

# Planning Experience in Pakistan

by

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You have done me a unique honour by asking me to deliver the Conference Address, for which I am deeply grateful to you. The organisers of the Conference suggested, and I agreed, that I might speak on the planning experience in Pakistan. I have tried to project a few aspects of this overall experience, many more are left out. In doing so, I have sometimes expressed views, which are my own, and should be taken as such and not necessarily as views of the government.

## INTRODUCTION

Planning is called 'economic' because both economics and planning seek to make human life fuller and richer by the same *modus operandi*, namely, harnessing and utilising limited resources for attaining a limited combination of unlimited objectives. To be effective, planning must cover all aspects of man's life; and all his hopes and aspirations should be kept in view in deciding what can be done with available resources in a given period. There are thus three clear-cut stages in planning:

- a) determination of objectives,
- b) assessment of resources, and
- c) drawing up of actual programmes for implementation.

Since the objectives should really reflect people's hopes and aspirations, and cover all interests of man—economic, social and cultural, the determination of such objectives, and more so the combination of such objectives for a given period, have to be done by the people themselves through their political system. The planner may help in the identification of these objectives or combinations therefore; but in the last analysis, the objectives must be given to him, so as to

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enable him to do his own job properly and efficiently. In this sense, the planner's work will really begin from the assessment of resources, which he would endeavour to put to the best possible use towards the attainment of the pre-determined objectives. To a significant extent, even resources and programming are functions of the political philosophy that a nation believes in; therefore, in the whole gamut of planning, the role of the political system and political decisions cannot be overemphasised.

Planning may be at its best as a deductive process, regarding objectives as major premises, resources as minor premises, and projects and schemes as conclusions. It may also degenerate into a worst form of inductive process, working out, and working up a set of objectives from a loose bundle of disjointed and uncoordinated schemes, planned for certain easily identifiable sectors of the economy, following the beaten track, mostly borrowed from foreign experiences. At any given time, a country may fall short of the best form of planning for a number of reasons; objectives may not be well understood, defined or determined; resources may not be well assessed or mobilized, particularly manpower resources; and programming may leave much to be desired, because of inadequate data, or lack of imagination on applying tests, tools and technique. In such circumstances, the planner's job becomes extremely difficult. It is very easy to blame the planner for his own failure or for the failure of his plans; it needs patience, perseverance and investigation to find out why he could not plan effectively, or what lay at the back of partial successes of his plans, which are popularly regarded as failures.

Systematic economic planning, initiated with the First Five-Year Plan (1955-60), is now more than a decade old in Pakistan. An earlier experiment in planning, the Six-Year Development Plan, was adopted in 1951; but it lacked the balance and consistency of a systematic plan and soon proved inadequate. The Six-Year Development Plan, by default, however, laid a significant basis for further progress. It exposed the deficiencies in the plan organisation and the long way to be covered, and served as essential groundwork for a comprehensive and consistent plan on a national level.

A significant feature of the subsequent period was the gradual evolution of 'physical planning' as distinct from 'budgetary planning'. Instead of a project-by-project approach, the overall resource balance, productivity and feasibility tests began to be employed. In the transition from the traditional budgetary framework to modern economic analysis, a great stimulus was the need to attract foreign aid, and hence the obligation to submit the plan for independent scrutiny by experts of various international agencies. To meet the rigorous standard, planning had to be increasingly taken away from Civil Servants, and entrusted to engineers, accountants, economists and financial experts. Standard proformas were designed and detailed procedures laid down

for project evaluation and for identifying the areas of coordination with other projects. Planning ceased to be based on intuition and instincts. It became an institutionalised, standardised and formalised process.

### THE PLANNING TECHNIQUE

A number of attempts have been made upto-date to provide a conceptual theoretical framework for the macro-economic model underlying the plan. All these studies assume a few independent variables externally given, and seek to derive the magnitude of other variables involved through postulating a set of economic relationships. The financial and commodity balance tests have also been pointed out as significant features of the planning technique.

Initially, in an underdeveloped country, planning has to be, by force of circumstances, little more than the effective implementation by government of sensible policies with respect to development. But gradually, fancier gadgetry of modern planning—input-output models, programming, computerized national income projections, *etc.*, become the tools of development planning. Computerization of national income projection comes as a matter of course. When the statistical information and the econometric model of the economy are available to explain what and how much the economy produces, such a venture becomes a possibility. Programming becomes a necessity as planners are concerned with the efficient use of limited resources to meet the desired objectives. When the quantification of resources, alternative uses and costs, and the goals are known, it is quite possible to select a model which is optimum under the given circumstances.

