, private for public outlays and so on. The conception of latitude originates from the empirical observations contained in Chapter 8 of *The Strategy*, about the superior performance of latecomers in the maintenance of airplanes as compared to highways. From this empirical evidence Hirschman concluded that a certain type of capital-intensive, advanced technology could be more appropriate to a country with little industrial tradition than the labor-intensive technology.

In *Development Projects* (p. 86) Hirschman defines latitude as the characteristic of a project or task that permits the planner and operator to mold it, or to let it slip, in one specific direction, regardless of outside occurrences. His main argument has to do with the greater or smaller latitude in standards of performance prevailing in a given industrial activity. When this latitude is narrow (which implies a low tolerance for poor performance) the corresponding task has to be performed in a clearly defined right manner, otherwise it cannot be performed at all or is exposed to a considerable level of risk. Airplanes, for example, involve a high probability of crash, with dramatic consequences. The same does not apply to highways, where performance standards and risks involved are much lower.

All the above mentioned categories proved quite useful in understanding the specific difficulties and achievements in the different projects visited by Hirschman. As he sophisticates his conception of latitude, he gains a better understanding of it and, at the same time, a more qualified position: lack of latitude, he claims, has the advantage of determinateness, of preventing mere slippage, accelerating decision making processes and providing project managers with firm discipline and guideposts for action. While in some situations the presence of latitude was useful in fostering the adaptation of imported models of economic behavior to local conditions and requirements. (*Development Projects*, p.127), in others, lack of latitude favored changes that take place discontinuously, involving new values and types of behavior. (*Development Projects*, p.139)

Hirschman's experience with World Bank's projects led him to distinguish two types of decision: i) to accept some "status quo traits" of the environment as temporarily unchangeable characteristics and ii) to consider certain other traits as subject and ready for the kind of changes that are necessary for the project to be successful. (*Development*

Projects, p. 131) Through an analogy with price theory, he calls the first decision “trait-taking” and the second one “trait-making”. The failure of railroad project in Nigeria, he concludes, was due to a large amount of trait-making required for its success, as compared to highway transportation, which was not nearly as demanding.

In this connection, another central concept in *Development Projects* is the so-called principle of the *hiding hand*, a metaphor to which Hirschman would return in his later writings. At first sight, it’s ancestor is Adam Smith’s invisible hand; however, Hirschman claims that it is the Weberian concept of unintended consequences of human action. By employing this metaphor the author explores one of his dearest ideas, which is the search for possible hidden rationalities.

How does the hiding hand work in concrete situations? Development projects are subject to two kinds of potential developments: unsuspected threats, on the one hand; and unexpected remedial actions that can be taken whenever the former become real, on the other. Project planners may ignore or underestimate the extent of trait-making that a given project requires;¹² should they have complete information about the difficulties involved in its implementation, they might have decided to abandon it; in so doing, however, they would never reach the alternative solutions that might later turn out to be the true handicap of their project. In a pasture improvement project in Uruguay, for example, technical change required a lot of social, institutional and attitudinal transformation. The landowners did not realize that, and decided to adopt the new techniques just because they looked financially attractive and socially prestigious. Once they adopted them, however, they realized that they were compelled to make substantial changes in their way of life, and the hiding hand acted to accommodate those changes.

4. From a methodological point of view

After reviewing the basic content of the trilogy that Albert Hirschman wrote by inspiration of his Latin American professional experience, I will dedicate this concluding section to comment on a few methodological aspects of the author’s approach, which can be found in the three books that are here analysed and tend to persist in his later writings.

The first characteristic - perhaps the most important one, for a paper to be presented at the ECHE 2004 - is a deliberate attempt to trespass disciplinary boundaries. In this respect *Journeys* is an emblematic piece, where Hirschman expressly reveals his disposition to explore the political aspects of development. This was not the first time that he crossed the frontier between economics and political science,¹³ and he continued to do so throughout his career. In the trilogy and elsewhere in his writings, Hirschman is a political economist in the broader sense of the term.

