Review Article

Pakistan's Development — The Role of Government and Private Enterprise

by

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I

In the 1960's Pakistan's economy started generating rates of growth of over 5 per cent per year—higher than those observed in many other underdeveloped countries including its neighbours. Industry is growing rapidly. Exports are increasing by over 7 per cent per year. Perhaps more significant, many believe, an agricultural revolution is underway. Some observers consider this to be remarkable and a model of development in the non-socialist world. However, the brief growth experience of the 1960's, after the long stagnation during the 1950's, can hardly be a basis for definitive conclusions about long-run development. Observation of a longer period and evidence of certain basic conditions are necessary for such extrapolation. The dependence on foreign aid continues to be large and the domestic saving rate is relatively low. It is too early to talk of self-sustaining growth.

How and why Pakistan could achieve this development and what it signifies for the country's future growth is surely of interest. Yet apart from some spotty reviews of progress, mainly from official sources, no systematic and comprehensive study of Pakistan's development process explaining its mechanism had been available. Dr. Papanek's book on Pakistan's development [13] is an important contribution in this field. The author analyses the factors that led to development in the past, and drawing upon that experience, suggests policies that would accelerate future development. He tries to explain how the saving rate was raised in a poor country of traditional agriculture, where industrial investors came from, how agricultural output could be increased at a high rate, and what role government and private initiative played in this development. Any analysis of the role of government and private enterprise has ideological overtones, and the reader of Dr. Papanek's book is definitely aware of his individual predilections. This does not, however, reduce the worth of the book.

The book grew out of the author's long experience in Pakistan and even longer study of its economy. This lends weight to his observations. Moreover,

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many of the conclusions are based on a body of rarely available first-hand data obtained from his comprehensive survey of individual firms covering 60 per cent of Pakistan's industrial output[1]. He also includes an extensive statistical appendix of other data, with detailed explanations of sources and methods. These, alongwith a long bibliography, particularly of economic literature on Pakistan, make the book a valuable reference to students of Pakistan's development.

The book has a wide canvas which cannot be covered in this brief review which will focus only on some aspects of his analysis of past development and his suggested policies for the future. Section II deals with Dr. Papanek's analysis of the mechanism of development and is divided into sub-sections on development of entrepreneurship, industry, agriculture, interwing disparities in growth, and the role of government. Section III is concerned with his suggested policies, and Section IV with his view on domestic saving and foreign aid in Pakistan's development. In each section or sub-section a brief restatement of Dr. Papanek's position is followed by the reviewer's comments. Some concluding remarks are made in Section V.

II. MECHANISM OF DEVELOPMENT

Development of Entrepreneurship

The genesis of entrepreneurs and their vigorous thrust are the central themes in Dr. Papanek's analysis of Pakistan's rapid industrial growth. The leading sector in development has been large-scale industry which was developed rapidly by private Muslim entrepreneurs. This, he says, is a spectacular development which confounded the prophets who said at the time of Independence that the country with no industries and no significant industrial and commercial groups would end up in economic chaos. His hypothesis is that given a not-too-hostile social and political environment, strong economic incentives were sufficient to develop these entrepreneurs from traders who were in touch with the market and, therefore, affected by economic incentives. He maintains that Pakistan's remarkable performance can be largely explained by such factors as private economic incentives, sensible economic policies influencing private enterprise, and effective public investment mainly in infrastructure development. This, he says, runs counter to the view that because of social, psychological and institutional factors industrial development cannot be rapid in underdeveloped countries without substantial government participation.

High profits in foreign, particularly import, trade resulted in a large group of substantial traders, many of whom subsequently became industrialists when import restrictions reduced the volume of profits from imports but opened

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1 There has, however, been a long lag between the collection of these data mostly referring to the 1950's, and the publication of this book.

up lush profit opportunities in import substitution of consumer goods. His survey shows that most of Pakistan's entrepreneurs came from some small trading communities which were largely migrants from the western coast of India, mainly Bombay and Gujrat. The other important group was the Chinioties of the Punjab. They all faced, he says, both strong economic incentives and serious obstacles including the uncertainty of Pakistan's political and economic future. This environment produced a remarkably able group of entrepreneurs whom he compares with the robber barons of the nineteenth century Western industrialisation.

