

Consumer Subsidies in Pakistan and other South Asian Countries

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1. INTRODUCTION

Consumer subsidies have been playing an increasing role in Pakistan since Independence. Largely as left-over economic controls of World War II, a number of sophisticated instruments¹ have been applied with different objectives at different times², surprisingly similar to those applied in Europe. It is interesting to see how South Asian countries, with their common colonial heritage of food administration and agricultural market and price regulations, developed different approaches after Independence, and to analyse the extent to which these can be explained by their different resource endowments and political ambitions and objectives.

Given the administrative, economic, historical, political, and social dimensions of the question, it is surprising that consumer subsidies have not been dealt with more extensively till now. The few exceptions seem to be the result of the donors' and the international agencies³ concern about alleged price distortions, allocative ineffectiveness and the strain on the budget.⁴ The South Asian countries have been advised by these organizations to reduce their subsidies, despite dramatic social and political experiences elsewhere (Brazil, Tunisia, etc.).

In such studies, emphasis lay on the impact of food aid and State food trade in India [7] free rice distribution in Sri Lanka [22] and the general impact of food aid in Bangladesh [4]. Little has been done in this respect in (and on) Pakistan⁵ or Nepal [34] and practically nothing on Burma.

An in-depth study of the subject must begin with the late 1930s and cover the whole of the former British India. The paper, therefore, originally was set out (i) to

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¹A wide variety of instruments have been and still are in use for subsidizing consumer goods, e.g. fixing prices at various levels, quotas, ban of movement, rationing, State trade, etc. They will be analysed in depth in the next phase of the project.

²The present paper attempts at giving a first overview only.

³For World Bank's critical view of consumer subsidies, see [53, p. 7].

⁴In Pakistan, a Cabinet Committee and the National Deregulation Commission were set up in 1982 and 1985, respectively, to look into price controls and regulations, see [42, p. 8].

⁵For the exceptions, see [9, 10, 24, 42; 62].

re-narrate the history of consumer subsidies since the colonial times, (ii) to measure the amount of consumer subsidies, and (iii) to discuss their impact on the economy. But this proved to be too great a task for a short conference-paper. At any rate, this paper is only a part of a longer term project, and I hope that more insight would be gained during further studies and with increased access to more (published and unpublished) material.⁶

2. CONSUMER SUBSIDIES

The Concept

In the absence of a significant redistribution of the means of production, consumer subsidies provide a possibility of increasing the income of the poorer (not necessarily) section. They are granted for selected consumer items, like wheat or wheat flour, sugar, kerosene, etc. They afford an effective (personal) differentiation and market segregation (splitting), to avoid spillovers to other segments of the market. Technically, consumer goods can be subsidized at any point of the marketing process, especially if the government itself is dealing with the subsidized items. Food subsidies, therefore, are especially easy to handle, if the subsidized items are imported, e.g. in the case of food aid. Inferior goods enjoy the advantage of not being in danger of being resold to the richer parts of the population.

As is well known, the benefits subsidies may increase for consumers with an increase in the price elasticity of output (and there is some indication that South Asian agriculturalists are responsive to changes in price). Producers also benefit from 'consumer' subsidies, depending on the price and income elasticities.

The same applies to (government) transfer payments, i.e. income subsidies, which, of course, have a consumption-increasing effect; they do not, however, play an important role in the South Asian countries (and in the developing countries in general).

Food stamps, like those used in Sri Lanka, carry elements of both consumer subsidies and transfers payments. They could be treated as consumer subsidies, because they are bound to a specific kind of consumption, like basic food items or cooking and heating materials.⁷ But they may easily be misused for other consumptions, especially if they are not restricted to shops handing out exclusively the subsidized items but can also be traded in general stores.⁸

⁶For Pakistan, the following papers have not been available so far: [41] and [54] both cited in [23, p. 54].

⁷Alter [6, pp. 101–111] sees the major objective of the US food stamps programme as (i) the expansion of the demand for food items, (ii) the improvement of nutrition, and (iii) other, i.e. social, regional, and political aims – in all three aspects affected by a transfer of purchasing power, originally as gross transfer with the beneficiaries having to bear a certain share of the costs themselves.

⁸See the famous orange-vodka example stressed by the victorious contender in the United States presidency election campaign, 1980.

If consumer subsidies are to be restricted (rationed) not only to specific items but also to selected groups, they have to be handed out physically (and in small quantities to avoid any re-selling) or they are subject to other controls (ration cards). The first solution generally is chosen in refugee camps (like those for the Afghan refugees in Pakistan) [12] gruel kitchens (like in Bangladesh during the famine of 1974)⁹, or for school meals.¹⁰ The second solution, viz. ration cards, has been used all over South Asia for almost half a century.

The Hidden or Implicit Subsidies

More important are the hidden subsidies. They are especially difficult to trace because of the many semi-autonomous bodies and corporations in all South Asian countries, which do not publish information detailed enough to help to figure out which of their services (transport, energy, trade) contains subsidies.¹¹ This is especially true if operational losses in the public sector are shifted to subsidized items, as, for example, when a government-owned production unit is unable to sell its produce in the open market and hands it over to a government trading-organization.¹²

Statistical Information

A first inspection of the statistical basis shows, even for explicit subsidies, rather inconsistent data. There is some official documentation of the consumer subsidies available in the budget, although subsidies are often hidden under all kinds of entries, or – in the case of tax exemption – do not enter the budgets at all. The same applies to the plans, which, anyway, concentrate on 'development' and are investment-oriented. The national accounts only give the aggregate 'indirect taxes minus subsidies', i.e. the difference between the national product at 'market prices'

⁹By November 1, 1974, 4.2 million people were fed daily by the 5,757 food centres all over the country. See [45, p. 121].

