The Fatal Conceit of Foreign Intervention

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Abstract

The fatal conceit is the assumption that the world can be shaped according to human desires. This paper argues that the logic of the fatal conceit can be applied to foreign interventions which go beyond the limits of what can be rationally constructed by reason alone. In suffering from the fatal conceit, these interventions are characterized by: (1) the realization that intentions do not equal results, (2) a reliance on top-down planning, (3) the view of development as a technological issue, (4) a reliance on bureaucracy over markets, and (5) the primacy of collectivism over individualism. These characteristics explain why interventions extending beyond the limits of what can be rationally constructed tend to fail.

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"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design." --F.A. Hayek (1988: 76)

1. Introduction

In his last book, F.A. Hayek (1988) analyzed the "fatal conceit," which is the presumption that "man is able to shape the world around him according to his wishes" (27). The fatal conceit assumes that because rules that facilitate coordination emerged through human action, it is possible for planners to design a set of rules that will generate a preferable outcome. Hayek argued that socialism suffered from a fatal conceit because it assumed knowledge on the part of planners that they could not possibly possess. Further, it overlooked the fact that many of the rules facilitating cooperation were spontaneous orders, which arose through purposeful human action, but not through human design. These emergent rules allowed for what Hayek called the "extended order," but they were not the result of a grand plan or of human design.

The central argument of this paper is that the logic of the fatal conceit can be applied to foreign interventions that go beyond the limits of what can be rationally constructed through human reason. Foreign intervention, which can take a variety of forms, refers to the use of the discretionary power of one government to address perceived problems in foreign societies. In addressing these problems, foreign interventions aim to construct a preferable state of affairs from the standpoint of those intervening. Our argument is not that foreign interventions can never succeed. Indeed, Hayek (1988: 37) was clear to note that rationally designed rules and institutions played an important role in the operation of all societies. At the same time, Hayek

(1973, 1988: 22) was careful to note that rational constructivism was constrained by definite limits. In other words, man is limited in his ability to consciously construct social rules and institutions through the use of reason. This implies that foreign interventions will be more likely to fail when they go beyond the limits of what can be rationally constructed. We focus on two forms of intervention—foreign aid and military intervention—which often involve complex plans to rationally design a variety of rules and institutions and, hence, push the limits of designed orders.

We realize that the limits of constructivism are often blurry and are not always easily definable. Nonetheless, appreciating the constraints of the rational design of a society's institutions is important for understanding what interventions can effectively achieve and the damages they can potentially cause. Within this context, we explore the parallels between the fatal conceit of socialism as developed by Hayek (1988) and the fatal conceit of foreign interventions, which can be summarized as follows:

> 1. Good intentions do not necessarily lead to good results – Hayek (1988) noted that although socialism was driven by good intentions it endangered standards of living for a significant portion of the population. Similar to socialism, foreign interventions are often driven by benevolent intentions. For example, foreign interventions often aim to help the poorest societies in the world or to address humanitarian concerns. However, many foreign interventions have failed to generate the desired results and in many cases have caused more harm than good in the form of negative unintended consequences.
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> 2. Reliance on top-down planning – Like socialism, many foreign interventions are grounded in central plans designed by the intelligentsia. In the context of foreign interventions, the intelligentsia consists of an array of 'experts' in the international development community and developed countries. Under both forms of planning, emergent institutions are neglected or viewed as secondary to the grand plan developed by experts.
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> 3. The view of development as a technological issue – Both socialism and many foreign interventions are grounded in the view that development is a 'problem,' which can be solved through central planning. From this standpoint, success is mainly a technological matter, directly dependent on the amount of effort and resources invested in planning as well as on the execution of the plan. In both cases the underlying assumption is that

intelligent and benevolent planners can design a plan that, if implemented properly, will yield an outcome preferable to the status quo.

4. Reliance on bureaucracy over markets – Socialism was reliant on a massive bureaucratic apparatus to implement the dictates of central planners. Similarly, many foreign interventions take place through a large bureaucratic system which attempts to implement the central plan designed by the aforementioned experts.

5. The primacy of collectivism over individualism – Mirroring socialism, many foreign interventions place collective goals over individual goals. Under socialism, individual freedoms and initiative were sacrificed for the good of the collective. Many foreign interventions, although often couched in the rhetoric of freedom, liberation, and self determination, sacrifice individual autonomy for the achievement of global goals. Instead of allowing individuals to engage in self-determination and the process of individual experimentation and learning, foreign interventions rely on the plans of outside experts to maximize the global good.

These parallels provide insight into why interventions tend to fail when they extend beyond the limits of what can be rationally constructed.

We proceed as follows. The next section clarifies what is meant by foreign intervention and discusses the extent of rational constructivism. Section 3 elaborates on the five parallels between the fatal conceit of socialism and the fatal conceit of foreign interventions. The following sections extend these parallels to two cases of foreign intervention which often suffer from a fatal conceit. Section 4 offers a history of development economics and foreign aid, providing a firm intellectual foundation for a wide array of foreign interventions in the form of aid and assistance. Section 5 discusses the use of military interventions to shape outcomes in foreign societies and how many of these interventions fall prey to the logic of the fatal conceit. Section 6 then concludes.

2. Foreign Intervention and the Limits of Constructivism

2.1 What is Foreign Intervention?

We envision foreign interventions as lying along a continuum of different methods and strategies. The two ends of the continuum reflect Nye's (2004) distinction between 'soft' and 'hard' power. Soft power refers to getting the desired outcome through persuasion, while hard power refers to the use of coercion to achieve the desired end. At one end of the continuum are 'softer' interventions such as the control and dissemination of information and cultural products. As one moves along the continuum, interventions become 'harder' and may involve mediation, public denunciation, travel bans, the freezing of assets, embargos, sanctions, and peacekeeping and military activities, among other activities.