Still another example is the link that can be established between *Development Projects* and one of Hirschman’s best known books, *Exit*, published more than a decade later. (Hirschman 1970) As the author later realized, there is a deep affinity between the

¹² This anticipates the concept of cognitive dissonance, which would later turn to be popular among economists.

¹³ See, for example, his *National Power and the Structure of Foreign Trade*, published in 1945.

concept of latitude, to which the reader is introduced in the former, and the concept of voice, discussed in the latter. (Hirschman 1984, p. 100) As said before, a narrow latitude in standards of performance prevailing in a particular economic activity can be rational for underdeveloped countries, rendering their management efficient, since a poor performance in those narrow latitude activities tends to originate strong public concern and protests. Here lies the connection with the concept of voice, which stands for political action. By means of this second concept Hirschman stresses the significant role that political action plays in many economic processes. Voice is not a substitute for the market, nor an obstacle to its functioning; it is a second generally available mechanism that social actors consider in their choices. Therefore, economists concerned with development issues should focus the general context in which economic decisions are made.

This tendency to trespass disciplinary boundaries is not an occasional characteristic of Hirschman's writings, neither does it involve only the border line between economics and political science. Rather, it seems to be a conscious *parti-pris*, by means of which the author finds help in analytical tools borrowed from political science, but also from human sciences such as psychology and philosophy, and, more generally, from disciplines such as linguistics.¹⁴ For Meldolesi (1995, p. 57), *The Strategy* is already the result of a cross-fertilization of continents, cultures, and disciplines:

The Strategy grew out of work in the field and was the result of a cross-fertilization of experiences, disciplines, and cultures during the course of a complex itinerary across three continents.

In Hirschman's work, trespassing the frontiers between disciplines seems to be homologous to trespassing geographical frontiers, cultures, and life experiences. The acquaintance with all those domains might explain the originality of his approach to economic problems. The habit of crossing boundaries seems to have opened his perception to hypotheses beyond mere economics, thus developing his sensibility toward concepts that are now common knowledge among specialists, such as bounded rationality, cognitive dissonance, transaction costs, market failure, etc. In his effort to redefine the scope of Political Economy, Hirschman favored a more complex and profound account of his subject matter, which is at the same time a symptom and a cause of this positive attitude towards multidisciplinary research.

In *Bias for Hope*, where he once more explores the political dimensions of economic phenomena, Hirschman (1971, p.1) claims that this tendency to trespass disciplinary boundaries comes "almost naturally" in connection with any problem that he happens to be attacking. Although this broad outlook was not unusual among economists at the time he wrote his trilogy, it seems to be more intense in his particular case. (I venture to say that this sort of "*non challenge*" toward disciplinary boundaries is responsible for the cohesive character that his writings acquired throughout his career.)

The other comments that I want to make in this conclusion have to do with two other methodological aspects, closely connected to a "trespassing" attitude. They consist in a

¹⁴ I plan to devote a second article to another example of this "trespassing attitude" where psychoanalysis comes in, which involves the concept of *fracasomania*.

straight connection between theoretical work and policy recommendations, on the one hand, and a thorough concern with empirical research, on the other.

As said before, Hirschman decided to move to Latin America with the goal of studying the problem of development in backward countries. (*Crossing* p. 80) It was not a purely intellectual mission. He wanted to study the causes of underdevelopment and how large-scale reform policies could be carried out to provide a solution. This suggests that, from the very beginning, there was a mixture of positive and normative elements in Hirschman's work. Concern with political relevance led him to work on two simultaneous fronts: a theoretical one, which implied building a theory to explain underdevelopment, and a practical one, which involved discussing a set of policy recommendations to cope with it.