While national income accounts is a value-added analysis, and puts emphasis on primary inputs, the input-output analysis is a tool for determining the structure of an economy, and is more concerned with intermediate transactions which are neglected in national income accounting. It should be noted, however, that these three tools are inter-linked and they supplement each other in the planning process. The input-output analysis is now being used by scholars and planners to scrutinize and formulate Pakistan's five-year plans.

The use of input-output analysis for development planning is now an established fact. An initial analysis will bring out the present structure of the economy. Comparison with the structure of a developed economy will show which sectors are out of proportion; and careful analysis will point out some of the bottlenecks which can arise and how they can be circumvented. This type of analysis is most suitable in the case where planners can choose the desired goal themselves. More often, planners are faced with given government policies and projects that are necessary primarily for reasons other than economic. The planners start with these given data and other constraints, and try to reach the desired goal by taking them into considerations, and with minimum violation of

constraints. But this is often not possible; then the planner proceeds to modify the policies, and to change the constraints wherever necessary.

The input-output analysis also poses problems for countries like Pakistan where the economy is changing rapidly and affecting almost all input-output coefficients. Input-output analysis will be valid only for a given period of time, and will not be representative of a later time-period. There is no doubt this reduces the value of input-output analysis, but since the planner in a developing economy has to operate with data which are several years out-of-date, the problem posed by rapidly changing coefficients is only marginal, and on the whole need not be detrimental. The value in being able to see the structure, in spite of the continuing dislocations, is greater than if such an analysis did not exist. Furthermore, the production of an input-output analysis at this time may prove very valuable in comparison with later ones, when we should be able to look back and see for ourselves the character and pace of our development.

It should be realised that while a highly structured and stable economy of a developed country can use the input-output analysis in a quantitative manner, in a developing economy this analysis assumes a qualitative function of pointing out what is important, rather than actually providing an accurate forecasting base. This latter quality of the analysis grows with the development of the economy. I believe, it is time that we utilised this modern approach and other fancier gadgetry for their present worth, and more importantly, to prepare ourselves for the day when these would be more helpful than they are today. It remains true, however, that what we are more immediately concerned with is not the mathematical plan-frame which can be left to the technician. The more important issues are the value judgments, the assumptions, the policy recommendations and the sectoral programming.

What for example happens when the Planning Commission is not given a single, definite preference-function as a basis for choice among alternatives? How to reconcile two alternative courses of action, having different contributions to income and employment? What principles should guide the planners, once a conflict is discovered between productivity and regional income parity? These are questions that a planner must try to resolve; but among these are issues that he cannot be authorized to answer unilaterally or conclusively.

The value judgments are matters of political decisions which lie outside the ambit of planners as such, and should, therefore, be given to them by the political system. This consideration will set a limit to an unqualified dependence on purely mathematical hypothesis: the plan that will then emerge will be for attainment of predetermined objectives with mobilisable resources in the most economic way.

The assumptions regarding growth targets are similarly derived. This is different from the extrapolation of historical trends alone. The rate of growth postulated crucially depends on a set of action to be taken. These being policy questions, a good deal of consultation and coordination must take place with relevant government and non-government agencies. The planning technique must be able to give due weight to their collective thinking, assessment and judgment.

It is at this stage that planning assumes an essentially democratic character. Not only should the specialists be consulted through panels and committees; industries, commerce, agriculture and labour should be taken into full confidence, and the widest possible consultation initiated. If the policy recommendations are basically sound and well considered, consultation will hardly make any substantial difference. On the other hand, it will introduce a much-needed sense of realism, and ensure a wider participation in plan implementation. No doubt it will increase the work-load of the Commission, since the plan-frame and growth rates might have to be altered, and other variables suitably adjusted. The additional labour will, however, be amply rewarded, if all this leads to a more realistic plan thus minimising the need for subsequent revision.

### THE PLANNING PROCESS

In Pakistan, the formulation of the plan is initiated with a request to various departments to prepare an adequate portfolio with suitable projects. The quality of project analysis, done in a hurry, leaves a lot to be desired, particularly in the cost and benefit estimates. These proposals are then scrutinised with reference to plan objectives, and accepted or rejected depending on the extent to which they fulfil those criteria. It is obvious, therefore, that the eventual pattern of sectoral allocation, and programming of individual sectors, reflect a good deal of inadequacies in project planning. I believe, the Planning Commission would do well to adopt a programme of training up a corps of project analysts to man the 'planning cells' of government departments and autonomous bodies. There is a general paucity of working manuals on project preparation and evaluation. This measure would be increasingly necessary in view of the elaborate and sophisticated project planning now insisted on by foreign aid-giving agencies. I have no doubt that this would also go a long way in reducing the need for subsequent scrutiny, and shorten time in sanctioning the scheme.