The continuum of foreign interventions highlights several important points. First, whether a foreign intervention falls under the category of soft power or hard power is not always clear cut and is a matter of degree. Second, while strategies and methods within each general category of intervention vary in their complexity, as one moves from the 'softer' end of the continuum to the 'harder' end of the continuum, the associated interventions are more comprehensive and, hence, rely increasingly on rational constructivism. Because they push the boundaries of what can be rationally designed, interventions further along the continuum are more likely to suffer from a fatal conceit.

To provide a concrete example, consider that releasing or controlling certain information (an intervention toward the softer end of the continuum) relies less on constructivism as compared to military occupation and the construction of a country's economic, legal, political, and social institutions (an intervention toward the harder end of the continuum). Likewise, the delivery of targeted humanitarian aid is a less comprehensive intervention as compared to large-scale foreign aid projects which aim at society-wide reforms and fundamental changes to institutions. As such, the latter intervention is more likely to fall prey to the fatal conceit of foreign interventions.

We are cognizant of the fact that the scale and scope of interventions varies greatly and that interventions may not fit neatly into the categories listed above. Further, in some cases interventions may span several categories across the continuum. In general, as interventions increasingly rely on rational constructivism, they are more likely to suffer from a fatal conceit and, as a result, fail to achieve the desired end. While the specific limits of constructivism can be blurry, the next sub-section provides some insights into the outer boundaries of the ability of planners to rationally design a society's institutions.

2.2 The Limits of Rational Constructivism

Economic, political, and social outcomes are a function of formal and informal institutions (North 1990, 1991). As the 'rules of the game,' institutions provide incentives which guide behaviors for better or worse. The central issue is how the institutional rules emerge and sustain over time. North (2005) and Boettke, Coyne, and Leeson (2008) conclude that the effectiveness of formal institutions requires certain informal institutions to serve as a foundation. Absent the proper informal institutions, formal institutions will either collapse or be dysfunctional. This realization begs the question of whether people can rationally design and shape the array of formal and informal institutions necessary for a workable society.

In discussing the 'extended order' of a society's institutions, Hayek emphasized the importance of emergent orders that were not the product of human plan and design. At the same time, he also recognized the role played by designed organizations in all societies. Hayek wrote that "among the rules of conduct that make it possible for extensive spontaneous orders to be formed, some will also facilitate deliberate organisations suited to operate within the larger system" (Hayek 1988: 37). While recognizing the importance of designed orders for the functioning of society, Hayek also pointed out their limits when he noted that "…many of these various types of more comprehensive deliberate organsations actually have a place only within an even more comprehensive spontaneous order, and would be inappropriate within an overall order that was itself deliberately organised" (1988: 37).

Further clarity to the limits of what can be rationally constructed is provided by Fukuyama (2004: 31-2), who focuses on the "components of institutional capacity" and the transferability of knowledge associated with each component (summarized in Table 1):

Component	**Transferability**
Organizational design and management	High
Institutional design	Medium
Basis of legitimization	Medium to low
Social and cultural factors	Low

Table 1: Components of Institutional Capacity[1]

Within Fukuyama's schemata, the transferability of institutional capacity is a function of the ability to formalize the knowledge associated with the institutional component. The formalization of knowledge is important for its communication in different contexts. Where knowledge cannot be formalized, it becomes difficult, if not impossible, to transfer. The extreme case of this is Hayek's (1945) notion of context specific knowledge of "time and place" which

[1] Source: Fukuyama 2004: 31.

cannot be formalized let alone transferred to different contexts. Given this, the knowledge associated with the first component, organizational theory, is typically the most formalized and, hence, the most transferable across societies. As one moves down the list of institutional components, it becomes increasingly difficult to transfer knowledge because the nuances of the component are more difficult to formalize in any meaningful way.

The implications are as follows. Foreign interventions which aim to influence the organizational design and management of institutions are the most likely to succeed because they remain within the boundaries of what can be rationally designed and transferred across contexts. In contrast, interventions aimed at influencing embedded social and cultural factors are the least likely to succeed because they tend to be beyond the limits of what can be rationally constructed. Given this, interventions aimed at changing the organizational design in countries where the existing social and cultural norms are at odds with these changes will tend to fail. However, in light of the difficulty of altering embedded social norms, even intervention efforts beginning with attempts to change these informal institutions are likely to be unsuccessful.

3. Five Parallels between the Fatal Conceit of Socialism and the Fatal Conceit of Foreign Intervention

This section develops the parallels between the fatal conceit of socialism formulated by Hayek and the fatal conceit of foreign interventions. These parallels are as follows: (1) intentions do not equal results, (2) reliance on top-down planning, (3) the view of development as a technological issue, (4) reliance on bureaucracy over markets, and (5) the primacy of collectivism over individualism. These five parallels provide insights into the frequent failure of interventions that go beyond the limits of what can be rationally constructed.

Hayek (1988: 9) noted that despite the fact that socialism was inspired by the best of intentions, it "endangered the standard of living and the life itself of a large proportion of our existing population." Like socialism, foreign interventions are typically driven by the best of intentions. For example, the goal of the provision of much foreign aid is to address the pressing issues of extreme poverty and reform in a variety of institutions. Likewise, the goal of many foreign military interventions is to resolve conflict, liberate the oppressed, and rebuild free societies. Despite these good intentions, foreign interventions have often failed to have the desired impact (see Easterly 2001, 2006; Payne 2006; Coyne 2007). Further, in many cases, intentions to do good have caused harm and exacerbated already bad situations.