¹⁰Like the mid-day meals for children in the age group six to eleven years in India. In 1978, the coverage was nearly 13 million, the minimum provision was about 300 calories and 15 grams of protein per child for about 200 days in a year. See [29, p. 109].

¹¹The *Government Sponsored Corporations*, published by the Pakistan Government, does not contain sufficient information on subsidies.

¹²The example of the Utility Stores is stressed in the Pakistan press. The intervention of the Agricultural and Marketing Storage Corporation (AMSL) in the potato market was clearly aimed at saving the growers, showing how subsidizing a food item does not necessarily help the consumer. See FAO [20].

and at 'factor cost'.¹³ Pakistan published the 'subsidies' for all the years from 1959-60 to 1985-86.¹⁴ For Sri Lanka, government outlays on rice subsidies are available.¹⁵

The Cost of Consumer Subsidies

Consumer subsidies not only have their impact on the budget, but also greatly affect (overall economic) welfare. Food calls for the major share in consumption expenditures, and food items have been subsidized for a long time, thus constituting a strong relationship between consumer subsidies and agricultural (food) prices.¹⁶ Following the standard procedure of using world market prices in measuring any effect, however, becomes difficult, given the substantial price fluctuations over longer periods and the shares that countries like Pakistan, India, and Bangladesh have in international food trade.

Financing: through the Budget and Else

Similar problems arise in determining the financing of the subsidies. This especially applies to imported consumer items which already may have been subsidized by foreign donors. In quantifying these subsidies, further problems arise. Food aid usually comes from the industrialized countries, which – like the EEC – subsidize their agricultural production in many ways. Therefore, only a part of the difference between the producer price in the exporting country and the (preferential) import price in the recipient country (besides the costs of transport, storage and distribution) can be accounted for as 'aid' (in this case, consumer subsidy financed by foreign donors – the rest would be a producer subsidy in the donor countries). If the consumer price in the recipient country exceeds the preferential price of the donor country, foreign aid does not subsidize the consumers of the recipient country as much as it does the country's budget. For quantifying this 'foreign subsidy', see our remarks, given above, on the use of international reference price.¹⁷

¹³The Indian government prefers to publish the national (and domestic) product only 'at factor cost', although the 'National Accounts' also show indirect taxes less subsidies. For 1970-71 to 1977-78, see [30, p. 6 sq].

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¹⁷The text book assumption of the 'small country', which does not affect the world market prices with its exports and imports, does not apply to the South Asian countries, especially not for India.

3. THE INCIDENCE OF CONSUMER SUBSIDIES: WHO IS REALLY BENEFITING?

The objectives of consumer subsidies are defined as either (i) personal (social), aiming at specific population groups, or (ii) physical, aiming at the consumption of specific items (or groups of such items). Subsidizing of consumption may also be a welcomed side-effect of other policy instruments. One could also think of subsidizing total consumption.

A Secondary Income Distribution for the Absolute Poor

Parikh and Narayam [50] found for India that if 75 kg of foodgrains were supplied to everyone free of charge by the government, the number of rural poor could be drastically reduced: in their model, from 160 million in 1976 to just 10 million in 1977 [8, pp. 108 and 112n; 50, pp. 127–131]. But that should be difficult to put into practice. The (absolute) poor may not always be the main beneficiaries of the consumer subsidies: e.g. it may be difficult to reach the subsistence sector of an economy (although it should be possible in principle to distribute the subsidized items to *all* the target population even in the less developed countries).¹⁸ This is the reason for the substantial 'pull' effect of relief actions in famine years and their irreversible impact on the rural-urban migration. Since the subsidies are usually granted through the marketing system, the urban population benefits more from such programmes than the rural one. This effect is strengthened in the case of the major transport inlets (port cities), if the items under review are imported.

Many countries, and this applies especially to Bangladesh, show a system of personal differentiation, which may exclude the rural and also part of the urban population, but provides extra subsidies (for example higher rations, lower prices) to industrial workers (to keep the costs of labour low) or, to the members of the public service. Here, consumer subsidies rather have the character of wages and fringe benefits [59].

Increasing Factor Productivity through 'Food for Work'

'Food for work' programmes have become popular with the donors, since they (i) promise additional (real) income to those employed under the programme and (ii) increase the national production potential by adding to the capital stock mainly of (physical or economic) infrastructure. It may imply, however, some unwanted side-effects, e.g. (i) a producer price depressing effect, if the food to be distributed is to be imported and is dissipating to other groups, (ii) a limitation to local work (to avoid transportation cost etc.), and (iii) a strain on funds to finance complementary expenses (tools, building material).