Dr. Papanek's survey brings to light some interesting facts about the social origin of Pakistan's entrepreneurs. That the entrepreneurs came from traders, many of whom were migrants from Western India, is beyond doubt. This development of entrepreneurship is not, however, as novel and spectacular as he suggests. In underdeveloped countries there is generally an entrepreneurial preference for non-industrial enterprise, such as trade or money-lending, but these entrepreneurial classes often turn to industrial activity when the relative hazards of industrial entrepreneurship are reduced, say, by protective State measures. It has been observed in other countries that the trading classes have produced the leading industrial entrepreneurs; to wit the Marwaris, Parsis and Gujratis in India, who come from that country's western region. Many observers have noted the prevalence of the entrepreneurial tendency in the western coast of India, particularly Gujrat. At least a brief mention in his book of the Indian experience of entrepreneurial development would have been apt and illuminating.

The western coast of India had a continuous record of foreign trade lasting over centuries, and had highly developed trading communities including Muslim sects of Khojas, Memons and Bohras who took an important share in the trade of the port of Bombay [1; 6; 9]. Because of various factors these Muslim trading communities, renowned for their genius and capacity for business, have special organisational peculiarities and are sharply marked off from the rest of the Muslims [3; 9]. It is hardly surprising that these traders supplied most of the entrepreneurs in Pakistan's industrial development.

To these immigrant and other Muslim traders, Pakistan's protected market, absence of internal competition, and liberal government assistance provided great opportunities and incentives for industrial ventures which had not existed in British India. Contrary to what Dr. Papanek says, the environment was highly congenial to entrepreneurial development. No social and political turmoil threatened the growing industrialists. The spirit engendered by Independence and Partition, and the realised need for competitive coexistence with India were major factors helping this development. The elite, including the immigrant leadership, foresaw the difficulties that lay ahead and were willing to face the challenge. None of the prophets of gloom — mentioned by Dr. Papanek, particularly *Time* magazine — could be considered serious analysts.

Profits-Saving-Investment Sequence in Industry

It is generally held that, is spite of serious inefficiencies of production, astronomically high profits were made by industry as a result of excess demand in a captive market lacking internal competition. Dr. Papanek states that as much as 75 to 80 per cent of these profits (after taxes) were reinvested initially in expansion of consumer-goods production but later also in chemicals, building materials and metal-working industries. He agrees that rapid industrial growth did result in a high degree of concentration and inefficient production of consumer goods with simple technology. But he sees certain benefits resulting from these evils. Concentration meant that only a few effective entrepreneurs were required to carry out the rapid industrial development. Expansion of industries with simple technology eased the shortage of skilled personnel. Where shortages did occur, many technicians were hired from abroad.

Initially, since invested capital could be recovered in a year or even earlier, little attention was paid to improving efficiency of operations. Industrialists were bent on expansion and procurement of licences for importing machinery cheaply at the official rate of exchange. But by the late 1950's, says Dr. Papanek, when expanded consumer-goods production and increased competition led to a decline in the rate of profit from astronomical levels, entrepreneurs' behaviour changed quickly. Attention began to be paid to technical efficiency, and investment shifted to new industries in which technology is more complex and capital requirements larger.

Some observers had feared that the industrialization process would abort after the relatively easy phase of import substitution of consumer goods. That it did not, Dr. Papanek says, is explained by the high rate of saving and reinvestment of industrial profits, the shift to new industries in response to the changed situation, and the increase in exports and the enlarged inflow of foreign aid in the 1960's.

He maintains that the private industrial sector was a superb machine for extracting resources for investment out of a poor society, partly because riotous living was made impossible by effective government restrictions on luxury consumption. Pakistan could not generate a large public saving despite effective government and increased taxes, and well over 50 per cent of private monetized savings came from industry.