One reason for the failure of many foreign interventions, despite being motivated by the best of intentions, is the reliance on top-down central planning, which suffers from the dual issues of incentives and knowledge. No matter what the type of foreign intervention, those involved must have the incentive to undertake actions conducive to achieving the desired end goal. However, the existing incentives often create perverse outcomes which run counter to the desired ends of the initial intervention.

For example, in the case of foreign aid, Easterly (2001, 2006) and Easterly and Pfutze (2008) highlight how the incentives facing donors and aid recipients are often at odds with the stated goals of aid. Donors are often influenced by special interests and have the incentive to continue to provide aid to corrupt or ineffective governments in order to exhaust their aid budgets. Recipients often have an incentive to allocate aid to close friends and cronies to maintain or strengthen domestic political support. Many recipient governments also seek to limit the beneficial effects of aid in order to remain a recipient in subsequent periods. The main point is that foreign aid changes endowments, but it also changes incentives. In order to understand the full impact of foreign aid, it is critical to consider the impact of that aid on the incentives of all involved. As an example of this point, consider Coyne's (2007) exploration of the array of incentives facing policymakers, occupiers, and citizens in the occupied country, in which he concludes that their incentives are a key reason why foreign military interventions fail. The perverse incentives created by the interplay between special interests, bureaucracy, and the time horizons of elected officials, among other factors, influence policies associated with these interventions.

In addition to the issue of incentives, there is a fundamental knowledge problem associated with foreign interventions. For example, in the context of foreign aid provision, a central issue is how assistance is allocated. Decisions must be made regarding the allocation of aid, but absent feedback mechanisms such as profit and loss, there is no effective means for engaging in rational economic calculation. In the absence of appropriate market feedback, allocation decisions must be based on other factors such as political influence and social connections.

Similarly, where foreign military interventions attempt to reshape countries to mirror Western political and economic systems, policymakers face a knowledge problem regarding the complex array of informal institutions—belief systems, norms, values, etc.—that underpin formal institutions (Coyne 2007). To illuminate this point, consider efforts to promote liberal democracy, a significant motivation behind numerous interventions on the part of the development community and developed western countries (see Meernik 1996). These efforts assume that experts can comprehend the factors underpinning sustainable democratic institutions and transport them abroad. This neglects the fact that there is ongoing debate regarding the factors necessary for sustainable democracy. Consider, for instance, the following list of propositions put forth by Shin regarding the "third wave" of democracy (1994: 151):

> (1) There are few preconditions for the emergence of democracy,
> (2) No single factor is sufficient or necessary to the emergence of democracy,
> (3) The emergence of democracy in a country is the result of a combination of causes,
> (4) The causes responsible for the emergence of democracy are not the same as those promoting its consolidation,
> (5) The combination of causes promoting democratic transition and consolidation varies from country to country, and
> (6) The combination of causes generally responsible for one wave of democratization differs from those responsible for other waves.

As this list indicates, our understanding of the conditions conducive to sustainable democracy is severely limited. What is known is that success in foreign interventions is not simply a matter of taking the rules that work in one society and implementing or imposing them in another society. The ability to transport rules between societies is constrained by the fact that belief systems differ across societies (North 2005). Ultimately, formal institutions are effective to the extent that they reflect the underlying belief systems of the societies in which they exist. Along these lines, Hayek highlighted the importance of traditions, including beliefs, "which in more fortunate countries have made constitutions work which did not explicitly state all that they presupposed, or which did not even exist in written form" (1973: 107-8). In short, effective formal institutions, such as constitutions, are codifications of complex underlying informal belief systems which are beyond the knowledge of any single mind or group of minds. As Hayek indicates, "…our values and institutions are determined not simply by preceding causes but as part of a process of unconscious self-organisation of a structure or pattern" (1988: 9).

Foreign interventions relying on top-down, comprehensive plans must abstract from the reality of context-specific knowledge because interveners cannot possibly possess this local knowledge. The end result is one-size-fits-all plans that tend to be general and nonspecific. The Washington Consensus, discussed in more detail in Section 4, is one example of this logic. The Washington Consensus provides a comprehensive checklist of reforms based on general principles which abstract from the local context where reforms will actually take place. At best this is a broad guide that adds little value to actual reforms, since it abstracts from the specifics of existing realities.

Yet another shared characteristic of socialism and many foreign interventions is that both are grounded in the view of economic development as a purely technological problem. Socialism viewed the economic allocation of resources as a problem that could be solved through a central planning board. Many foreign interventions take this logic a step further by assuming that the numerous (e.g., economic, legal, political, and social) problems of foreign societies can be solved through comprehensive plans for reform and change. Given the assumption that the development intelligentsia can design a preferable state of affairs, the main issue becomes one of determining the right plan and calculating the required resources to achieve that plan. In this context, success is purely a matter of effort and not an issue of constrained or limited knowledge of how to go about achieving the desired ends.

To illuminate this point, consider the work of Jeffrey Sachs (2005), a leading development economist and former director of the UN Millennium Project, which focuses on designing and implementing the organizational priorities and financing necessary to achieve the Millennium Development Goals (MDGs). Sachs recognizes the numerous failures of previous foreign interventions and is cognizant of the fact that the MDGs include "long-held commitments of the international community that had not been fulfilled in the past" (2005: 213). However, Sachs attributes this failure to a lack of will, effort, and resources instead of to the constraints on the knowledge of development experts. From Sachs's standpoint, development is a purely technical problem that can be solved purely through harder work and more resources. However, Hayek's point in developing the logic of the fatal conceit was that wishing something so does not make it so. In other words, viewing development as a lack of will and effort implies that failure is a lack of work ethic and resources. This neglects the aforementioned issues of incentives and knowledge which constrain the effectiveness of foreign interventions.