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Stabilizing the System: the 'Privileged Economy'

Consumer subsidies may also be used to provide extra income to those employed in the public service and to quieten the 'vocal groups', which are felt especially in capital cities. The South Asian countries have inherited a system of privileges, which seems to follow other rules than the 'market', the 'subsistence', or the 'black', 'shadow', 'underground' or 'parallel' economy [33] and which I would like to call the 'privileged economy'. It is aimed at maximizing the non-wage income of the beneficiaries, who regard their official remuneration as insufficient (which in many cases is totally insufficient even for bare subsistence). Those privileges range from special rations and shopping privileges in special shops, to rebates on transport, free medical care and schooling, where this is not available for the other groups, employment for the children and relatives in the public sector, etc. This system is especially beneficial to the armed personnel and even includes unadulterated milk from the military dairy farms for the higher ranks and sheep for sacrificing on Eid-ul-Azha at a bargain price, as in Pakistan.¹⁹

Aiming at Specific Consumption Patterns

Consumer subsidies may be demand- or supply-oriented: the free rice programme in Sri Lanka and the rationing of wheat, wheat flour or sugar reflect the demand for these basic food items, where the incomes of the poor would not be sufficient to guarantee the minimum of physical existence. Food aid, on the other hand, is typically supply-oriented and restricts the consumers' sovereignty. In the cases of need, rice-consuming countries like India, Bangladesh [40] or Sri Lanka have to do with wheat to meet their caloric energy demand. As for protein, instead of pulses, buffalo milk or fish, they have to rely on (cow) milk powder, and instead of ghee on 'vanaspati ghee' or 'Dalda', which contain all kinds of vegetable oils and fats.²⁰

4. SECTORAL AND MACRO-ECONOMIC IMPLICATIONS OF THE SYSTEM

Consumption: Additional Real Income?

Without any doubt, subsidizing of consumer items constitutes additional real income to the beneficiaries. Often the subsidized goods are financed under aid and stem from imports. In such cases, the domestic producers suffer a decline in both price and income [56]. If these producers are small farmers and the beneficiaries do not belong to the poorest groups, there is a loss of real income for poor farmers to

¹⁹ Personal observation; for the role of the Fauji Foundation, see [13, pp. 61 and 121 sq].

²⁰ One could, of course, argue, that by this way the governments take an active part in improving not only the quantitative but also the qualitative supply of foodstuffs. But fruits and vegetables, which are important for vitamins, have not been the subject of consumer subsidies as far as is known to the present author (although there has been some market intervention, for example, in the cases of onions and potatoes)

the benefit of the urban (and not-so-poor) population. The answer to the question whether consumer subsidies add to the real income of the consumers cannot be unambiguous, and needs further analysis.

Labour: Additional Employment?

In the case of 'food for work' we can expect additional employment, but as has been pointed out, the effect may be limited.²¹

Rents: the Case of Non-tradable Goods

Consumer subsidies granted to the urban population increase their real income and may have an inflationary effect on regionally non-tradable goods like land and housing. This may explain the discrepancy between the low wages in towns and the sometimes exorbitant rents. They not only force the 'vocal groups' to call for relief through food subsidies, but also allow them to pay the higher rents.²²

Production: Negative Price Incentives?

This should be regarded as a crucial question. If the subsidized item is imported, we should tentatively expect a producer price depressing effect, except when we could manage to effectively split the market and channel the imported quantities to those who would not have any access to them otherwise. Additionally, the subsidized items have to be given away free, so that the demand for other goods does not suffer from a diminished purchasing power.

If, however, the subsidized goods originate in the country itself the government first has to raise the producer price to stimulate production (without neglecting the cross reactions of other productions). Whenever the subsidies have to be financed by additional taxes, the question of incidence arises.

Economic Growth: Increasing the Allocative Effectiveness?

During the Fifties and Sixties, development strategies were aimed at growth, especially in Pakistan. Distribution of income, personal or regional, was held to be detrimental to growth. The fate of former East Pakistan, however, has shown the political and finally also the economic impact of an undifferentiating growth policy. For Sri Lanka, it may not be too far-fetched to see a connection between the more growth-oriented economic policy and the withdrawal of food subsidies after 1977 on the one hand and the communal disturbances on the other.

²¹ For Bangladesh, see for example, [28, pp. 288-294].

²² Another explanation for high rents is that the cities of the subcontinent all have a dual housing market, since public servants either pay low rents or enjoy high housing-allowances. The government, in turn, has the right (as in Pakistan) to acquire private houses at below-the-market rents.

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Stabilizing the System: the 'Privileged Economy'

Consumer subsidies may also be used to provide extra income to those employed in the public service and to quieten the 'vocal groups', which are felt especially in capital cities. The South Asian countries have inherited a system of privileges, which seems to follow other rules than the 'market', the 'subsistence', or the 'black', 'shadow', 'underground' or 'parallel' economy [33] and which I would like to call the 'privileged economy'. It is aimed at maximizing the non-wage income of the beneficiaries, who regard their official remuneration as insufficient (which in many cases is totally insufficient even for bare subsistence). Those privileges range from special rations and shopping privileges in special shops, to rebates on transport, free medical care and schooling, where this is not available for the other groups, employment for the children and relatives in the public sector, etc. This system is especially beneficial to the armed personnel and even includes unadulterated milk from the military dairy farms for the higher ranks and sheep for sacrificing on Eid-ul-Azha at a bargain price, as in Pakistan.¹⁹

Aiming at Specific Consumption Patterns

Consumer subsidies may be demand- or supply-oriented: the free rice programme in Sri Lanka and the rationing of wheat, wheat flour or sugar reflect the demand for these basic food items, where the incomes of the poor would not be sufficient to guarantee the minimum of physical existence. Food aid, on the other hand, is typically supply-oriented and restricts the consumers' sovereignty. In the cases of need, rice-consuming countries like India, Bangladesh [40] or Sri Lanka have to do with wheat to meet their caloric energy demand. As for protein, instead of pulses, buffalo milk or fish, they have to rely on (cow) milk powder, and instead of ghee on 'vanaspati ghee' or 'Dalda', which contain all kinds of vegetable oils and fats.²⁰

4. SECTORAL AND MACRO-ECONOMIC IMPLICATIONS OF THE SYSTEM

Consumption: Additional Real Income?