It is possible, however, that Dr. Papanek grossly overestimates the rate of saving and reinvestment out of gross industrial profits. His estimates are based on reported profits which are usually considered to understate actuals. Even if it is granted that this saving rate has been fairly high, it cannot be said that the newly rich industrialists lived frugally. Conspicuous consumption is as true among them as among the big landlords. Investment in private housing and imports of cars have been large indeed [4 ; 12]. Moreover, the tremendous disparities in income brought about by Pakistan's pattern of development also enriched many non-industrial groups and individuals, mainly in urban areas, who are not renowned as high savers.

Dr. Papanek passes over the high social cost of generating savings through this pattern of development. The consumption level of the overwhelming majority of population was absolutely reduced, at least in the 1950's. While the growing national product was being redistributed in favour of the richer groups in society, the evidence is strong that income and consumption per head of population did not rise at all during the 1950's, as can be seen from the table below. Per capita availability of foodgrains, and per capita income of agricultural populations, which constituted over three-quarters of total population, actually declined appreciably.

PER CAPITA INCOME AND CONSUMPTION

Year	GNP per capita (*rupees per year at 1959/60 prices*)	Agricultural income per head of agricultural population (*rupees per year at 1959/60 prices*)	Foodgrains per capita (*ounces per day*)
(1)	(2)	(3)	(4)
1948-49	*n.a.*	*n.a.*	16.0
1949-50	316	253	15.2
1950-51	319	253	14.4
1955-56	310	—	11.7
1958-59	312	—	12.6
1959-60	318	231	14.2

Sources and Methods: GNP, agricultural income, and total population, from [8, Table A-4]. Availability of foodgrains from [11, Table 13]. Total population in 1948/49 estimated. Agricultural population has been estimated on the assumption that in each province the ratio of agricultural population to total population is the same as the ratio of agricultural labour force to total labour force. The latter ratio as obtained by the Census of Pakistan [10] was 83.2 per cent in East Pakistan and 65.1 per cent in West Pakistan for 1951, and 85.3 per cent in East Pakistan and 59.3 per cent in West Pakistan for 1961. We have used the 1951 ratios for both 1949-50 and 1950-51, and the 1961 ratios for 1959-60.

Nor does Dr. Papanek consider whether an alternative pattern with less income inequality could have generated the same or an even higher rate of growth with a more equitable distribution of sacrifices. He does not give proper emphasis to the social and economic effects of the resulting high degree of concentration. It has been very recently said by Dr. Mahbubul Haq that at present about 20 families control 66 per cent of industrial assets, 70 per cent of insurance fund, and 80 per cent of bank assets [2].

Dr. Papanek's assertion about improvement of efficiency in industries since the late 1950's is not based on reliable empirical evidence. It may be granted, however, that efficiency began to improve at a slow rate, but more important is the level of efficiency in industrial production. Several studies indicate that wastage and misallocation of scarce resources was and continues to be very large, real income could be considerably increased through greater efficiency and the transfer of resources from some industries to others. For instance, Soligo and Stern [16] have shown that for a large number of industries including cotton textiles, jute textiles, sugar and tobacco, the net subsidy received through tariff protection exceeds the total value added. Islam and Malik [7] have shown that there is a very high degree of underutilisation of capacity which is another indicator of inefficient use of scarce capital. These studies should not be considered conclusive, but they strongly suggest a high level of inefficiency. Nor, after more than a decade's operation, can this inefficiency be passed off by the infant industries argument.

Incentives, and Growth of Agriculture

Dr. Papanek rightly points out that peasants were squeezed in this process of industrialization. They made up the bulk of the consumers who paid much higher prices for domestic manufactures than those ruling in the world market, thus providing high profits to industrialists, and tax (mainly indirect) revenues to government. Only a fraction of what was extracted from the peasants was given back in the form of subsidised fertilizers and government expenditure on agricultural development. Government policies depressed agricultural prices, and the terms of trade for agriculture moved adversely in the 1950's.