Reliance on bureaucracy is yet another similarity between socialism and many foreign interventions that rely on a vast network of bureaucracies to implement the plans designed by experts. The reliance on bureaucracy magnifies the problems of incentives and knowledge. There is a large literature exploring the political economy of bureaucracies. For example, Tullock (1965) and Niskanen (1971) emphasize the incentive issues facing bureaucrats as well as problems in the transfer of information. First, as bureaucracies grow in size, the transfer of information becomes increasingly difficult because of the 'noise' introduced due to the chain of transmission. One way around this is to decentralize decision making. However, this solution leads to an incentive issue because it must be ensured that incentives exist for all of the decentralized decision nodes to undertake actions that contribute to the common goal of the broader bureau. For obvious reasons, finding the appropriate balance between decentralization and incentive alignment can be a difficult task. Mises (1944) emphasized that bureaucracies have no means of engaging in rational economic calculation and, hence, no means of efficiently allocating resources. The result is waste due to a misallocation of resources that fails to achieve the desired end from the standpoint of those undertaking the action. These issues of bureaucracy have been documented as perversely impacting the delivery of foreign aid (Easterly 2003) and the carrying out of foreign military interventions (Coyne 2008).

A final parallel between socialism and various types of foreign interventions is the emphasis on collective goals over individual goals. Under socialism, the goals of the collective were given priority over the goals of the individual. A similar logic is at play in the context of foreign interventions, where development intelligentsia provide "…collective goals such as national poverty reduction, national economic growth and the global Millennium Development Goals, over the aspirations of the individual" (Easterly 2007: 32). These collective goals are given priority over the freedom and autonomy of the individual. As noted, the means to achieve these goals are top-down interventions through various bureaucracies. As such, emphasis on individual ambition, entrepreneurship, and the process of individual learning and experimentation are pushed aside in the name of accomplishing collective ends through top-down means.

4. The Fatal Conceit of Foreign Aid

There are various forms of aid and assistance. As its name implies, humanitarian aid is intended to help the victims of crises and calamities. Another form of aid is provided by charitable organizations and non-government organizations (NGOs). Systematic aid includes bilateral aid (government-to-government transfers) or multilateral aid (aid dispersed through international organizations such as the World Bank or IMF). Systematic aid, coupled with technical assistance and advice, has been a dominant form of aid to underdeveloped countries. Aid is a type of foreign intervention in that it attempts to change the existing situation in the recipient country through external influence. In some cases, aid can be effective in achieving the desired ends of the donors. However, many interventions aimed at promoting development through foreign aid suffer from a fatal conceit. The efforts that fail tend to rely on large-scale, comprehensive plans to change the trajectory of underdeveloped countries (see Easterly 2006). As such, these interventions go beyond the limits of what can be rationally designed through the use of reason. In order to comprehend the origins of the fatal conceit of the foreign aid, it is important to understand the evolution of development economics which provides a theoretical foundation for many of these large-scale interventions.

In the broadest sense, development economics focuses on understanding the causes for the economic progress or stagnation of societies.[2] Issues of economic development can be traced back to the earliest writings in economics, as indicated by the title of Adam Smith's (1776) classic, *An Inquiry into the Nature and Causes of the Wealth of Nations*. However, the modern development subfield that exists today did not emerge until the 1930s (see Arndt 1981 and Bell 1987). The rise of modern development economics was due to several factors and events.[3]

The increased availability of statistics and data, which allowed for cross-country comparisons of standards of living, was a major factor in the rise of modern development economics. For example, Clark (1939) collected detailed data on the income accounts for the United Kingdom and is widely known for his work on national income estimation.[4] The use of this aggregate data, which was part of the broader Keynesian revolution, provided a means of comparing the wealth of nations and economic development. Comparisons of income and other measures of progress made differences in development clear and highlighted the failure of certain societies to develop and progress. As such, these data were used to identify the countries in need of assistance and aid, providing justification for comprehensive interventions to remedy the existing development gap.

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[2] This includes economic growth in terms of per capita income, the evolution of the structure (i.e., industrial composition, etc.) of an economy and the factors influencing the sustainability of economic growth (e.g., human capital, human capabilities, infrastructure, etc.). For a detailed survey of the field see Stern (1989).
[3] For a discussion of some of the important early literature in development economics, see Bardhan 1993.
[4] For a history of national income accounting, as well as problems with the method, see Holcombe 2004: 390-394.

Global economic events starting in the late 1920s were yet another influence on the rise of modern development economics. The Great Depression in the United States led to questions regarding the stability of capitalism. These questions were further fueled by the industrialization of the Soviet Union through forced investment and saving. This supported the existing belief that widespread state planning was a critical element of the development process (see, for instance, Myrdal 1956). In reviewing the early writing in development economics, Bell emphasizes that "if they shared anything in common, it is a distrust of the proposition that matters [of development] can be left to the market" (825). The prevalence of the perceived need of large-scale state planning for development illustrates the essence of Hayek's fatal conceit logic, where central planning replaced markets and emergent orders as a means of economic coordination.

