Some Reflections on "Planning Experience in Pakistan"

by

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In his address delivered at the 15th Annual Conference of the Pakistan Economic Association, Dr. M. N. Huda has reviewed the planning experience in Pakistan. He is eminently suited to undertake this review as he has been very intimately associated with the planning processes at both the provincial and central government levels. The address, though brief, raises a number of important issues in regard to the formulation and implementation of the annual and five-year plans of the country, issues which deserve serious consideration by the planning authorities. The following discussion of his address is an attempt to supplement some of the points raised by him.

With the quickening pace of economic development, the need for more and accurate data is being increasingly felt in the country. Lack of adequate and reliable data not only hampers the use of sophisticated analytical tools for formulating comprehensive national and regional plans but also adversely affects the measurement of the performance of the economy from year to year. This is not the occasion to go into the details of the merits and demerits of the statistical series which are now being published by various sources. Suffice it to say that there is a great need of improving the contents, quality and regularity of these data. The collection of statistics is not keeping pace with the improvements in the economic activity. Even such vital information as the size of population and its rate of growth is not known with any reasonable accuracy. The results of the 1961 Census of Population are generally adjusted upward by 8.25 per cent for underenumeration in the census. Similarly, the average rate of inter-censal increase in 1961 Census was estimated to be 2.15 per cent for Pakistan, 2.36 per cent for West and 1.91 per cent for East Pakistan. The annual rate of growth of population is now assumed to be 2.6 per cent although there is evidence that it exceeds 3 per cent.

Another relevant case in point is that of national and regional income accounts. The national and sectoral income estimates are widely used as indicators of growth and structural change over time. But if these estimates are

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based on data, which differ in reliability from sector to sector, province to province or from year to year, their comparability over time and space is seriously jeopardized. Perhaps a part of the indicated growth or decline in the economy is then attributable to statistical causes. Admittedly a statistician need not be a perfectionist in presenting the data but he has a responsibility to ensure that the data reflect the real situation consistent over time. The paucity of basic data imposes serious limitation on the accuracy of these estimates. Roughly speaking, about one-third of the total income is measured with a tolerable margin of error, another one-third has a substantial margin of error and the rest is based on very week indirect evidence. Included in the last category are as important subsectors as livestock, fisheries, minor crops, small-scale manufacturing, wholesale and retail trade, which presently account for 9.5 per cent, 3.1 per cent, 6 per cent, 3.6 per cent and 12.4 per cent respectively of the total gross national product.

The bumper agricultural crops of the current year increase the urgency of improving production data in agricultural sector to keep pace with technological progress. A comparison of the results of the present subjective methods of yield estimation of cotton and wheat with those of crop-cutting experiments based on probability sampling shows that the former have generally underestimated the yields by 10 to 15 per cent. Another significant fact emerging from this comparison is that the official estimates generally overstate production in a poor crop year and understate the same in a very favourable year. These serious deficiencies in data and knowledge will make adequate agricultural planning more difficult in years to come when self-sufficiency in foodgrains is achieved and acreage is diverted to crops contributing higher value added per acre of cultivated land.

Introduction of new varieties of seed, wider use of fertilizers, and increased supply of water through installation of tubewells, has extended the technological possibilities of agriculture in Pakistan. The resultant upsurge in production had raised a number of problems for agricultural planning. After self-sufficiency in foodgrains has been achieved, the cropping pattern and land utilization may have to be altered in favour of more valuable crops. Extensive cultivation of foodgrains on irrigated lands and the use of other highly productive inputs may not be the most economical use of these resources. As yields per acre increase, the food requirements of the country would be met by comparatively a smaller area under these crops and the land resources released from foodgrains cultivation will have to be employed in alternative uses. Agricultural research should, therefore, be directed towards indentifying an optimal cropping pattern for the future.

A number of other problems deserve serious consideration. The transformation of agriculture from subsistence to cash crops presupposes the existence of adequate storage, marketing and transport facilities. The lack of

these and other distribution facilities for the major grain crops has, in the past, led to wide fluctuations in market prices during the year. Prices are generally low at the time of harvest, when the farmers sell the bulk of their crops, and gradually climb during subsequent months. During periods of shortage, the difference between harvest and market prices becomes very substantial. In recent years, the time pattern of wheat imports played a stabilising role. With the present bright possibilities of achieving self-sufficiency, storage facilities will play a more critical role. Unless the supplies are properly stored and marketed throughout the year, there will be a danger of unduly depressed prices at the harvest time which will act as a disincentive to the farmer. Indeed, one of the reasons for supporting prices of agricultural products is that it reduces market price fluctuations and ensures a more or less stable income for the producers.