Agriculture remained practically stagnant during the 1950's. In a country still predominantly agricultural, this meant a slow growth of the economy, in spite of rapid industrial development. After the food crisis of the middle 1950's, the national plan on paper assigned highest priority to agriculture, but actual resources devoted to it increased slowly. The effect of price incentives on agricultural production was ignored till the late 1950's. Beginning from 1960 government policies took increasing account of the responsiveness of peasants to price incentives. The export taxes on agricultural products were reduced, compulsory procurement of foodgrains at uneconomic prices was replaced by stabilisation of prices, and important inputs for agriculture have been heavily subsidised. The terms of trade for agriculture as a whole improved.

This provided incentives for the production of cash crops and export commodities to use fertilizers and to develop irrigation. But the market alone is inadequate to bring about technological change in peasant agriculture. The government investment in rural infrastructure — water, power and roads — was much larger in the 1960's than in the 1950's.

He thinks that large units could more readily take advantage of these opportunities. West Pakistan has a larger number of medium-sized holdings, and this may explain the more rapid growth of agriculture in that province compared to East Pakistan. Private tubewell development — perhaps the most significant feature of West Pakistan's agriculture in the 1960's — proceeded at a rapid pace due to government price policies in regard to agricultural crops, improved supplies of equipment, credit, widespread electric connections, and gradual spread of technical knowledge. About two-thirds of the additional water from wells was provided by private owners who installed the wells with an eye on costs, and wanted to maximise returns from their investment by selling any water which they did not need and by adopting other practices to obtain higher yields. In East Pakistan holdings are smaller. There, he says, a locally administered rural Public Works Programme has been successful in developing a large number of public works which surely contributed to agricultural development in East Pakistan, but it is too early to say if it was a major factor.

Much of Dr. Papanek's analysis of earlier stagnation and later development of agriculture appears to be generally correct. But it is likely that one important reason for the rapid development in West Pakistan was the much bigger public investment programme in big projects on rural infrastructure development. Dr. Papanek failed to emphasise this factor.

Economic Growth and Interwing Disparities

Economic growth and industrial development mainly took place in West Pakistan. Dr. Papanek mentions a number of reasons for this, such as the availability to West Pakistan of most of the traders, technical manpower, and financial resources that flowed from India, the location of the powerful Central Government in West Pakistan, East Pakistan's gross underrepresentation in the elite civil service which dominated the government, the infrastructural facilities developed by the government, and foreign-trade policies of the government.

But the price which East Pakistan paid for the other province's industrialisation has only been cursorily implied in Dr. Rapanek's analysis. This is an important omission. Not only the peasants, but East Pakistan as well, were squeezed in the process. One estimate by Power [14, p. 205] has indicated that during the period 1948 to 1961 there has been a total transfer of resources worth about 2,500 million rupees from East to West Pakistan. This transfer was affected through a triangular pattern of trade. During this period East Pakistan's balance-of-trade surplus with foreign countries was about 5,000 million rupees, while its deficit with West Pakistan was about 3,500 million rupees, leaving an overall surplus of 1,500 million rupees. If to this is added a conservative estimate of excess cost payment of 1,000 million rupees by East Pakistan for its import surplus with West Pakistan the total transfer amounts to 2,500 million rupees. This excess cost arises from the difference between interwing trade prices and the world market prices.

The transfer of resources from the lagging region to the growing region has been an important element in Pakistan's development. The rate of saving out of gross provincial product was higher in East Pakistan than in West Pakistan. It has been shown [5, p. 112], for example, that in 1959-60 gross domestic saving was 8 per cent in East Pakistan and less than 5 per cent in West Pakistan. With a higher per capita income, a much larger capitalist sector, and more developed financial institutions, West Pakistan certainly has a higher saving potential than East Pakistan. Actual saving has been much lower than potential saving because the inflow of external resources from abroad and from East Pakistan enabled West Pakistan to enjoy a high rate of gross investment without the necessity of generating a high rate of saving.