Without any doubt, subsidizing of consumer items constitutes additional real income to the beneficiaries. Often the subsidized goods are financed under aid and stem from imports. In such cases, the domestic producers suffer a decline in both price and income [56]. If these producers are small farmers and the beneficiaries do not belong to the poorest groups, there is a loss of real income for poor farmers to

¹⁹ Personal observation; for the role of the Fauji Foundation, see [13, pp. 61 and 121 sq].

²⁰ One could, of course, argue, that by this way the governments take an active part in improving not only the quantitative but also the qualitative supply of foodstuffs. But fruits and vegetables, which are important for vitamins, have not been the subject of consumer subsidies as far as is known to the present author (although there has been some market intervention, for example, in the cases of onions and potatoes)

the benefit of the urban (and not-so-poor) population. The answer to the question whether consumer subsidies add to the real income of the consumers cannot be unambiguous, and needs further analysis.

Labour: Additional Employment?

In the case of 'food for work' we can expect additional employment, but as has been pointed out, the effect may be limited.²¹

Rents: the Case of Non-tradable Goods

Consumer subsidies granted to the urban population increase their real income and may have an inflationary effect on regionally non-tradable goods like land and housing. This may explain the discrepancy between the low wages in towns and the sometimes exorbitant rents. They not only force the 'vocal groups' to call for relief through food subsidies, but also allow them to pay the higher rents.²²

Production: Negative Price Incentives?

This should be regarded as a crucial question. If the subsidized item is imported, we should tentatively expect a producer price depressing effect, except when we could manage to effectively split the market and channel the imported quantities to those who would not have any access to them otherwise. Additionally, the subsidized items have to be given away free, so that the demand for other goods does not suffer from a diminished purchasing power.

If, however, the subsidized goods originate in the country itself the government first has to raise the producer price to stimulate production (without neglecting the cross reactions of other productions). Whenever the subsidies have to be financed by additional taxes, the question of incidence arises.

Economic Growth: Increasing the Allocative Effectiveness?

During the Fifties and Sixties, development strategies were aimed at growth, especially in Pakistan. Distribution of income, personal or regional, was held to be detrimental to growth. The fate of former East Pakistan, however, has shown the political and finally also the economic impact of an undifferentiating growth policy. For Sri Lanka, it may not be too far-fetched to see a connection between the more growth-oriented economic policy and the withdrawal of food subsidies after 1977 on the one hand and the communal disturbances on the other.

²¹ For Bangladesh, see for example, [28, pp. 288-294].

²² Another explanation for high rents is that the cities of the subcontinent all have a dual housing market, since public servants either pay low rents or enjoy high housing-allowances. The government, in turn, has the right (as in Pakistan) to acquire private houses at below-the-market rents.

Balance of Payments: the Conditions of Aid

The balance-of-payments effects of consumer subsidies have already been dealt with *passim*. One effect has to be added: subsidies not seldom are introduced to dampen the impact of developments in the world market. A typical example would be the case of the crude-oil price, as a result of which most countries, not only in the so-called developing world, delinked their domestic prices somehow or other from the world market after 1973. Structural reforms were thus retarded, and heavy balance-of-payment (better still, balance-of-current-account) deficits arose.

The overvaluation of the South Asian currencies over much of the time since Independence and their systems of multiple exchange-rates or 'compensatory' export-rebates may have been of lesser importance as long as the markets of the basic consumer-items were delinked from the world market by tariffs and State trading. But, it probably led to allocative inefficiencies, withdrew financial resources from the governments, and hindered the necessary structural changes, e.g. energy-saving techniques. In agriculture, overvalued currencies discriminated against export crops, but this effect was only felt as long as domestic prices were not manipulated otherwise.

Budget: Counter-productive Effects?

Bangladesh has become the textbook example of the budgetary effects of food aid. Aid, implicitly, is given at preferential terms, usually on credit (if not granted), at reduced interest rates and is to be repaid after a number of years of the so-called grace period. Since these items are mostly sold and not given away for free on the domestic market, they generate income for the government²³ to be spent, for example, on development projects. Any improvement in the domestic production reduces the need for aid, reduces food imports under preferential terms, as described above, and thus – in the final instance – reduces revenue. Theoretically, an increased domestic production also should generate tax revenue, but since the agricultural production in most of the developing countries, and also in South Asia, is almost totally exempted from taxes,²⁴ the budget situation is worsening with crop improvements.

5. SOUTH ASIA: SUBSIDIZING CONSUMPTION WITH CHANGING OBJECTIVES

In South Asia, consumer subsidies were introduced and re-introduced whenever the social and political pressure of uneven income distribution became economically

²³ According to Reinhardt [52, p. 248] they finance 15 percent of the total budget. See also [65].