The third methodological feature that its worth stressing in this paper is that, unlike many economists, Hirschman does not endorse the idea that the basic job of a social scientist is to discover and stress regularities, stable relationships, uniform sequences etc.. Alejandro (1984) points out that Hirschman has been a rebel against the simplifications, banalities, and limitations of practical orthodoxy and heterodoxy, and he did so by learning from his empirical work. He did not manipulate a large mass of statistical data and submitted them to sophisticated econometric techniques, as a contemporary fellow would do. He basically relied on direct observation (visiting the projects, listening to the people, meeting with government officials and so on) and on the historical reconstitution of relevant institutions (agrarian laws in Colombia, a regional bank in Brazil and so many others).

Albert Hirschman realized that certain structural characteristics of underdeveloped economies made orthodox analysis inapplicable and misleading. He wanted "to underline the multiplicity and creative disorder of the human adventure, to bring out the uniqueness of a certain occurrence, and to perceive and entirely new way of turning a historical corner", and his biography is emblematic of this attitude: not only he decided to live in a very poor continent such as Latin America was in the 1950s, he also bothered to learn the language and to visit the countryside, interacting with Latin American politicians, intellectuals, workers and other social groups. Of course, he went to Latin America with some prior theoretical conceptions after all, but he was ready to abdicate of them if empirical investigation proved them wrong. When he arrived in Colombia, he was determined "to understand better their [the Colombians's] patterns of action, rather than assume from the outset that they could only be 'developed' by importing a set of techniques they knew nothing about". (*Dissenters*, p. 91)

This points to a very interesting idea that Hirschman began to conceive in *The Strategy* and further developed in other writings, what he would later call "the visiting-economist syndrome". Specialists's missions that were sent to underdeveloped countries with the aim of giving them technical assistance often fell on this syndrome. In a nutshell, it consisted on issuing policy recommendations without a close examination of the empirical conditions prevailing in the region. In *Dissenter's*, Hirschman (1984) uses irony to tell the reader that when he went to Colombia the World Bank expected him (as was the case with all its foreign experts) to rapidly formulate some ambitious plan for economic development, employing the ready-made techniques that he had learned:

All of this was alleged to be quite simple for experts mastering the new programming technique: apparently there now existed adequate knowledge, even without close study of local surroundings, of the likely ranges of savings and capital-output ratios, and those estimates, joined to the country's latest national income and balance of payments accounts, would yield all the key figures needed. (Hirschman 1984, p. 90)

Reacting to this posture, Hirschman questioned the automatic application of orthodox remedies to the problems of underdevelopment. In his opinion, instead of relying on general principles and abstract prescriptions, the foreign adviser should carry "an empirical lantern" and make "a visit with the patient" before being able to diagnose what was wrong with him. (Hirschman 1998, p. 88) This general attitude involved regular conversations with Latin American policymakers and entrepreneurs, so that foreign specialists could acquire a perception about the way investment decisions were taken. In other words, the foreign adviser should begin his work by engaging on a thorough empirical research of his "cases", in order to grasp their peculiarities and unusual aspects.

This means that Hirschman did not abdicate the pretense of building an universal theory, but argued, instead, that a theory in the social sciences cannot acquire an universal scope without paying due respect to the historical, geographical and institutional diversity of its subject matter. At a later point in his career, the author realized that there was a type of "unexpected consequence" effect in his own process of theory building: he had the intention of building a theory specially suited to the underdeveloped countries and ended up by finding a valid approach for understanding change and growth in other developing and advanced countries as well. As pointed out by Meldolesi (1995, p. 161) his move from *Development Projects* to *Exit* was equivalent to a dislocation from backward to advanced countries. But Hirschman's intellectual career would later be consciously pursued in both directions. Looking for the specific, he went full circle and met the universal, as he says in the quotation below, with which I close this paper:

It appears, therefore, that the very characteristics on which I had sought to build an economics specially attuned to the underdeveloped countries have a far wider, perhaps even a universal, range and that they define, not a special strategy for the development for a well-defined group of countries, but a much more generally valid approach to the understanding of change and growth. In other words, **I set out to learn about others, and in the end learned about ourselves.** (Hirschman 1984, p. 95 – emphasis added)

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