An important aspect of project planning in Pakistan is the so-called feasibility test. This is not related to technical feasibility alone since that is easy to judge. The feasibility test becomes highly pragmatic and uncertain when one starts analysing the administrative capacity—itself a rather elusive concept.

In many cases, it would seem worthwhile to strengthen the administrative capacity to implement a good scheme, rather than reject it on the ground of the existing administrative capacity being inadequate. We have rejected far too many otherwise good schemes for too long a period, owing to this alleged 'administrative bottlenecks'. Administrative capacity can surely be improved. If we do not have iron ore or uranium, we do not have them at all. Not so with administrative capacity. We must no longer treat this as unalterable and make ourselves the victims of our own vicious circle.

A far more significant question is the scope of the plan in so far as the mobilisation and distribution of the entire financial resources are concerned. Since the effects on income and employment of capital and revenue expenditure are equally important, it is necessary for planners to take into account the pattern of future revenue expenditure as well, in planning the aggregate income growth for the Nation as a whole, and for the provinces as per requirements of the Constitution. My purpose in saying all this is to pinpoint the fact that while sophisticated techniques like input-output models are helpful, the niceties of such models should not blind us to the large area of discretion and realism, warranted by special circumstances that mathematics cannot take notice of.

The Annual Development Programme was adopted to integrate plan implementation with budgeting. This device allowed wide flexibility in phasing and coordinating the various sectoral programmes in the light of performance and resource availability. As an instrument for flexibility through resource allocation, the Annual Development Programme worked fairly well in Pakistan. It was, however, realised that the Programme did not go far enough. It reflected the expenditure programme of the public sector only, with no analysis relating to the implications for sectoral and commodity balance; nor did it ensure effective coordination with the private sector.

Steps have, therefore, been taken to formulate, with effect from next year, an 'Annual Plan' and not merely a 'Programme'. Such a plan will be based on intersectoral and interindustry balance with respect to the relevant year, and envisages a meaningful coordination with the private sector, which had so far been given a rather remote and *ad-hoc* treatment under various investment schedules. The Annual Plan, so far as the private sector is concerned, will be an 'indicative plan', showing projected increase of goods and services in various commodity groups. This frame will be adequately supplemented by concrete policy recommendations. It is for the first time that such a planned integration of the public and private sectors is being introduced in Pakistan, and it definitely marks a significant development in the evolution of our planning technique.

In many ways, the First Five-Year Plan was an admirable document, concealing in its more than 600 pages a stupendous amount of technical work

in consistency and feasibility tests. The planners no doubt had done their best; but they could not be expected to rise above the 'information gap' and institutional constraints prevailing at the time. If the First Plan failed to reach many of its targets, the reasons lay more in socio-economic institutional bottlenecks than in the programmes and policies. The shortfall was in no small measure contributed to by the political situation in the country, apart from the somewhat undefined position of the Planning Board, and the consequent inter-agency and interdepartmental wranglings over allocation and financial controls.

The most valuable experience of this period was a growing realisation that if planning was to be made effective, the plan discipline had to be inculcated and enforced. This was done by strengthening the position of the Planning Commission, and giving it a pre-eminent status in government, when the President himself became its Chairman, and by forbidding any departure from plan provisions without specific sanction of the National Economic Council. All this took a more definite shape with the launching of the Second Five-Year Plan (1960-65). From then on, the plan document became the focus of all our development efforts. It helped a national consensus on the aims and means of economic activity over a wide range, and thus aided in fulfilling the various sectoral targets to a far greater extent than would have been possible without a coordinated plan. For a developing country, a systematic economic plan has its greatest value in creating this national consensus, and directing concentrated efforts in predetermined areas.

### STRATEGY OF DEVELOPMENT

We may digress a little here in order to analyse the 'theory of development' that the planners implicitly adopted for resource allocation in the context of a 'mixed' economy, in which public-sector infrastructure and private-sector enterprise could reinforce each other, to reach successively higher stages until self-sustained growth was achieved. Efforts were made, and are still being made, to remove critical scarcities like food, foreign exchange and skilled manpower, not only to accelerate the pace of growth but also to prevent serious intersectoral imbalances. Our approach has, therefore, been more or less based on the theory of 'balanced development', seeking to expand simultaneously a very broad range of goods and services. The concept was broadened, in our peculiar geographical situation, to include interregional balance in economic development.

What, in practice, seems to have happened so far is, however, quite different. Except during the Second Plan, when agriculture averaged an annual growth rate of 3.4 per cent moving towards a balance with manufactures, the leading sectors in Pakistan have always been manufactures, particularly large- and medium-scale industries. Owing, however, to the predominance of agriculture, the faster growing manufacturing sector had a small weightage in

the final gross national product. As a matter of fact, the historical pattern of development in Pakistan would bear out, in the *ex-post* sense, the thesis of 'unbalanced growth'. Imbalances have been a characteristic feature of our intersectoral and interregional growth, in spite of the plan postulate of 'balanced growth'.