²⁴ With the result that, for example, in Pakistan only 1.1 million of the alleged 4.2 million persons with an income of over 24,000 rupees per annum pay taxes. See "Agricultural Income Tax". In *Dawn Overseas Weekly*, Karachi, June 26, 1986, p. 12, reprinted from *Business Recorder*, Karachi, June 19, 1986.

and politically destabilizing. They were granted in different forms, either by directly intervening in the markets, or indirectly by subsidizing the inputs or incomes, i.e. transfers.²⁵ Pakistan provides a perfect example: here, subsidies rose in 1965 and after 1971, 1977, and 1983 – years of dramatic changes. The downturn from 1980 onwards (obviously a result of the IMF's and the Western donor countries' insistence on abolishing subsidies) was only short-lived.

The Roots of the System: Financing the 'Raj' and 'Non-Interference'

A look into history might help to understand the present-day systems. The British 'raj' in India began, as is well known, as business enterprise of a private merchants' association, and it was only in 1858 that the Crown had to take it over. 'Revenue' was the main aim of the colonial power, secured only if 'law and order' were guaranteed. Intervention to the benefit of the (Indian) consumers, thus, did not enjoy any priority as an objective of the government, nor did 'development'. Government market intervention in those days was out of the question, not only in India, but also in Europe, where the British refused to intervene in Ireland after the beginning of the 'potato famine' (1845–49).

Similar discussions took place in India whenever there was a famine.²⁶ Here 'non-interference', 'charity',²⁷ and, later, 'famine relief', rather than market intervention [2, pp. 221 sqq] were regarded as appropriate measures.

This, however, did not apply to all parts of the subcontinent, especially not to the princely states, since it is known that Kashmir had a kind of food rationing system already in 1921 [3, p. 151].

Food Administration during World War II and thereafter

Immediately after the outbreak of World War II, the First Price Control Conference was held by the Government of India in New Delhi in October 1939²⁸ to discuss the consequences of the war on prices. But the real impact of the war began to be felt only after Japan had occupied Burma, with the result that the rice imports from that part of the Empire came to a halt. This meant a severe setback in food-grain supply for the so-called 'deficit provinces' which were (net) importers of foodgrains, especially rice. It had spill-over effects to other provinces, where exporting to the deficit areas became a profitable business. With fast-rising prices resulting

²⁵ The latter would level out the lack of purchasing power – on the national (e.g. in the form of budget grants to the government) or individual (transfer) level.

²⁶ Agrawal [2, p. 209] counts no less than 19 famines during the 19th century and five in the 20th century until Independence, some of them spanning several years like those of 1812–15 and 1868–70.

²⁷ For the role of the 'Friends-in-Needs-Society' in Ceylon, see [68, p. 177].

²⁸ See [37]. A second conference followed in 1940 [37, p. 38 sqq.], a third in 1941 [37, p. 41 sqq.].

from the shortage, suppliers and traders held back supply, awaiting a further increase of prices, thus accelerating the price-rise again. The Indian government was by no means in the position to adequately take the necessary steps: attempts to freeze the prices soon had to be given up; 'surplus provinces' like the Punjab banned the export of foodgrains in order to secure their own supplies, etc.²⁹ Bengal was especially hit by the shortage of supply in the bad harvest-year of 1943, resulting in the worst famine of the century.³⁰ Imports from overseas, like the USA, were not possible, given the lack of the necessary ships during the war and especially the threats of the Axis Powers' submarines.

By the end of the war, quite an effective food administration had developed in India, above all in Bombay, following different patterns in different parts of the subcontinent. It is only due to this that a second famine was avoided in 1946, when the harvest was even worse than in 1943 [37, p. 271].

Subsidies and Agricultural Prices at Independence

By the time of Independence,³¹ parts of the food administration were still intact and were continued by the newly created dominions of Pakistan, India and Ceylon³² and the Union of Burma.³³ These were facing different problems.

Pakistan had to create its own administration almost from scratch, not only for the Centre, but also for the eastern wing, where Calcutta, the capital of formerly undivided Bengal, fell to India. The millions of refugees constituted a greater problem for smaller Pakistan, where the 'muhajirin' became a priority group for government attention during the first years.

The Indian Union inherited the major part of British India, including the Central administration and the major ports, and more or less continued the consumer policy of pre-Independence days.

Sri Lanka has been (and still is) characterized by its substantial plantation sector (tea, rubber, coconut), which then (1948) accounted for 60 percent of the agricultural output [26, p. 2]. The island had to depend on food imports ever since the plantations were started [17, p. 268 sq; 46, p. 396 sq]; food imports constituted more than half of the total imports (in 1951, 51 percent) [18, p. 241]. High export

²⁹ Looking back, this might have been not without an impact on the later Punjabi-Bengali relations during the Pakistan days.

³⁰ Whether the Bengal famine was demand- or supply-induced has been hotly debated ever since. In the present context, it should be sufficient to note that the system was highly vulnerable and that well-intended government measures often became counter-productive [57]; see also the reactions to Sen's book.

³¹ Pakistan: August 14, 1947; India: August 15, 1947; Burma: January 4, 1948; Sri Lanka: February 2, 1948.

³² So the State Agricultural Marketing Board (established in 1946), which was retained after Independence (Ceylon, as it was called then, had been administered as a separate crown colony since 1802); see [46, p. 43].

³³ Burma was governed as a separate colony since 1937. See [27, p. 40].

prices during the Korean war allowed imports at a correspondingly high level.³⁴ After the collapse of world-market prices at the end of that war, Sri Lanka faced substantial balance of payments as well as budget problems and had to reverse its policy of income transfers and to reduce food subsidies.³⁵

Burma, on the other hand, always had been a net exporter of foodgrains (rice) and seems to have enjoyed a more even income distribution; but there is hardly any statistical evidence to prove this.³⁶

New Objectives: Planning and Industrialization

While these countries were struggling for independence, they gave serious thought to planning and industrialization in the discussion of the post-independence economic policy.