Yet another global event at this time was the newfound independence of former colonies, which led to numerous countries and societies with varying levels of development and institutional quality. These events led economists to focus on issues surrounding comparative economic systems and to further understand the factors contributing to development across societies.

A final influence was the 1940s rise of what today is known as the 'international development community.' This community includes international organizations which attempt to facilitate economic, legal, political, and social stability and development around the world. The United Nations (UN) was founded in 1945 to uphold international law, to facilitate international peace and security, and to promote economic and social development. The World Bank and the International Monetary Fund (IMF) also emerged from the Bretton Woods Agreement as agencies of the UN.

Several organizations within the World Bank are focused on economic development issues, while the IMF is closely involved in the global financial system and the global macro economy.[5] The creation of these organizations provided a centralized apparatus to carry out research regarding economic development across countries and to implement global programs and projects aimed at fostering economic development. Since the creation of its various elements in the 1940s, the development community has been a driving force behind global foreign interventions and has served as a centralized means of designing and carrying out comprehensive development plans.

Development economics has always had an interesting relationship with the mainstream of the economics profession. The field has historically drawn on concepts and techniques from both micro and macroeconomics. While development economists have embraced many aspects of the mainstream, they have been critical of others. Along these lines, much of the early development literature took issue with the orthodox reliance on perfect information and competition, constant returns to scale, the absence of transaction costs, and the assumption of market clearing (see Bardhan 1993: 130). At the same time, the evolution of development economics was closely connected to work in mainstream macroeconomics.

As an example of this latter point, consider that in the 1930s and 1940s, Harrod (1939) and Domar (1946) would independently develop what would become known as the Harrod-Domar model. While the model was originally developed to analyze business cycles, it was

[5] The World Bank Group consists of five international organizations: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), International Centre for Settlement of Investment Disputes (ICSID). Although the World Bank Group was created as part of the United Nations system, each of the above agencies is governed by its member countries. Discussion of the World Bank and economic development typically focus on the IBRD and the IDA, since those agencies focus on issues of economic development.

extended to analyze economic growth.[6] At the core of the model is the assumption that growth in output is driven by investment in capital, which is a function of savings. Given this, the model explains growth through levels of saving and the productivity of capital:

$$g = \left(\frac{s}{v}\right) - d \qquad (1)$$

where g is the growth rate, s is savings, v is the productivity of capital, and d is the depreciation rate of capital.

The prediction of the Harrod-Domar model is that growth is the result of increased savings and productive investments. The model was, and still is, attractive to many involved in economic development because it allows for either predictions of growth or for the calculation of the savings needed to yield a certain level of growth. The Harrod-Domar model was the impetus for two interrelated policies toward economic growth that became dominant in the development community. Both policies, discussed below, suffer from the fatal conceit.

The first was the "investment gap theory" of development. As per the Harrod-Domar model, the lack of growth in underdeveloped countries was attributed to a lack of saving and a lack of productive capital investments. Significant aid from governments and the international development community were seen as the remedy to both of these problems.[7] Analysts used the Harrod-Domar model to calculate the level of savings needed to achieve certain rates of growth in underdeveloped countries. This investment gap could then be filled by wealthy countries and

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6 Domar would later say that his model was meant to contribute to an ongoing debate about business cycles, not to generate "an empirically meaningful growth rate" (quoted in Easterly 1997).

7 Also influential at this time was Rostow's (1960) book which which argued that all countries passed through certain stages of development. Given this framework, it was thought that the development community could push underdeveloped countries to a later stage of development through intervention.

the development community, who would provide aid to the governments of underdeveloped countries. In other words, developed countries could devise a comprehensive aid plan, which, if implemented, would overcome the lack of investment in poor countries.

Second, the problem of making productive capital investments could be solved by a 'big push' through government-coordinated investments of foreign aid in a number of sectors and industries.[8] This central planning through big push-style industrialization was often combined with mercantilist policies such as 'import-substitution,' whereby underdeveloped countries would rely on domestic substitutes for goods they would usually import.[9] The idea was that developing countries should promote the development of domestic industries, which are typically underdeveloped or in their infancy. The means of promoting domestic industries was a comprehensive central plan by the governments of developing countries, aided by foreign governments, to pick winner industries and manipulate international trade to foster development.

The use of the Harrod-Domar model and the associated investment gap and big push policies continue to be mainstays in the development community (see Easterly 1997, 2001: 35–37).[10] Advocates of increased aid rely on the investment gap logic as evidenced by Sachs (2005), who attributes ongoing underdevelopment in the poorest countries in the world to the poverty trap (56-7). The central idea behind the poverty trap is that the income of citizens in these countries is so low that it barely covers the basic necessities required for survival. As such, they are unable to save for investment. The overall impact is that these societies are unable to

[8] The idea "big push" theory of development was put forth by Rosenstein Rodan (1943) in one of the most influential papers in development economics.
[9] Note that the growth rate predicted by the Harrod-Domar model for a given level of savings assumes productive investments in a one sector economy. Assumed away is the decision process through which such investment decisions are made as well as the allocation of investments across sectors.
[10] Other classic theories of economic development include structural change models, international dependence models, and the Solow model. This was followed by the emergence of "the new growth theory" in the 1980s which focused on theories of endogenous growth. In these models, focus is place on the returns to scale and spillovers associated with technology and human capital. For an overview of these various models, see Todaro and Smith 2006: 102-173.

accumulate the savings necessary to make capital investments to break out of the poverty trap. As a result, Sachs and others who rely on the poverty trap logic call for increased foreign aid from developed countries to fill the investment gap and assist poor countries in breaking out of the poverty trap.[11] The underlying assumption behind these calls for increased aid is that experts can not only determine the amount of aid needed for development, but also centrally determine the allocation of aid so that it has the desired impact. Given the magnitude of this task (i.e., economy-wide investments), one would expect it to push the limits of what can be rationally designed through reason.