Pakistan's experience with rapidly rising agricultural productivity has demonstrated the fact that farmers are responsive to the cost-price structure of incentives and adopt improved farming techniques quickly if the necessary inputs are available in adequate supply. The available evidence suggests that the terms of trade were against agriculture throughout the 1950's and specially after the Korean War. Compulsory procurement of foodgrains at less than market prices, export taxes on jute and cotton, and large imports of foodgrains under PL 480 reduced farm incentive and kept the prices depressed. On the other hand, the infant domestic industry was protected through a number of devices and was thus able to sell its products at higher prices. This trend in the terms of trade appears to have reversed since early 1960's. The liberalisation of import policies, a fall in prices of domestically produced goods due to increased competition, reduction in export taxes on jute and cotton, abolition of food price controls, and stability in expected minimum wheat prices led to a favourable climate for investment in agriculture.

Along with the improvement in prices of agricultural produce, a network of incentives was worked out to lower the prices of essential inputs like water, fertilizers, seeds, *etc.* Irrigation water from public canals has always been supplied to farmers below cost. The introduction of subsidies on tubewell installation stimulated a rapid expansion of these facilities and resulted in increased supplies of water. The main impact of these increased inputs is seen in the larger yields of the major crops, especially wheat and rice. Thus, the present growth in agriculture is the result of a set of policies which aimed at improving the prices of farm output on the one hand, and lowering the prices of farm inputs on the other. Under the circumstances, the contention that higher agricultural prices may not lead to a greater production in underdeveloped economies is not warranted as far as our recent experience is concerned.

Similarly, the fear expressed by Dr. Huda that a favourable turn in the terms of trade of agriculture *vis-a-vis* industry will lead to a curtailment in in-

dustrial investment is not valid. Agriculture is the largest sector of the economy and growth impulses generated in this sector are bound to be transmitted to other sectors. The present method of subsidies resulting in high rates of profit in fact hampers greater productive activities by the industrialists. Once these artificial supports are taken away from them, they will be forced to increase production in order to maintain their profit position. This, by itself, should lead to greater investments. Again, the available data of private investment during the past few years show that these fears are not well founded. As a matter of fact, private investment in industry has shown a considerable acceleration after 1965 when, due to the War, it had temporarily fallen to a low level. The higher demand for various agricultural inputs and also higher agricultural incomes would encourage investment in industry producing both intermediate and consumer goods.

Dr. Huda advocates the determination of an "optimal pricing" of agricultural products from the view points of incentive, alternate cost and terms of trade. In the foregoing paragraphs we have already discussed some of these issues. We may now say a few words about the optimal pricing policy. If by "optimal pricing" is meant a market price determined by an interplay of economic forces of supply and demand, then it may perform at least some of the functions enumerated by him. However, he apparently questions the "reasonableness" of freely determined market prices. This concept of a reasonable price is at best ambiguous and raises a number of questions. What is a reasonable price? If the forces of demand and supply do not play a part in determining it, who or what does? If it has a welfare connotation, then whose welfare will it ensure, that of producers or of consumers? If reasonable prices, however defined, are to be enforced in agriculture, why not in industry or, for that matter, in other sectors also? To what extent is this policy of administered prices consistent with the aim of fostering private enterprise and relaxing price controls?

Dr. Huda is concerned that higher incomes induced by favourable terms of trade for agriculture would be dissipated through a higher marginal propensity to consume. The available data do not support this view. In his study on personal income and savings in Pakistan, based on the CSO's quarterly survey of economic conditions in 1963/64, Bergan found that rural households saved 10.9 per cent of their gross personal income compared to 7.4 per cent by urban households [1]. What is more important is the fact that rural households in each income group save a higher proportion of their income than comparable households in urban areas. Further, urban households having a monthly income of less than 100 rupees show negative savings whereas rural households record a positive saving even at that low income.

The following tables summarize the income and expenditure situation in urban and rural areas in 1963/64[1]

TABLE I

INCOME AND CONSUMPTION OF RURAL HOUSEHOLDS IN PAKISTAN 1963/64

(in rupees)

Monthly income group	Household percentage	Monthly income	Monthly expenditure	Monthly saving	Saving as percentage of income
Less than 50	5.6	38.43	36.76	1.67	4.35
50 — 99	26.2	77.47	72.51	4.96	6.40
100—149	26.3	123.54	109.90	13.64	11.04
150—199	17.0	174.23	144.56	29.67	17.03
200—249	9.5	222.58	174.12	48.46	21.77
250—299	6.1	272.21	206.00	66.21	24.32
300—399	4.5	344.75	267.38	77.37	22.44
400—499	2.2	451.74	328.56	123.18	27.27
500—699	1.6	591.30	424.66	166.64	28.18
700—899	0.6	814.52	517.31	297.21	36.49
900 and above	0.4	1113.08	674.87	438.21	39.37
All groups	100.0	166.64	135.15	31.51	18.91

Source: [6]

[1]The figures in these tables are not comparable with Bergan's figures as he has adjusted the CSO's income figures for borrowings, withdrawals of savings and transfer incomes, *etc.*