Planning in South Asia already had been started in the Thirties with the various regional and sectoral plans of the British government on the one hand, and the Indian nationalists' plans for 'reconstruction' of the distorted (by the colonial power) economy, on the other. The development plans after Independence were based on them. The first ones were merely project lists carried over from the 'raj'. In irrigation, some of the schemes (like that for the Thal between Indus and Jhelum) may even have originated in pre-colonial times [5, pp. 569-574]. The 'Basic Plan' served to organize food distribution during the later World War II years, but lost its importance after Independence.³⁷

Industrialization was seen as the key to modernization and development. The Soviet Union fascinated many members of the Indian Congress, especially Nehru. We, therefore, find massive investment in basic industries and physical infrastructure, especially in India.

Reconsidering Agriculture: Green Revolution

Despite the emphasis on industrialization in the Fifties and early Sixties, agriculture was not totally stagnating, as is often said. On the contrary, the area under crops as well as the yields per unit area increased throughout the period, but only as fast as population did (after the introduction of preventive medicine since the

³⁴ The cost of food subsidy rose from Rs 55 million in 1948-49 to Rs 247 million in 1951-52 and the total transfer payments rose from Rs 158 million to Rs 382 million during the same period. See [26, p. 15].

³⁵ Transfers fell accordingly to Rs 147 million in 1953-54 and food subsidies to Rs 12.5 million [26, pp. 15 sqq].

³⁶ According to the Fourth World Food Survey [19], Burma had a smaller percentage of population suffering from an inadequate calory intake than Pakistan, although both countries showed almost identical average values.

³⁷ Knight [37, pp. 178 sqq.] gives no indication whether any such plans were drafted after 1947.

1920s). Per capita production (and food supply) thus stagnated.³⁸ India and (East) Pakistan became synonyms for hunger and starvation, as both had to rely more and more on imported/donated food,³⁹ especially after the crop failures of 1964-65 and 1965-66.

But this supply became unreliable when the donors threatened to cut their aid to force both the countries to stop the war in 1965. Priority thus had to be shifted towards agriculture at a time when the introduction of high-yielding varieties of wheat became so successful (Green Revolution)⁴⁰ that hopes were raised in India as well as in Pakistan [25] that they would become food exporters. Such hopes were reinforced when foodgrain prices reached record heights in the world market in the early 1970s.

The Oil Crisis and thereafter: Energy and Ecology

The high-yielding varieties were particularly dependent on modern inputs, e.g. improved seed, (mainly chemical) fertilizer, pesticides and more and secure water. All of them being energy-intensive, the first 'oil shock' also was felt in agriculture, since all the South Asian countries then were, and still are, net oil-importers [71, p. 47]. On the export front, they all felt the slack in the international markets. Only Pakistan almost immediately started to benefit from its manpower export to the Gulf states, the home remittances of the migrant workers finally exceeding all export earnings or aid.⁴¹ One may ask whether remittances were not a more successful instrument of an income (re-)distribution, since they not only benefited, like the consumer subsidies, the lower middle and upper-lower urban classes, but also reached the rural poor.⁴²

India [61] and, to some extent, Pakistan, benefited from an increasing export market at their 'doorstep', but not as much as was expected, because of (i) the

³⁸The per capita private consumer expenditure at the 1960-61 prices rose for India by only 4.8 percent from 1960-61 to 1968-69. The per capita annual consumer expenditures in different sections of rural and urban populations in 1967-68 were only slightly higher than in 1961 for all the low-income groups in the rural population and markedly lower for the urban population [14, pp. 22 and 31].

³⁹India imported (net) up to 10.1 million tons of food-grains in a year (1965-66) [55, p. 44].

⁴⁰In Pakistan, total foodgrain production rose within only four years (1965-66 to 1969-70) by 70 percent i.e. from 6.50 million tonnes to 11.05 million tonnes [47, Statistics p. 34]. In India the foodgrains production of 1965-66 was only 72.35 million metric tons, the lowest since 1957-58. It rose by 50 percent within five years to 108.42 million metric tons in 1970-71 [55, p. 20].

⁴¹They reached their maximum of US \$ 2,886 million in 1982-83; in 1984-85 they stood at US \$ 2,446 million [47, Statistics p. 119].

⁴²There is some evidence, however, that the absolute poor (urban and rural) had neither access to emigration nor to subsidized food items (in both cases because of lack of financial funds).

competition of the heavily subsidized agricultural exports from the OECD countries, (ii) the inconsistent export policy of the South Asian countries, which often market their excess production only, and (iii) the fast-increasing agricultural production in the oil states.⁴³ Therefore, Pakistan (like Sudan) never became the bread basket of Saudi Arabia, as some had hoped.

As a side effect of the oil crisis, the demand for the so-called non-commercial or traditional energy sources, especially fuel wood, sharply increased, and, despite soaring prices, the strain on the ecology has taken a heavy toll: denudation of mountain slopes has decreased the water-holding capacity of the soil, and resulted in the well-known effects of erosion and floods. Providing cheap energy-alternatives would be of utmost importance, but even if the government would be willing to do so, there would be technical constraints, since few of the target group have access to electricity to benefit from subsidized tariffs. Given the provision that electricity is produced in a less ecology-damaging manner, possible solutions would be subsidized biogas plants or liquified petroleum gas.