Starting in the 1980s, the development community began to expand its focus regarding the investment gap in developing countries. Prior to this broadening, the focus was on the lack of investment in physical capital. However, with the limited success of such investments, the development community began initiatives for increased investment in human capital as well as continued investments in physical capital. The underlying idea was that an educated populace was required to increase productivity and, hence, growth. As a report from the UNESCO Commission on Education for the Twenty-first Century (Delors et al. 1996) noted, education is "one of the principal means available to foster a deeper and more harmonious form of human development and thereby to reduce poverty, exclusion, ignorance, oppression and war" (13).

However, as Easterly (2001: 71-84) has documented, the massive investments in education over the past several decades have largely failed to achieve the desired outcomes. The reason is twofold. The first is that dysfunctional institutions in many of the world's poorest countries fail to generate an environment where citizens can utilize their education in a productive manner. With a low return on human capital investment, citizens responded by either not taking full advantage of educational opportunities or by leaving their home country after

[11] For critiques of the poverty trap argument, see Bauer 2000 and Easterly 2006.

obtaining an education. In short, human capital matters, but only when there is a relatively high return on the initial investment. Second, efforts to centrally plan education investments, like all other aid efforts, neglect the difficulties associated with allocating aid to achieve the desired ends. The addition of aid for human capital to the already existing aid for physical capital increased the scope and scale of foreign interventions, making it more likely that these interventions would suffer from a fatal conceit.

At the same time as the emphasis on education was increasing among the development community, a consensus around development policies, which became known as the "Washington Consensus," emerged. The Washington Consensus is a list of ten policies, first presented by John Williamson (1990), which were meant to represent the agreement among the development community regarding reform in developing countries. Williamson's original list was expanded over the course of the 1990s to address issues associated with governance and institutional reform. The original and augmented Washington Consensus is summarized in Table 2:

Original Washington Consensus	**Augmented Washington Consensus**
1. Fiscal discipline	11. Corporate governance
2. Reorientation of public expenditures	12. Anticorruption
3. Tax reform	13. Flexible labor markets
4. Interest rate liberalization	14. Adherence to WTO disciplines
5. Unified and competitive exchange rates	15. Adherence to international financial codes and standards
6. Trade liberalization	16. "Prudent" capital-account opening
7. Openness to foreign direct investment	17. Non-intermediate exchange rate regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10. Secure property rights	20. Target poverty reduction

Table 2: The Original and Augmented Washington Consensus[12]

The augmentation of the Washington Consensus reflected a broader trend in development economics—the emphasis on the importance of institutions. On the academic front, the renewed focus on institutions was driven by the work of Douglas North (1990, 1991), who reminded the economics profession that 'institutions matter' for economic outcomes.[13] Within the development community, the focus on institutions emerged from the realization that, in many cases, the implementation of policies associated with the original Washington consensus required fundamental institutional changes. The new Washington Consensus aims to prescribe best practice guidelines for institutional changes required for the effective functioning of the policies listed under the original Washington Consensus. The guidelines are typically used by the development community to develop comprehensive plans intended to carry out the desired change and reform in policies and institutions. However, given the sheer magnitude of the task, one would expect many of the associated interventions to be beyond the limits of what can be rationally constructed based on reason.

In sum, the theories emerging from modern development economics have provided a foundation for a variety of foreign interventions in the form of aid and assistance. Many of these interventions are driven by the noble intention of helping the world's poorest people. Despite good intentions, many of these efforts have failed to achieve the desired outcomes. The logic of the fatal conceit, discussed in the previous section, offers an explanation. The development

[12] Source: Rodrik 2007: 17.

[13] It is important to note that those writing in the Austrian tradition have been emphasizing the importance of institutions for economic outcomes for over a century. Menger (1883) indicated that a central question in the social sciences is: "How can it be that institutions that serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them" (146)? See also Garrouste 2008.

community tends to view underdevelopment as a technological issue, where failure is due to a lack of aid, resources, and effort. Further, as noted earlier in this section, aid is often linked to large-scale central plans (e.g. a big push) intended to generate significant society-wide changes and reforms through intervention. Given the magnitude of this task, it is not hard to see how these interventions are beyond the boundaries of what can be rationally designed through human reason. Further, comprehensive aid plans are typically implemented through a large bureaucratic apparatus which suffers from the dual problems of incentives and knowledge discussed in the previous section. At the same time, the focus on collective solutions to development downplays and discourages the importance of individual experimentation with alternative institutional and organizational arrangements to discover what works to facilitate coordination. The combination of these factors explains the disconnect between the intended and actual outcomes of foreign aid and assistance.

To reiterate, the argument being put forth is not that foreign aid can never achieve the desired goals. The central issue is the presence, or absence, of feedback loops to correct allocation errors. As noted in Section 2.2, the more comprehensive interventions become, the more likely they are to push beyond the limits of rational constructivism and, hence, the more likely they are to fail. This means that interventions that are smaller in scope and scale are more likely, although by no means guaranteed, to succeed relative to more far-reaching interventions, which are more likely to suffer from a fatal conceit.