Does this mean that we should really plan for a 'deliberate imbalance', and rely on a few 'leading sectors' to carry forward the economy to a self-sustained growth? The controversy between the protagonists of 'balanced growth' and 'deliberate imbalance' is far from over. But I would draw your attention to a few special features in our economy that might help to decide the question as far as we are concerned. One limiting factor would be our foreign-exchange position. We cannot plan for an imbalance that would affect our international accounts. Nor can we plan for an imbalance against agriculture, so important from income, employment and balance-of-payments considerations. We cannot restrain manufacture which has displayed such dynamism and virility. Our choice, therefore, falls again on 'balanced growth' as the fundamental planning postulates.

Let us now come back to the strategy of growth in some important sectors. We have been planning for food self-sufficiency by raising the per-acre yield through massive application of physical inputs and better cultural practices. Once agriculture looks up, we will have to devote serious attention to an 'agricultural price policy'. It is well known that a higher agricultural price may not lead to a greater production in underdeveloped countries. On the other hand, a favourable turn in the terms of trade of agriculture *vis-a-vis* industry may actually raise wages, reduce profits, and curtail industrial investment. The higher income of the agriculture sector would also be dissipated through a high marginal propensity to consume. A far better course would be to try to raise agricultural production through better extension work, and provision of water, fertilizer and improved seeds. We have to attack the supply side of the problem.

All this is widely known. What is less appreciated is the fact that while high price does not guarantee high production, low price reduces the incentive to produce more. This may be disputed on theoretical consideration, but this is what seems to be the real pattern. Unless a reasonable price is maintained, our extension programme will not have the desired impact. I have spoken of a 'reasonable' price. We are yet to find out first, what price level this does really mean in the light of factors I have mentioned; and secondly, having decided that level, how to administer the price effectively. In other words, we have to determine the 'optimal pricing' of agricultural products from the points of view of incentive, alternate cost and terms of trade.



Several issues are yet to be thought out clearly in the industrial sector. Ideally, we should set up industries based on jute, cotton and natural gas, where we enjoy comparative advantage. The discovery of high grade coal in East Pakistan and oil in northern part of West Pakistan would also offer us a natural advantage in coal and oil-based complex, particularly to produce a large number of by-products. We have bright prospects in marine resources in both the wings. We have good deposits of limestone in both the wings for cement production. Besides, our natural advantage in leather industry and wool is far from negligible. We should try our best to exploit this natural advantage to the maximum. That should be the first and the over-riding principle of our industrialisation programme.

Second, the industrial strategy has far-reaching implications for the distribution of income. We must evolve principles and administrative machinery to prevent the formation of monopolies or cartel formation. Unfortunately, the example of Japan in this respect has not received the attention it deserves. We must undertake special studies to see how the small- and medium-scale industries can be successfully integrated with the big concerns in a 'grand alliance' for progress.

Third, we have established a large number of 'import-substituting' industries. It is often said that the lack of technical know-how and the small domestic market set fairly narrow limits, beyond which the proliferation of import-substituting industries is not economically desirable. The critics cite as evidence the high cost, the small output, the inferior quality and so on. Viewed historically, this argument, though valid in the short run, has never been accepted as the basis for policy in countries that have recently developed a self-sustaining economy. All the former colonies used to import goods that they now manufacture at competitive cost. To begin with, these were 'import-substituting' industries, and only at a later stage they became export industries as well. We ourselves have similar experience in jute, cotton, leather and cement industries. We must not, therefore, be swept away by the teething troubles.

This is not to say that all conceivable industries that may now be considered import-substituting will in course of time become competitive and export-oriented as well. We have to identify the promising ones. True, our domestic market is small and will grow slowly. But the market for this purpose should be 'domestic' as well as 'international'. We must plan big and plan ahead. We must overcome the shortage of technical personnel, organisation and capital, if necessary, with direct foreign participation. In these days of super tankers, pipelines, giant cargo carriers and international highways, the problem of raw materials should not pose an insurmountable difficulty. We have to create more and more jobs outside agriculture. We have to build up industries as a

viable, leading and dynamic sector of our economy. For the long term, therefore, we have no other way than to opt for 'aggressive industrialisation'.