Despite the attempts of the Pakistan government to curtail subsidies, they have been showing a rising tendency, over the long as well as the short run: explicit consumer subsidies reached a record height in 1985-86 (budget) of 5375 million rupees (or 300 rupees/year for an average family of 5.6 persons). Subsidies on wheat and edible oils, which have risen dramatically over the last three years [47, p. 7] call for the major shares; those on sugar have been comparatively small, thanks to a regulation system which kept the domestic price far above the world price [36, pp. 253-58]. Sugar was 'decontrolled' in 1983 and the system of ration depots has been done away with [47, p. 6] but imports still require government permission, which is only granted in times of short supply. Despite the proclaimed emphasis on the private sector, substantial portions of agricultural output still remain 'under public influence': 77 percent of wheat, 34 percent of rice, 39 percent of sugar-cane crushed in mills, and 50 percent of cotton ginned [47, p. 7].

Subsidies in Pakistan have increased more than hundredfold since the late 1950s:⁴⁴ they reached their first height in 1965-66 and a second in 1974-75, more than halved in 1976-77, climbed to a new maximum in 1979-80, and — after a reduction by a quarter in the next two years — rose to the record height of 1985-86.

As shown by Fig. 1, subsidies in Pakistan, when measured as a percentage of GNP, started with 0.06 percent in 1959-60, rose to 0.8 percent in 1964-65 and 1965-66, fell to 0.4 percent in 1970-71, rose in 1973-74 and reached 3.5 percent

⁴³Making Saudi Arabia a foodgrain-exporter to the tune of one million tons; see "Saudis Seek Markets for Surplus Wheat", in *Dawn Overseas Weekly*, Karachi, May 15, 1986, p. 7.

⁴⁴From 11 million rupees in 1959-60 to 1706 million rupees in 1985-86, at constant factor cost of 1959-60 [47, Statistics p. 19].

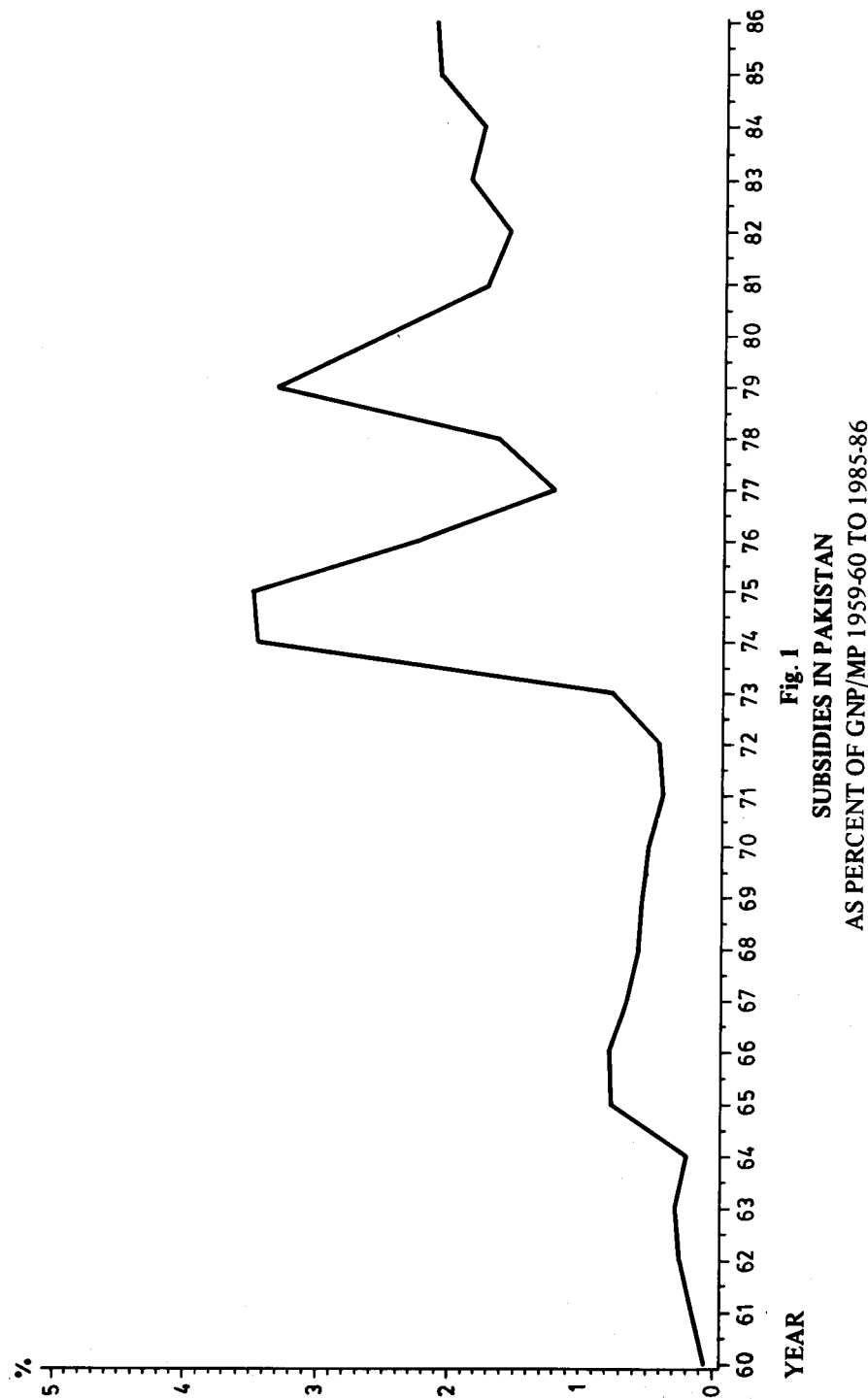


Fig. 1
SUBSIDIES IN PAKISTAN
AS PERCENT OF GNP/MP 1959-60 TO 1985-86

Source: Economic Survey 1985-86, Statistics, pp. 22-24.
Note: At current factor cost - Years ending June 30.