5. The Fatal Conceit of Foreign Military Intervention

The use of military interventions to shape global outcomes has a long history. Perhaps the most evident, although not the earliest, example of this is the 'colonial era,' which typically refers to the period between the 15th and 20th centuries when European countries set up governments in Africa, the Americas, and Oceania. While colonization did generate benefits in terms of improved infrastructure, the overall benefits are questionable. In a comparison of former colonies and non-colonies, Easterly (2006: 284) finds that the non-colonies had high levels of growth, income, and secondary education.[14] In addition to the questionable impact on development, colonization produced many perverse and negative outcomes, including establishing and strengthening autocrats and contributing to conflict. Other negative effects emerged from the process of decolonization, which included the creation of nation states through the demarcation of borders by central planning. The creation of borders failed to appreciate the various ethnic, religious, and nationalist factors at work, resulting in a variety of ongoing conflicts, some of which continue to this day. While recognizing the benefits generated by colonization, it is not difficult to see how most of these efforts suffered from a fatal conceit. Colonization was grounded in comprehensive central plans and top-down implementation through government bureaucracies. In attempting to design entire societies and nations, these efforts went beyond the limits of what can be rationally constructed through reason alone.

Despite the fact that many colonization efforts suffered from a fatal conceit, a growing academic literature calls for a new era of imperialism and colonialism. For example, Ferguson (2004: 198) argues that the U.S. should embrace its role as an empire, using its military might abroad to shape global outcomes and, in some cases, colonize weak and failed states. Krasner (2009: 233) sums up the neo-colonial argument:

> Left to their own devices, collapsed and badly governed states will not fix themselves because they have limited administrative capacity, not least with regard to maintaining internal security. Occupying powers cannot escape choices about what new governance

[14] This does not indicate that being a non-colony guaranteed better outcomes as illustrated by Ethiopia and Nepal, but rather to indicate that non-colonies have performed better than colonies on average.

> structures will be created and sustained. To reduce international threats and improve the prospects for individuals in such polities, alternative institutional arrangements supported by external actors, such as de facto trusteeship and shared sovereignty should be added to the list of policy options.

The underlying assumption of these calls for modern colonialism is that comprehensive interventions can be designed to achieve the desired end. However, the logic of the fatal conceit indicates that there are real limits on what can be achieved, especially when interventions attempt to reshape and rebuild entire societies.

The failures and difficulties of past large-scale military interventions have not stopped the development community and the governments of developed countries from continuing to use similar interventions to shape global outcomes. The motivations behind these interventions have varied greatly and include humanitarianism, peacekeeping, liberation, a variety of national interests, and security concerns. Regardless of different motivations, the purpose of these military interventions has been to influence and shape the state of affairs in foreign societies according to the plans of the interveners. While the complexity of military interventions vary, they tend to be situated in the 'harder' end of the intervention continuum discussed in Section 2.1. As such, we would expect many of these interventions, like the earlier era of colonialism, to fall outside the limits of rational constructivism and, therefore, suffer from a fatal conceit. Along these lines, Easterly (2006: 10) writes, "Military intervention and occupation show a classic Planner's mentality: applying a simplistic external answer from the West to a complex internal problem in the Rest."

This does not mean that all military interventions will fail. The U.S. post-World War II interventions in West Germany and Japan are typically cited as two cases of successful military occupation and reconstruction. Coyne (2007: 118-136) provides insight into why this was the case, arguing that the foundations for reconstructed institutions were in place prior to military occupation. Given this, these cases of reconstruction efforts required marginal changes to existing institutions as compared to the wholesale creation of institutions from scratch. Thus, these interventions did not require rational planning of the complex array of underlying institutions supporting formally reconstructed institutions. Where the necessary informal institutions are absent or dysfunctional, in contrast, we should expect interventions to be more likely fall prey to the fatal conceit. This is typically the case in 'weak' and 'failed' states where institutions are either lacking or severely dysfunctional.

In the modern era, the 1945 creation of the United Nations made the use of military intervention by the international community a viable alternative. The UN's charter (Chapters VI and VII) provides the UN Security Council with the ability to take action to establish or maintain international peace.[15] The UN does not maintain a standing army, so member countries voluntarily allocate military resources to UN efforts. Military efforts are then carried out under UN direction, but the members of the military intervention still remain part of their home armed forces. Costs of UN missions are spread among member nations according to a predetermined formula.

UN military interventions tend to employ a variety of methods and strategies. Ghani and Lockhart (2008: 106) divide the process of conflict resolution into three parts—humanitarian, reconstruction, and development. The UN has historically been involved in each of these aspects. The humanitarian aspect deals with the delivery of food and health supplies to conflict-torn areas as well as efforts to ensure the protection of human rights. Reconstruction involves

[15] Peacekeeping is not explicitly stated in the UN charter. According to the UN website, "Dag Hammarskjöld, the second UN Secretary-General, referred to it [peacekeeping] as belonging to 'Chapter Six and a Half' of the Charter, placing it between traditional methods of resolving disputes peacefully, such as negotiation and mediation under Chapter VI, and more forceful action as authorized under Chapter VII" (http://www.un.org/Depts/dpko/dpko/index.asp).

rebuilding and constructing physical infrastructure as well as building economic, legal, political, and social institutions. The developmental part of the UN's mission reinforces reconstruction efforts and involves the continued delivery of aid and assistance. From this standpoint, the UN utilizes both forms of foreign intervention discussed here—foreign aid and foreign military intervention—as complements in achieving the desired state of affairs.