TABLE II

INCOME AND CONSUMPTION OF URBAN HOUSEHOLDS IN PAKISTAN
1963/64

(in rupees)

Monthly income group	Household percentage	Monthly income	Monthly expenditure	Monthly saving	Saving as percentage of income
Less than 50	2.0	40.08	44.31	(—) 4.23	(—) 10.55
50 — 99	14.7	78.00	80.43	(—) 2.43	(—) 3.12
100—149	24.1	123.19	121.67	1.52	1.23
150—199	18.8	170.43	166.40	4.03	2.37
200—249	12.1	219.65	205.84	13.81	6.29
250—299	7.3	270.24	251.00	19.24	7.12
300—399	8.7	338.68	306.81	31.87	9.41
400—499	4.5	438.95	390.01	48.94	11.15
500—699	3.8	575.07	472.86	102.21	17.77
700—899	2.0	778.01	634.99	143.02	18.38
900 and above	2.0	1135.14	841.36	193.78	17.07
All groups	100.0	229.58	208.14	21.44	9.34

Source: [6]

The above figures suffer from a number of limitations. Saving is calculated as a difference between income and expenditure, and if incomes and expenditure are incorrectly estimated there is a likelihood that the savings reflect an accumulation of these errors. The results pertain to a good agricultural year when expanded incomes may have led to higher than "normal" saving rates in rural areas and may not, therefore, be applicable to other years. Aggregate saving rates in rural areas are generally unstable and the results of one year should not be generalized over time. Moreover, there is a greater likelihood that urban incomes and savings, especially in higher income groups, were understated in the survey. The cross-section data may be at variance with the saving behaviour of the whole sector as a group. Also, the saving behaviour of the rural households may be different when they experience a similar income composition as the urban households. In spite of these weaknesses of the data, it still indicates that marginal propensity to consume in rural households is not higher than in urban households. It is, however, possible that the bulk of these rural savings is in the form of hoardings because banking

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and other investment facilities are not available in these areas to any appreciable extent.

The availability of investment opportunities in rural areas in recent years has played a prominent role in mobilising the savings of the farm families. It has been estimated that in West Pakistan private tubewell installation was financed upto 80 per cent by private farm savings and only 20 per cent by institutional credit [5]. There is evidence of considerable acceleration in private investment in agriculture. The number of private tubewells was estimated to be about 25,000 in 1963/64. By 1966/67, this number had increased to 51,400. In 1963/64 the number of new tubewells installed was 6,600 which gradually rose to 11,400 in 1966/67 [3]. These new investments in agriculture are taking place not only in big farms but also in medium-size farms [2]. The Planning Commission has estimated that as much as 20 to 25 per cent of the additional income on the farms is being saved and reinvested [7, p.24]. This ratio of marginal saving compares very favourably with that of urban marginal savings. The widespread belief that the farmers are too poor to save or are unwilling or unable to save is not correct.

An important issue which has recently attracted some attention is that of growing concentration of economic power in fewer hands. The planning strategy so far followed has relied heavily on the build-up of the capitalistic sector for generating savings for reinvestment in industrial projects. It has been estimated that the corporate sector saves about 50 per cent of its gross profits of which about ¼ is depreciation [4]. This may have been an expedient for raising the volume of savings in the initial stages of economic development when the country lacked adequate financial institutions to mobilise small savings. As a result, a situation has arisen where "a substantial part of capital formation has originated in a few big industrial families and, on the basis of their growing economic power, these families have been able to pre-empt the credit facilities available from the commercial banks and specialised financial institutions. This has tended to inhibit the process of broadening the base of ownership of industrial capital as well as raised a vociferous demand for better distribution of incomes. Continuation of generous tax concessions by the Government and widespread prevalence of tax evasion have enabled these accumulations to grow despite fairly high rates of income and corporation tax" [8, p.117]. In his analysis of income distribution in 1963/64, Bergan found that 50 per cent of households get only about one-fourth of the total personal income. The top 5 per cent of the households get 20 per cent of the income which means that on the average they are about five times as well off as the rest of the population. The concentration ratio was higher for urban areas than for the rural areas [1]. Since economic development involves increasing urbanisation, this may lead to higher inequality of income for the nation as a whole. Also the unequal saving

rates of the rich and the poor would affect future distribution of income as the rich accumulate wealth and the poor lose it.

This planning strategy has had its repercussions on the employment of labour. Despite a decade of continuous growth, about 20 per cent of labour force is still unemployed or underemployed. This unemployed labour force places a vast burden on the economy without contributing anything towards its productive activities. Apart from considerations of social justice, this is a disturbing situation from the viewpoint of economic efficiency. If this labour force was to be employed gainfully, it will not only enlarge the total production but will also raise the saving potential of the country. The present strategy of growth has not properly taken into account the savings potential of the unemployed resources. In this connection, Dr. Huda's proposal for an urban version of the works programme can go a long way in creating employment opportunities for the skilled and unskilled urban workers.

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