

What is the Problem with Foreign Advisers?

by Timothy and Leslie Nulty ¹

Most advisors and aid administrators see themselves as technocrats, in many cases sincerely dedicated to the cause of economic development, whose job it is to help determine and implement that allocation of the available resources which will most effectively promote economic and social development. As such they produce a great many worthy papers arguing cogently against stepping into this or that economic pitfall. In Pakistan, for example, various aid and advisory agencies have frequently campaigned for such unexceptionable and even progressive causes as lower guaranteed prices for foodgrains in the face of recent surpluses, more rigorous and objective appraisal of development projects, more rational management of foreign exchange, land reform, educational reform, etc. etc. It is therefore understandable when they react indignantly to suggestions that they have contributed to the difficulties, inefficiencies and anomalies which, in many cases, they have actively worked against.

Good intentions and worthy papers, even when presented to cabinet ministers do not measure the real impact which foreign agencies, advisers and aid have made. What we must try to assess is the extent to which foreign involvement may have served to support and maintain an economic structure antipathetic to development (defined to mean increasing welfare or consumption for the total population) which, once established, generates its own self-perpetuating indigenous lines of development. We would like to outline a few examples from the case of Pakistan which illustrate these anomalies in the advisory relationship.

To begin with, one aspect of the aid effort which contributes to the difficulty of properly measuring its true impact is the ambiguity in the role of the aid/advisory agencies, which almost inevitably acquire a vested interest in self-perpetuation. No-one really wants to work himself out of a job, and organisations

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are no different. Advisory groups, like other non-profit making, non-self-supporting organisations, must demonstrate "success" in order to continue to receive the funds which are essential to their continued existence. Likewise promotion and mobility of individual advisers also depends on their own "Success" and the reputation of the organisation they work for. The criteria which tend to be applied, whether by the World Bank, the UN, the Ford Foundation or the trustees of a large university, usually involve affirmation from the host government that the advisory group or adviser in question is desired and important. The more vigorously the host government expresses this, the more likely the agency is to be considered 'successful' and to get the necessary finance.

But host governments will not go out of their way to support an advisory agency unless they consider that it will actually render services which they consider worth having. It goes without saying that what a host government considers "services worth having" may have little to do with liberal western notions about development. Quite apart from the obvious unsavoury possibilities, it is frequently the case that the most useful service an advisory agency can render is to be a sales-man-cum-public relations-advertising agency for the host regime.

To a host government the political value in the international arena of having highly qualified, supposedly objective outsiders providing a sophisticated, intellectually respectable and "independent" defense of its policies and achievements, is enormous. In the competition for development aid it can be worth many millions of dollars. Under these circumstances it is in the best interest of the agency to present only the rosy side of an economy's development efforts. Since it is also in the agency's interest to prove "success" by demonstrating that their advice is seen to be taken and also seen to work, there is a second built-in influence in the relations between advisers and host governments which assures that the advisers will concentrate their efforts on those policy problems least in conflict with vested interests in the host country and which are most likely to evoke a positive response from the host government. Advisory groups working independent of aid-giving governments often refer to this as "pragmatism". But inevitably this relationship leads to emphasis on policies quickly and easily reflected in GNP and similar data, and relative neglect of policies with perhaps longer gestation periods or with less easily measurable impact (such as education).

Another aspect of foreign advisory services which make them attractive to host governments is that they provide essential expertise without being able (even if they so wished) to exercise any of the political leverage which normally goes with being indispensable. In many under-developed countries today the government is at odds with its own intellectuals. In many of these countries those citizens who possess the skills needed by

the government tend to be precisely the young, energetic, highly educated, and often radical (by the standards of the incumbent regime) intellectuals who are in conflict with existing authority. For governments to turn to their own "Young Turks" for essential expertise has serious political implications. Advisory agencies provide a safe way of sidestepping this problem.

In addition, should it transpire that policies or events go awry, the advisers can serve as convenient (if temporary) scapegoats for the regime, thus diverting attention from failure and helping to protect the government from the political consequences.

When foreign advisers fail to examine the source of authority of the regime whom they serve, they may also fail to recognise that their specific proposals on any given policy issue may have a distorted effect when applied in the particular context of the host economy. One outstanding example of this sort of problem is revealed in the balance of payments/foreign exchange situation. Most aid agencies in Pakistan have actively encouraged revision of the official exchange rate in view of the inefficiencies which have resulted from maintaining the present rate and the consequent need for import licensing. However, it is clear that it has been the ready availability of foreign exchange supplied by aid to finance Pakistan's large international deficits (arising from overvaluation of the official exchange rate) which has enabled the government thus far to avoid devaluation. There is thus a built-in inconsistency in the agencies which on the one hand press their own governments for greater donations and on the other, chastise their hosts for making use of the opportunities these sums create.