### THE PRIVATE SECTOR

From now on, the private sector is to be more effectively integrated with public sector programme through the Annual Plan. This is relatively simple, if the plan is nothing more than a target model for the private sector to aim at during the year. As I have said earlier, it is the policy issues—questions of incentives—that will ultimately determine the success of the programme. It is often said that we have progressively freed the private sector from unnecessary controls. The private sector, however, maintains that a large number of controls still remain. It is not possible to say off-hand how far we can go in further liberalising the procedure in practice, having regard to our manifold difficulties. Nevertheless, a number of tentative suggestions are offered that should merit further attention of economists.

Let us consider the question of fiscal incentives. Tax concessions represent perhaps the most widely adopted instrument in developing countries. This may take the form of reduction in import duties, tax holiday, relief from taxes on sales, *etc.* These measures have proved useful in many developing and some developed countries. The basic question, however, is to 'optimally quantify' the magnitude of the concession, with regard to the revenue loss on the one hand and the additional investment attracted on the other. In addition, we have to develop new devices like concessional land and power facilities, particularly in East Pakistan, exemption of machinery from import duties and so on. The impact of the existing measures like the Export Bonus Scheme should also be reviewed from the point of view of its contribution to capital formation.

Associated with this are the problems of locating industries in backward areas, and the divergence between social cost and private cost. It is necessary to modify the general concessions to ensure a balanced growth between regions, and differential protection for industries located in the less-developed areas.

Can we not go further in offering more 'direct incentives' in addition to these 'indirect concessions'? Can the planning agencies develop a viable machinery themselves to plan promising individual projects, particularly large-scale ones, for consideration of the private sector? The technique of input-output analysis should help identify the 'scarcity areas' much better than before, and indicate the type of projects to be undertaken. I feel that these matters should be given further thought by all concerned.

You will agree that the administrative delays and bottlenecks must be removed at all costs. At present, there is no special study to show the average time actually taken to go through the entire process of issuing licences, permission and sanction. It would be desirable, after such a study is made, to set a

statutory time limit to this process. There is nothing new in this proposal, since it is already being practised in a few countries such as Mexico and Nicaragua.

#### EXTERNAL FINANCES

The main bottleneck in the development of countries like Pakistan is the shortage of capital. Domestic savings being low, the total resources must be augmented through foreign aids and loans. Two types of problems have been encountered in this respect:

- a) The commitment of loan to a particular project and stipulating the sources of procurement.
- b) The rate of interest, the period of repayment and the grace period.

Regarding the first, 'project assistance' and 'tied loans' have resulted in a higher cost of capital imports and enormous administrative complications. This type of loan seeks to finance only the 'direct' import-content of a project, leaving local expenditure to be met by local resources. In practice, however, the 'indirect' import-content like steel and cement has proved substantial. Efforts to provide them have led to a far stronger pressure on the balance of payments than 'direct' import-content would by itself warrant. Moreover, the long gestation period of many of these projects—whose local expenses are to be met often by deficit financing—exerts inflationary pressure with consequent strain on the foreign-exchange position.

The practice of 'tying loan' to a source of procurement has no doubt some beneficial effects on the balance of payments of the donor countries *vis-a-vis* untied loan. But there seems to be no reciprocity for the recipient countries in the period of repayment, on the same ground. The counterpart to 'tied loan' should be 'tied repayment'—that is, to enable the borrowing country to repay through its own goods and services only. At worst, these should be 'soft loans' payable in the currency of the recipient country.

The important point for deliberation for economists should be to analyse how far the practice of project assistance and tied loans has reduced the net worth of foreign assistance to the developing countries. It is certainly lower than the contribution, expressed in terms of dollars and sterlings, would *prima facie* indicate. But the loss of real worth should be quantified and measured against the expectations implicit in the plan document.

Coming to the second problem, it appears necessary to specify the certain economic criteria for foreign loans. It may be argued that once the debt has been repaid the assets remain. It has made a permanent contribution to the capital stock of the country. But this argument is not altogether satisfactory.

For example, if the total annual debt charges exceed the savings accruing from foreign capital during the period of repayment, the net result may be one of reduction of assets.

Some recent studies have indicated that there is a critical rate of interest around 6 per cent for underdeveloped countries, beyond which foreign loans are not likely to prove beneficial. If we include elements of gestation lag and repayment period, the problem becomes more complicated. It is almost certain, however, that if foreign loans are going to be advantageous, grace period and repayment period must be longer, and the rate of interest lower than at present. Historically, every country started off on the assumption of gradual elimination of foreign assistance, but many had to borrow further in order to service the earlier debts. Hence the need for precise research work in this critical area. Such studies may not only illuminate many points now only vaguely felt, but also help the aid negotiators by setting critical boundaries, so far as the terms and conditions of foreign aid are concerned. The tiresome procedure of aid negotiation and agreement is another subject, to which planners and administrators must also address themselves.