The Role of Government

Dr. Papanek says that partly by accident and partly by design, Pakistan has had a pragmatic combination of government and private enterprise in agriculture as well as in industry. In industrial development the major role of the government lay in providing much of the infrastructure and in overall planning which affected the entire economy. While Pakistan developed a sophisticated machinery for planning and devising policies in the 1960's there was no planning machinery till the middle of 1950's. Nevertheless, even in the earlier years many sensible decisions were taken and some of which turned out to be brilliant. Dr. Papanek says that it would have been difficult to devise a better set of policies than those actually followed in the 1950's for rapid development of industry and for creating industrial entrepreneurs.

The government carried out two other activities specifically concerned with industrial development. It provided credit to industry in the earlier years, and was instrumental in setting up institutions — IDBP (PIFCO) and PICIC—to provide credit to industry. It also directly invested in industry through the PIDC. But he considers these activities of lesser significance for Pakistan's industrial development. He says that by the late 1950's when these credit institutions became really active, Pakistan reached its "industrial middle age" and has developed private entrepreneurs with sufficient capital and know-how to undertake almost all kinds of investment.

Dr. Papanek thinks that the PIDC made an important contribution but was neither the initiator nor the primary agent of Pakistan's industrial development. In industries with substantial profit incentives private enterprise preceded PIDC activity and did not depend on it. It concentrated on pioneering enterprises which required large capital, and management of a high order. By 1959 its cumulative expenditure in industry was one-sixth of total industrial assets. But a part of this investment arose from its preferred treatment by the government. Financial backing from government and a good deal of independence from government controls enabled it to carry out large investment programmes rapidly and effectively, but this also insulated it from economic pressures for reducing investment and operating costs. It made substantial losses in some low priority investment such as shipyards and engineering works while neglecting high priority industries such as cement, chemicals and fertilizers. It developed sugar refining which turned out to be costly, and did not show any return on investment in jute manufacturing. It paid some attention to backward areas within provinces, but it further accentuated the tendency for industry to be concentrated in West Pakistan.

He says that the development of private entrepreneurs, the decline in the importance of monopoly elements in most consumer-goods industries, and the introduction of special incentives for export industries, reduced the usefulness of the PIDC as an entrepreneur in the 1960's. He also believes that with the shift to intermediate and capital-goods industries in which the minimum economic plant size is large enough for the entire country or one province, PIDC's function as a developer of monopoly industries continued to be important, and that, because of lack of adequate Bengali private entrepreneurs, PIDC has to play a useful role in East Pakistan. Dr. Papanek suggests that to play this role creditably, it should concentrate on a few new industries, and accelerate the sale of established industries.

Dr. Papanek appears to underestimate the role of IDBP and PICIC. The credit they provided, mainly to large firms, has always been in great demand. A considerable portion of investments, particularly in new and complex industries, has been financed by such credit which included substantial amounts of foreign exchange made available to PICIC and IDBP from external sources. Their activities may well have been an important factor in explaining the spurt of growth in the 1960's.

Similarly, while much of his criticism of the PIDC is valid, it may be that Dr. Papanek has underrated its role in Pakistan's industrial development. There are cases where private investment followed PIDC ventures. That the private industrialists are eager to purchase many PIDC enterprises at cost also proves that all its investment has not been basically unprofitable after all. Moreover, private profitability is not the criterion on which public investment should be made or judged.

It is not necessary, however, that for reasons of efficient operation public enterprises be sold to the private sector. There are many instances of efficient public enterprises all over the world. What needs to be done is the improvement of economic administration in the PIDC so that pressures are generated for reducing costs in public enterprises. It is also very important to note that given the same rate of profit, savings would be larger in public enterprises than in private enterprises.

III

Suggested Policies for Accelerated Growth

Dr. Papanek thinks that a basic reason for higher industrial and agricultural growth and rapid expansion of exports in the 1960's was the increased efficiency of the economy brought about largely by a shift in policy from the costly and inefficient direct control system to a system of flexible, indirect controls through taxes and subsidies. He maintains that Pakistan's growth can continue to accelerate if the resources are more efficiently used through a further movement in the direction of indirect controls, and abolition of direct controls which are still operative on most investment decisions, most imports and some prices.