To take another example: confronted with the growing problem of international debt servicing for under-developed countries the Pearson Commission Report recommended more of the same aid, albeit on cheaper terms. There was little exploration of the extent to which external sources have substituted for domestic finance and whether or not low cost foreign capital led to optimal use of this scarce resource. A priori one would have thought these appropriate subjects for discussion by international advisers. And yet, if as we suspect, inefficiencies in the use of foreign exchange and the substitution of foreign for domestic resources have been the (nearly) inevitable outcome of the very policies tendered by foreign advisers, it is not surprising that our technocrats should avoid embarrassing themselves by critically examining the effects of their own policies.

To take yet another example from the Pakistan case: a good deal of western economic advice in Pakistan has concentrated on switching the emphasis of economic policy from what is considered to be the cumbersome inefficiency of direct controls toward the package of indirect controls relying on the market mechanism and market incentives: i.e. the standard tool kit of western policy

makers. Attention is focussed on taxation, credit and so on, as levers for exploiting the presumed efficiency of the market mechanism as an allocative and decision-making device. There has also been a great deal of emphasis on policies deliberately intended to redistribute income in favour of profits in the modern sector on the grounds that this will lead to increased savings and investment, hence faster growth of GNP and ultimately higher income for everyone.

Quite apart from the objections which can be made on principle to such an approach, it is rarely understood by the advisory groups themselves that they must make very strong assumptions concerning the (at least potential) competitiveness and profit-maximising nature of the market, and the size and resilience of the market structure in relation to public policy measures, for this approach to be even internally consistent. If these assumptions do not hold the approach readily leads to self-contradiction. If the economy is not very large and not very competitive, redistributing income in favour of oligopolistic profits may simply enhance the concentration of economic power, reduce the likelihood of new entrants and generally reduce competitiveness even further. It does not necessarily lead to higher rates of savings and investment. Cheap government credit to industry will probably be pre-empted by established oligopolists who may simply substitute these funds for their own savings. Even freeing the exchange rate (as was done for part of Pakistan's external transactions via the bonus voucher system) does not necessarily have the intended effect. The oligopolists, with their superior financial resources, can simply bid up the price of foreign exchange sufficiently to close out real or potential competitors and then pass this on through the prices of their protected, monopolized output. Eventually it is perfectly possible for a small group of oligopolists to become so powerful that they are virtually unassailable both economically and ultimately, politically, as well. When this happens (and we would argue that it has almost happened in Pakistan) there is great danger that the country will find itself in the kind of *cul-de-sac* which has become so depressingly familiar elsewhere in the world: inefficient industries producing inappropriate goods behind high protective tariffs for monopoly prices. The rich become more powerful and considerably richer while the poor proliferate and military government follows military government in an atmosphere of economic stagnation. The model followed by the favoured few reverts to that of the high-living, low-saving *latifundista* rather than the self-denying, high-saving dynamic capitalist of Protestant ethic folklore, which provided the original rationale for the policy package we have outlined.

In Pakistan, as in many other countries, it is difficult then, to avoid the conclusion that the foreign establishment has underwritten and contributed to a socioeconomic system and a development strategy which has produced a monopolistic economic structure which is neither efficient, dynamic nor equitable.

Such an economy can achieve the objective of steady growth only by continued dependence on reliable injections of foreign resources to substitute for domestic savings and to subsidize inefficient investment decisions. Whether advisory agencies have promoted the policy packages outlined above in the honest belief that the underlying model would be the best way to achieve a rapid improvement in the lot of the entire population, or whether out of deliberate wish to create a "dependant class of puppets in preparation for neo-colonialist exploitation", is largely irrelevant. Foreign aid and advice, in Pakistan at least, has in fact encouraged and enabled a small class of wealthy monopolists to extend their control over the economy, the government, and the society, and has also provided an intellectually representable argument to justify this pattern to the rest of the world.

Seen in this context, we might take heed of the word of the Cambridge University student warning his mates against careers as foreign advisers that "foreign aid is using the money of the poor people in the rich countries to pay the rich people in the poor countries for their allegiance to the rich people in the rich countries".