#### TECHNICAL ASSISTANCE

Experience has shown a few difficulties in the Technical Assistance Programme. The scholarships and fellowships offered to us by various international agencies and governments are not sometimes related to our needs and circumstances with the result that we cannot derive as much benefit as we and the donor countries expected. It is for the planners again to make specific recommendations on the basis of manpower surveys and projections. We must assess our needs, plan ahead, select candidates and approach the donor countries for the particular training facilities required. The facilities for teaching foreign languages should also be extended, if we are to take full advantage of the offers now being made by non-English speaking countries.

The existing procedure to process nomination of candidates is extremely cumbersome and time-consuming, involving overlapping, and duplication. We have missed a number of offers because of sheer delay and red-tapism in the processing machinery. It would be useful to see how far these formalities can be simplified in consultation with the donor countries.

Availing of the services of 'expatriate specialists' poses another problem. Apart from their different social and cultural background that severely limits their ability to function, many of these experts are not the best qualified to advise on the problems assigned to them. Those who pick up the job are required to leave just when they begin becoming useful, and some hardly pick up the job at all. Feasibility reports and even master plans drawn up by quite reputable experts are sometimes thrown out by other experts. All these should be given serious consideration, and while we should do everything necessary to get and

retain those who are needed, we should avoid frustrating but costly experiments on this account.

#### INTERNAL FINANCING

In mobilising the internal financing resources for the plan, some amount of deficit financing proved unavoidable. A question then arises, what was the pattern of the portfolio? Was it predominantly borrowing from the central bank, or commercial bank or other institutional sources? To what extent was printing of notes necessary? From here, we may proceed to analyse the result of this pattern on the price level and credit creation. I hope that a comprehensive study of this question will be undertaken soon, so that we may evolve a suitable pattern, if we must resort to deficit financing in future.

Another interesting issue concerns the plan strategy to generate higher income in the capitalist sector. This sector is then expected to save a large proportion of the additional income, in contrast to the subsistence sector, and utilise these savings in financing more projects. To what extent, one may ask, has this policy led to a change in the distribution of income in favour of the capitalist sector? Is it more efficient than mobilising additional savings by government to set up more public sector projects that may lead to a more equitable distribution in the long run? What are the comparative welfare implications of the two approaches? As far as I am aware, no detailed analysis of this problem is available at the moment. But as you will appreciate, this strategy has important implications for our major economic and social goals.

The most important lesson in planning experience in Pakistan is that the growth rate is crucially and inexorably dependent on the progress in agriculture. The slow growth rate in G.N.P. in the first two year of the Third Plan is the result of a very tardy growth of an annual 1.4 per cent in agriculture. G.N.P. grew only at an average annual rate of 5.0 per cent compared with 5.5 per cent during the Second Plan. If agriculture had even maintained the second-plan growth rate of 3.4 per cent per annum, the annual growth rate in G.N.P. in the Third Plan would have been around 6 per cent. It is in this context that the food self-sufficiency programme, by the end of the Third Plan, assumes vital importance. A breakthrough in agriculture is absolutely essential, if self-sustained growth is to be achieved.

Second, indirect incentives rather than direct controls have proved better tools in promoting private sector activity to the desired level. The progressive freeing of economic controls and reliance on market forces initiated during the Second Plan have paid rich dividends; and it would be necessary to continue the trend, if private sector is to live up to the role assigned to it in the development plans. It is essential, however, that these policies are reviewed from time to time, especially with reference to their impact on consumer welfare.

Third, foreign-exchange considerations have over-shadowed all other constraints in determining the pattern and tempo of our development. We have successfully diversified our sources of foreign aid and trade, and achieved a degree of resilience and flexibility; but this has to be improved further. The special nature of foreign aid, its sources, terms and conditions will continue to influence the general premises and scope of our economic plans. Hopefully, we have been reducing our dependence on foreign aid. The extent of our success in this direction will eventually depend as much on our ability to mobilise greater domestic resources as on the smooth and adequate flow of aid in the transitional period. The only way we can phase away foreign aid without too much strain on the economy would be through liberalisation of trade between the developed and the developing countries.

Fourth, we have evolved the important institution of Basic Democracies and works programme to mobilise the unemployed rural manpower. This 'planning at the grass roots' level has provided us with a useful starting point for more democratic and decentralised planning all over the country at the same time. Its significance from the planning point of view lies in the fact that the formal planning agencies have been spared the enormous burden of planning and designing millions of small projects that contribute substantially to rural capital formation, and solves to a great extent the problem of rural unemployment. It is interesting to note the contrast between the Indian and the Pakistani strategies in this respect. India's Second Five-Year Plan decided on the promotion of cottage industries as the major strategy for job creation. The targets were not achieved; and the focus in the Third Plan is away from cottage industries to a greatly expanded public works programme. Pakistan, by contrast, was fortunate in not making this mistake.