Dr. Papanek has a general preference for a system of indirect controls. He maintains that almost all purposes of government intervention can be achieved by a system of planning and indirect fiscal measures, accompanied by some direct government investment. This would be a logical extension of the steps taken in the 1960's. Planning would provide information to private and public decision-makers on the direction and nature of expected changes in the economy. Indirect fiscal measures can be relied upon for assuring desired decisions.

He suggests a number of measures for changing the unrealistic prices of labour, capital and foreign exchange. If devaluation, as such, is ruled out for correcting the undervaluation of foreign exchange, this correction can be done by general import surcharge and export subsidy. For protecting infant industries, in addition to these surcharges and subsidies, a more uniform assistance can be given—subsidies for exports and tariffs for import substitutes. To offset the effects of overvaluation of unskilled labour, he suggests employment of idle rural labour through an expanded Works Programme, encouragement of labour-intensive techniques by raising the cost of capital, and indirect subsidies for the use of unskilled labour. Through appropriate policies of the

State Bank and government agencies, and through change in credit facilities, the rate of interest should be raised where it is low, and lowered where it is too high.

He maintains, however, that agricultural development will need increased government attention and competent manpower. The government should make major efforts to carry out widespread price guarantees. This requires improved storage and purchasing, and sound price policies. It should also enlarge its activity in research and extension, and assure supplies of important inputs and subsidise them where necessary. At the same time resources from agriculture should be obtained through taxes on land and consumption.

He thinks that for accelerating rate of growth in East Pakistan more of the means adopted in the last few years will be required. But the emphasis should not be on increased allocation of government expenditure. Much of government developed infrastructure has high maintenance costs, and East Pakistan can least afford an infrastructure which is large in relation to the directly productive sectors. More importantly, infrastructure development may not be a very effective lever, in the short run, to produce a higher rate of growth.

He says that the real solution lies in a rapid expansion of industry in East Pakistan, and that as a political necessity this industry has to be dominated by Bengalees. Although EPIDC has an important function to perform as entrepreneur, he thinks there are limits to the size of the task it can handle well. Private investment will have to increase rapidly in the near future. Policies of separate tariff, taxes and subsidies should be adopted to encourage private investment in East Pakistan. For instance, import surcharges and export subsidies could be applied to East Pakistan's external trade, whether it is with another country or West Pakistan. Such policies would lower the risk and increase the rate of return of the investor in East Pakistan, and are likely to be effective incentives for Bengalees also.

Dr. Papanek has rightly pointed out the inefficiency of the direct control system, and his recommended policy of a progressive freeing of direct controls would most likely have a favourable impact on growth. (This would not necessarily imply Dr. Papanek's proposed increased reliance on the private sector.)

It is doubtful, however, if Dr. Papanek's thesis—that the acceleration of growth in the 1960's is largely a result of partial dismantling of direct controls—is valid. He seems to have overestimated both the extent of such liberalisation and its effects on growth. An alternative explanation appears more reasonable. In the later half of the 1950's, because of serious shortages of foreign exchange even the minimum import requirements of industries could not be obtained, and the industrial growth rate declined sharply. Agriculture also was stagnant and might have contributed to this. But in the 1960's, increased foreign aid together with increased agricultural production and thus exports permitted a large increase in imports giving a powerful impetus to industry. Much of the liberalization which did occur probably resulted more from the simple fact that more foreign exchange was available than from any particular omniscence on the part of government. Thus, accelerated growth in the 1960's might reasonably be considered more a result of increased foreign aid than of new economic policies. As is pointed out in the following section, Dr. Papanek himself states that the real constraint to economic growth was imported capital goods, *i.e.*, foreign exchange.

Dr. Papanek's suggested policies of regional differentiation of tariffs and subsidies for accelerating growth in East Pakistan are generally sound. But he could have stated in a more straight-forward fashion that such regional policies of special tariffs and subsidies for encouraging industrial development naturally follow from his analysis of early development in West Pakistan. The conditions that led to growth in West Pakistan have to be recreated for growth in East Pakistan.