The end of the Cold War led to an increase in UN humanitarian activities, as well as renewed debate in the international community about the scope and scale of humanitarian efforts. One outcome of this renewed debate was the emergence of the "Responsibility to Protect" (R2P) doctrine, first developed in 2001 by the International Commission on Intervention and State Sovereignty and later endorsed at the 2005 World Summit as well as by the United Nations in 2006. The purpose of the R2P doctrine was to provide a legal and ethical foundation for interventions to resolve humanitarian crises. The doctrine specifies a state's responsibility toward its citizens and provides guidance regarding the international community's responsibility to intervene when states fail to live up to their responsibilities. The scope of humanitarian interventions varies greatly, and the record of past interventions is mixed at best. Rieff (2003) has documented many of the failures and negative unintended consequences of humanitarian interventions. In the context of the logic of the fatal conceit, humanitarian interventions that remain limited in scope and scale are more likely to succeed as compared to those that require comprehensive planning and social engineering and, therefore, extend beyond the boundaries of what can be rationally designed. However, there is also evidence that even in cases where foreign interventions start out with a limited scope, they can become politicized, leading to an increase in scope due to 'mission creep' (see Coyne 2007: 180, Foley 2008).

In addition to UN-led interventions, the governments of developed countries have also been heavily involved in foreign military interventions to influence global outcomes. Some of these interventions have been joint efforts with the UN, and others have been undertaken unilaterally. For example, the United States, with assistance from the United Kingdom, Australia, Spain, Poland, and Denmark, intervened in Iraq in 2003 to overthrow Saddam Hussein without the support of the UN Security Council. In 2003, France intervened in its former colony, Cote d'Ivoire, to end a civil war and provide peacekeeping forces. This was initially a unilateral intervention but was later supported by a UN peacekeeping force. These are but two examples of how the governments of developed countries have used military intervention to shape foreign affairs.

As part of these efforts, the governments of some developed countries have established separate bureaucracies to focus specifically on foreign military interventions. For example, in 2004 the U.S. created the Office of the Coordinator for Reconstruction and Stabilization to "…lead, coordinate and institutionalize U.S. Government civilian capacity to prevent or prepare for post-conflict situations, and to help stabilize and reconstruct societies in transition from conflict or civil strife, so they can reach a sustainable path toward peace, democracy and a market economy."[16] As the name implies, the purpose of this office is to oversee foreign interventions through increased coordination. However, to the extent that these interventions suffer from the fatal conceit, they are likely to fail in achieving the desired outcomes.

It is possible for military intervention to work when it remains within the boundaries of what can be rationally designed. However, when military interventions go beyond these boundaries, they are likely to fail according to the logic of the fatal conceit. Unfortunately, many

[16] Source: Office of the Coordinator for Reconstruction and Stabilization website http://www.state.gov/s/crs/c12936.htm

foreign military interventions serve as perfect illustrations of Hayek's fatal conceit argument. These interventions are typically motivated by noble intentions, yet they fail to achieve the desired outcomes. They rely on comprehensive top-down plans developed by an array of 'experts' and implemented through large bureaucracies, which suffer from the aforementioned incentive and knowledge problems. Further, instead of focusing on the limits of intervention and what can be realistically achieved, military interventions tend to focus purely on technological issues—troop levels, the level of monetary and humanitarian aid, exit strategy, the timing of elections, etc. Finally, these interventions tend to focus on collective goals over individual discovery and experimentation. The idea of a 'citizen-based' approach to development has become increasingly popular over the past several years (see, for example, Ghani and Lockhart 2008). Despite the rhetoric, supposed citizen-based approaches are typically part of a broader, comprehensive top-down plan. The irony is that a true citizen-based approach, which truly appreciates individual experimentation and discovery, cannot be centrally planned. Top-down central planning by development experts is the antithesis of a citizen-based approach to change and development.

6. Concluding Remarks

F.A. Hayek wrote *The Fatal Conceit* to explore the errors of socialism. Our main contribution has been to highlight that the logic of the fatal conceit is relevant beyond the analysis of socialism. We focused on foreign interventions because these efforts often fall prey to the fatal conceit for the reasons discussed in previous sections. It should be noted, however, that despite our focus on foreign interventions, the parallels with Hayek's fatal conceit can be applied to a variety of other topics and interventions.

Our analysis also contributes to an understanding of interventionism. An existing literature explores how the ‘dynamics of interventionism’ can lead to perverse outcomes (Mises 1929; Rothbard 1977; Ikeda 1997, 2005). Currently lacking in this literature is a discussion of the conditions under which interventions will tend to succeed or fail in achieving their desired outcomes. We begin to fill this gap by employing the logic of the fatal conceit. The main implication is that interventions will fail when they extend beyond the limits of what can be rationally constructed through reason. While the exact limits of reason are not always clear, as a general rule, the more comprehensive and complex interventions become, the more likely they are to suffer from the fatal conceit. Likewise, interventions that start well within the boundaries of rational construction can later expand beyond these limits due to ‘mission creep,’ where interventions extend beyond their initial purpose or design. Thus, an initially achievable goal has the potential to expand into a more comprehensive intervention, falling prey to the fatal conceit.

Finally, our analysis has implications for the study of entrepreneurship, a hallmark of Austrian economics (see Kirzner 1973). We noted that one of the characteristics of many foreign interventions is that they emphasize collective goals over the initiative and ambition of individuals. This is undesirable because it stifles individual discovery and experimentation with alternative institutions and organizational forms to determine what works to enhance coordination. The existing literature typically focuses on entrepreneurship as a means of allocating (or reallocating) resources to increase economic efficiency. Our analysis highlights that it is important to consider entrepreneurship not only in the allocative sense, but also in the dynamic sense of discovering ways of facilitating interaction and cooperation. These issues are at the core of economic development and, as such, play an influential role in the success or failure of intervention efforts.

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