Fifth, the planning activity itself provided us with a useful framework for continuous collection and evaluation of economic and financial data as a part of the planning process. The various agencies sponsoring development schemes have developed institutional facilities for upto-date reporting and evaluation. The periodical reviews of the plan achievements have given us yet another opportunity to collect and analyse the statistical details. The lesson is that the planning process is a somewhat self-correcting mechanism.

The institutional procedure to direct and control plan execution was also streamlined. Both in the Centre and the provinces, project wings were established to keep a close watch on the physical and financial progress of individual projects. The periodical reviews by these divisions have acted as a barometer to judge the sectoral performance. But coordination, between planning and progressing division on the one hand and finance department on the other, has been less than ideal. In many cases, physically incomplete projects have drawn in excess of authorised amounts without prior sanction.

Another weakness of the project wings is the virtual absence of post-project evaluation and studies to derive meaningful experience for future strategy. The evaluation of the plan as a whole is not enough; there must be a comparison of pre-project projections and post-project realisation, which would go a long way to help us plan more realistically in the future at the project level.

Sixth, economic planning has introduced an element of flexibility and resilience in the economy. The rephasing of the Third Plan is a case in point. Without a proper plan and its detailed background information, it would have been impossible to formulate a rephased programme, revising the strategy and protecting the major growth targets, within such a short time.

While our overall performance has been good, there are still a few gaps in the planning machinery and concepts that in my opinion should be bridged without further delay;

a) For one thing, while macro-planning is fairly well understood and practised, the question of project analysis and micro-planning has received less attention than it deserves. Financial and economic analysis is as important as technical and engineering feasibility of a project.

b) The weakest link in our planning machinery is still the sponsoring agency's planning staff. To many of the 'planning cell' staff, project planning and analysis mean only preparation of the cost estimates of a particular proposal. Since the services are mostly to be supplied free, the return side is hardly looked into. Even in large organisations which maintain specialised staff, the tools of sophisticated economic analysis are either unknown, or cannot be adopted because of the lack of adequate data.

c) It is essential to step up research studies dealing with specific fields. For example, while a fairly good ground has been covered in studies on commercial and financial policies, very few studies have been carried out on the problems of the strategy of rural development and adaptation of technology.

Two related problems come up in this connection. It is recognised that technology should be adapted to the particular resource endowment of a country. The attempt should be to maximise the returns from the scarce factors. The outright transfer of technology developed in the perspective of a different resource endowment, though unavoidable in the short run, cannot be and should not be accepted as a long-term solution. We have paid little attention so far to this important question. The second problem, and this is also directly concerned with the problem of technology, is the development of manpower planning. All our plans have been weak in manpower projection and budgeting, with the result that skill has proved to be a persistent bottleneck in making a switch-over to a sophisticated industrial and technological base.

One aspect of development planning that received little attention is the impact of capital expenditure on subsequent liabilities of recurring expenditure. As projects are completed, the cost of operating and maintaining them has to be met from current receipts. This becomes extremely difficult, unless the growth in current receipts keeps pace with rise in recurring expenditure year after year. The fact that a large proportion of our projects were little more than employment proposals made the problem all the more acute. The growing need for more hospitals, schools, colleges, maternity centres, post offices, *etc.*, could be met only after pre-empting a large amount of recurring liability in future years. These are precisely the activities that brought little additional revenue to the government, thus making the position all the more precarious. On the other hand, the benefit of a cut in current expenditure is easy enough to demonstrate. If 10 rupees could be saved in recurring expenditure, this would amount to 50 rupees in 5 years which could finance 100 rupees worth of capital expenditure matched by foreign aid.

A possible way to alleviate this problem would be the 'pricing' of social services like education; but this goes against our sense of social justice. The other would be to 'progressively phase away' the subsidies attached to many goods and services offered by government. Our effort to enlist voluntary private contribution in building up social services has so far met with little success. Efforts must, however, continue gradually to shift the burden of providing local services to the local councils, with government guiding policy matters.