His views on infrastructure development in East Pakistan are, however, very short-sighted and appear to be incorrect so far as development in the 1970's and later is concerned. Several observers [*e.g.*, 17] have noted the constraint of highly inadequate infrastructure on investment in directly productive sectors in East Pakistan. Moreover, the need for infrastructure development follows from his own analysis of the importance of government-developed infrastructure in launching private investment in West Pakistan in the 1950's.

IV

Domestic Effort and Foreign Aid

Although emphasising the brilliance of government policies Dr. Papanek does admit that foreign aid was an important factor in Pakistan's development since the middle of 1950's, and particularly in the 1960's. It financed over 30 per cent of gross investment in 1959-60 and about 40 per cent in the middle of 1960's. In proportion to investment, in proportion to GNP and on a per-capita basis, Pakistan received more foreign aid than any of her neighbouring countries. Without it, the acceleration of growth in the 1960's would not have been possible. But he maintains that the enlarged inflow of aid in the 1960's was largely the consequence rather than the cause of improved economic policies and performance.

He maintains that since the end of the Korean boom Pakistan was continuously at the limit of austerity in generating domestic savings and that it could not, as a result, achieve higher rates of investment and growth without outside help. The consumption of the bulk of the population actually declined in the 1950's — a fact Dr. Papanek attributes to the spirit engendered by Independence and Partition, and later, to the limits on democracy and the effective police power of the State. He says that further austerity imposed on the lower income groups might threaten the position of the elite.

He maintains that inadequacy of domestic savings was not in fact a limiting factor to Pakistan's development. Imported capital goods were the real constraint; private savings, largely generated in the industrial sector, were remarkably elastic.

Dr. Papanek argues that in the short-run there were difficulties in the way of removing the foreign-exchange constraint on investment. Exchange rate adjustment could not do much. The use of idle labour for capital formation was limited by institutional problems and by the absence of suitable technology. Further curtailment of imports for consumption to increase foreign exchange for investment would have been impossible.

He poses the question whether administration and security would have broken down if the civil servants and military officers had been denied even a limited quantity of luxury goods which were largely imported. He says that it was the implicit judgment of all governments up to 1959 that it was politically impossible to increase austerity further in order to increase foreign exchange for investment.

He says that in the 1960's both exports and foreign aid have been rising faster than savings. Import tariffs were raised and export subsidies given. Domestic production of capital goods expanded, and there was increased use of idle labour through the Works Programme. Hence, he says, the likelihood is that in future domestic savings rather than foreign exchange would be the decisive constraint on domestic investment.

Dr. Papanek's analysis underestimates the importance of foreign aid in Pakistan's development and fails to emphasise the inadequacies of domestic efforts for generating large savings. One is also somewhat puzzled by his view that the enlarged inflow of aid in the 1960's was largely the consequence rather than the cause of improved economic performance. It is true that good economic performance strengthens the aid negotiators of the recipient country in their claim for more aid, and it may also be that an increased inflow of such aid would be forthcoming at least for a while, provided that political factors are also favourable. This latter condition should not be lost sight of in explaining changes in the aid flow. In addition, Western aid-givers also appear to have a rather strong ideological preference for economic development policies which mainly rely on private enterprise.

Looking at the small proportion of national product saved in the 1960's and the still lower proportion in the 1950's, it is hard to accept the view that domestic savings have been maximised. Several countries, including India, at a comparable level of poverty, saved a higher proportion of GNP. As a matter of fact the saving rate did not rise impressively in Pakistan. Dr. Papanek's estimates show that gross domestic saving as a proportion of GNP was over 9 per cent in 1959-60 and rose to over 11 per cent in 1964/65. Dr. Haq [5, p. 232], however, estimated that it was less than 6 per cent in 1959-60. Such estimates made indirectly from not very reliable data are of doubtful accuracy. But even assuming that Papanek's estimate is better, it is unreasonable to maintain that these are the limits to the mobilisation of domestic savings. It is perhaps true that the bulk of the population, *i.e.*, the lower income groups, reached the limits of austerity. But this austerity did not at all pinch the higher income groups who did enjoy high consumption. Fear of social turmoil, if there were any, was because poverty is less tolerable if it is not shared by all. Judgments by governments about the feasible limit of austerity were determined largely by the fact that the groups and individuals dominating the governments, particularly the members of the elite services, were not sufficiently oriented towards development and ready to make sacrifices for it.