#### FOURTH PLAN

As I said these have been major experiences and lessons in planning during the three successive plan periods. What about the Fourth Plan? It may be useful, purely on a speculative level, to reflect for a few moments, on the Fourth Five-Year Plan of Pakistan.

a) What, for example, shall we do if food self-sufficiency is achieved by 1970? For one thing, with population growing at the rate of more than 2 per cent a year and *per-capita* income increasing, the point for food self-sufficiency will always be shifting. We will have to run, much in the fashion of Harrod-Domar growth models, to keep standing in the same place. Given, however, a dynamic equilibrium in the food sector, it would be advisable to diversify our food production with commensurate growth in non-cereal output, to ensure a balanced diet and broaden the food sources. It may be necessary to go to the sea in a big way, to relieve the critically short supply of protein, particularly in East Pakistan. A significant element of the fourth-plan strategy should be to develop local agrarian institutions strong enough to sustain and carry forward the momentum generated.



b) Another important plank of strategy in agriculture would be to concentrate on raising the per-acre yield of cash crops like jute, cotton, tea, tobacco and sugarcane. A lot of applied research has been done on these crops all over the world; extending the results to our farmers should prove a big enough task to keep us fully engaged in the agricultural front during the Fourth Plan.

c) Simultaneously with agriculture, we shall have to strive hard to widen our natural resources base. With agriculture growing as it is, G.N.P. growth rate of substantially higher than 5 per cent can only be achieved through striking useful minerals such as iron, bauxite, oil and gas. We should greatly expand our geological exploration activities even up to the off-shore limits.

d) The third task, in my opinion, should aim at developing sophisticated basic industries like steel mills, machine tools, petro-chemicals and electrical complex. The demand for capital goods will be high, and it would be nearly impossible to import all of them considering the costs and time involved. Petro-chemicals will have to be developed for import substitution over a wide range. The high 'linkage effect' of heavy industries is yet another important matter we should not lose sight of.

e) The problem of balanced regional development has been solved to a smaller extent than was envisaged. This happened in spite of allocating a larger proportion of planned public sector capital expenditure to East Pakistan. It may be necessary in the Fourth Plan to determine the inter-wing allocation in view of the total public expenditure—Central and provincial, recurrent and capital—incurred in the two provinces, in order to fulfil our Constitutional obligation of removing income disparity, by 1985 as per government decision.

Probabilities are that a very high priority will be given to human resources development. This signifies a fresh thinking in as much as social sectors, relegated to residual position in the first three plans, have made very little progress in both physical and financial terms. The most discouraging failure has occurred in technical education in spite of the emphasis given to it in all the five-year plans. This cumulative shortfall, unless remedied in the Fourth Plan, will emerge as a serious constraint. Paradoxically, our richer section, though deriving maximum benefit out of the education and training programme in the public sector, have contributed precious little. In East Pakistan, for example, it is the poor farmer who pays the 'education cess' as a percentage of land revenue. The few institutions set up by the well-to-do fall far short of what they owe to the society. It would be necessary to mobilise the voluntary contribution of the rich for the large educational programme expected to be mounted during the Fourth Plan, perhaps, through something resembling an 'educational foundation'.

Proper 'manpower planning' is yet to be done in a comprehensive manner. The preliminary work, involving manpower survey, projection and

budgeting, must be initiated without further delay. The plan should then be integrated with our five-year educational programme within a perspective framework. The usual problems of data and employment coefficient will be there, but a far more difficult issue will be the type and content of our education at different levels. I believe that our educationists, industrialists and financiers will all cooperate whole-heartedly in formulating a realistic manpower plan. How that can be done best is again an important problem confronting the planning agencies.

The problem of employment will have to be given a very close attention with Fourth Plan. The Second Plan succeeded in absorbing the additional labour force thrown up in the market. Efforts must continue to absorb the increasing number in the Fourth Plan. The capital and labour intensity of each individual project must be critically examined from the point of view of generating employment. This is where the question of a suitable technology comes to play a significant role. It is true the works programme has afforded us a good beginning for rural areas, but its continuation is dependent on the flow of the PL-480 funds. Besides, we must evolve a strategy for an urban version of the 'works programme' to absorb the educated unemployed—the most volatile section of our intelligentsia. Failure to tackle this problem has been causing great turmoil in several States in India. We must act, and act swiftly. No social welfare project can be more valuable than provision of employment, and no egalitarian principle more effective than the right and opportunity for everybody to contribute to the growth of the Nation and benefit from its welfare.

I have tried to highlight in the foregoing pages some of our major experiences in the domain of planning; these are neither exhaustive, nor complete in analysis, by any stretch of imagination. You will have noticed that for most of these, I have merely indicated the need for and the possibility of improvements. This is no spirit of criticising the present arrangements; as a matter of fact, our existing system as a whole has proved quite successful, and people both at home and abroad have a good word of praise for the system and its performance. We have done well, but we want to do still better: it is with this end in view that certain shortcomings have been underlined. Even there, I have merely posed problem without trying to find answers. These problems are currently engaging the attention of government at all levels; it is your responsibility as economists and experts in planning to guide government on correct lines. If I have succeeded in provoking you to think, deliberate and advise, I will consider my job to have been well done.