Dr. Papanek does not explain why the foreign-exchange gap, rather than the saving-investment gap, became the effective constraint on domestic investment. Apparently the import-content of domestic investment was high. This, however, is not immutable — particularly in the long run. He does not say whether export-promotion policies, and direction and pace of import substitution were adequate and appropriate. His opinion on the severe limits to use of idle labour for capital formation is hardly consistent with his own view on the recent experience with the Works Programme. He does not point out that it was the unwillingness of the rich and the inability of the government to curtail imports for luxury consumption that reduced the availability of foreign exchange for more capital goods. More importantly, he does not discuss whether there should have been greater investment in, and less dependence on imports of intermediate and capital goods.

In the early stages of the development process, availability of external capital not only helps the balance-of-payments problem, but also adds to the supply of savings which can be obtained from the country. But the structure of production established during these early stages, when external capital is being received, should be such that a position is likely to be reached within a reasonable time in which, should the inflow of capital cease, the development process could still continue and the debt-service obligations be met. (For a clear exposition of debt-service burden and self-assured growth, *see* [15].) If the new industries were assured of bright export prospects, there would be no problem. Without prejudging the issue entirely and being utterly pessimistic, it would not be unreasonable to think that export prospects are not very bright either. If that be so, the need for reducing dependence on imports for domestic production and investment, by way of extending import substitution to intermediate and capital goods is emphasised. This would have required poineering efforts by the public sector.

Dr. Papanek admits that this was not done in the 1950's. Thus, the appearance of the foreign-exchange constraint, when domestic saving was low, was largely the consequence of not adopting proper policies at the appropriate time. Indeed, sound planning and policy-making requires identifying bottlenecks ahead of time and adopting policies for their removal. This raises the question whether the set of policies adopted in the 1950's, which are considered generally very sound by Dr. Papanek, were the most appropriate in the long-run perspective.

What actually appears to have happened, particularly in the 1950's is that the availability of foreign aid reduced the urgency for domestic saving efforts and led to the establishment of an industrial structure which is highly dependent on imports. One cannot be sure whether enough has been done in the 1960's to assure an eventually self-reliant growth of the economy.

V

Dr. Papanek takes a one-sided view and narrates a story of outstanding success in which he discerns the greatest promise of steady development. His analysis and views mostly look like an apology for the *status quo*, the prevailing pattern of development, and for whatever has been done in the past. He overly dramatises the short period of Pakistan's rapid economic growth — a growth which, though rapid, is not spectacular.

He plays down the inefficiencies and the inequities of the present system, and the formidable problems of achieving self-sustaining growth. Pakistan faces serious difficulties in mobilising domestic finance, reducing and eliminating dependence on foreign aid (particularly in the face of mounting debt-service burden), properly allocating resources, and creating interpersonal and inter-regional equity. Such analysis cannot inspire drastic changes in the economic policies which are probably necessary to cope with these problems. If the past and the present policies are as good and efficient as Dr. Papanek would have us believe, why do anything more than marginal adjustments in the present strategy? It is hard to argue with success, but it is wise to remember that it has occurred only during a short period, and it is necessary to have a long-term perspective in designing development policies for resolving problems of eventual self-reliant growth.

It is not suggested that Dr. Papanek's analysis of Pakistan's development, particularly in recent years, and his assessment of prospective growth are wrong.

But his is not the only logical conclusion which one can draw from Pakistan's development experience. Alternative explanations of past development and problems of future growth are possible. Dr. Papanek's optimism could be right, and in that case we should not worry much about sustained growth. However, if he is wrong, in the future serious difficulties may take the planners by surprise. A more cautious interpretation of past development, greater efforts for increasing domestic savings, increased export promotion, planned import-substitution of intermediate and capital goods, and reduced reliance on foreign aid would guard against any serious disaster and assure eventual self-sustained growth, although such policies may demand a higher level of current sacrifice for both the administrators and the people.

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