in 1974-75, again falling to 1.2 percent in 1976-77, increasing to 3.3 percent in 1979-80, again falling to 1.6 percent in 1981-82, and rising again to 2.3 percent in 1985-86 [47, Statistics pp. 22-24].

Originally, subsidies were only a measure of the federation. In 1976-77, however, provinces reached a share of 37 percent which fell to around one quarter in 1983-84 when it was 25.6 percent [69, Tables 5.08 and 5.09].

Subsidies fell under "non-development" as well as under the "latter expenditures", the weight shifting to the latter: in 1980-81 they accounted for the bulk (50.3 percent) of the subsidies and in 1983-84 still for one-third (35.4 percent) [69]. Non-development subsidies were restricted to food until 1978-79 when 'compensatory' export rebates started to receive increasing importance.⁴⁵

Originally, subsidies on food items were restricted to wheat, with a maximum of 2513 million rupees (or 41.7 percent of all subsidies) in 1978-79; they fell to 1052 million rupees in 1980-81 and rose again to a record height of 2.898 million rupees (or 27.8 percent) in 1985-86. Edible oils were subsidized in 1973-74 and 1974-75, from 1978-79 to 1980-81, and again in 1983-84 and they reached a record height of 2477 million rupees (or 23.7 percent) in 1985-86. Subsidies on sugar were comparatively small, thanks to low international prices throughout the last decade. The maximum was 83 million rupees in 1980-81.⁴⁶

In India, subsidies constantly increased during the 1960s and 1970s [30, pp. 123 and 128-129] and reached 20.9 billion rupees, or 8.6 percent of all federal expenditures in 1982. The number of 'fair price shops' has been increased to 0.315 million (1985) and the volume of sales to 27.3 million tons (1983), or 65.1 billion rupees [31, p. 346 sq]. The increase in food production⁴⁷ did not suffice to remove poverty and hunger, but the government succeeded in building up substantial stocks of foodgrains, which stood at a remarkable 29 million tons by the beginning of 1986 [43, p. 9]. Imports of foodgrains thus could be ruled out in most years. However, the country became a major importer of vegetable and butter oils. The rationing schemes were continued, but are still following different patterns in different states of the Union. India spent 2.19 billion rupees out of the 58.07-billion rupees 'Minimum Needs Programme' on nutrition under the Sixth Plan (1980-85). In the Seventh Plan, "the two components of the Nutrition Programme, viz., Special Nutrition Programme and Mid-day-Meals would be continued . . . besides continuing the nutrition support to 11 million eligible people, would be further expanded to cover

⁴⁵ In 1983-84: 1460 million rupees or 29.8 percent of the subsidies. As mentioned above, discussion will be restricted here to subsidizing consumer goods.

⁴⁶ The source is not fully consistent: vide [47, p. 6 and Statistics pp. 23, 99 and 100].

⁴⁷ The food production in South Asia had risen during the second half of the 1960s as a result of the introduction of the high-yielding varieties, mainly wheat. The early 1970s saw a decelerating growth in agricultural production and again an increase in the second half of the decade, see [63].

all the additional Integrated Child Development Scheme projects during the Seventh Plan" [31, Vol. II, p. 400].

In Sri Lanka, food stamps, which were introduced on September 1, 1979, replaced the old rationing system with the following differences from the rationing system: (i) the food stamps became valid for one month instead of one week for the rice ration, (ii) they were handed out every three months instead of the two years for ration cards; and (iii) they allowed the choice of a range of products (paddy, rice, flour, bread, sugar, lakspray, pulses, and kerosene) instead of the ration cards' restriction to rice only [39, p. 243 sqq].

In Burma, my personal observation is that what has been written for the 1960s holds true for the present: "By 1971 distribution of most goods was under the ownership, control, or supervision of the government in pursuit of its objective of socialization of the economy (The) nationalization of trade had not brought many of the benefits sought by the programme. There were widespread supply shortages in the official retail stores, and an extensive black market with considerable smuggling, had developed. Other deficiencies in distribution had become a cause of concern to the government. A shortage of qualified personnel, poor co-ordination among state enterprise, inadequate information on production and consumption pattern, and overtaxed storage and transportation facilities were cited by the government as major causes of the difficulties in commodity distribution" [27, p. 257 sq].

To sum up: in all South Asian countries, consumer subsidies have gained an increasing importance as a supplement to the strategy of 'growth first', which has been heavily criticized in India, Pakistan and Bangladesh, but no serious steps were undertaken for a redistribution of wealth and income. Land reforms were not very efficient and consumer subsidies were paid more as a fringe benefit to selected groups than as an efficient emergency relief or a systematic secondary income distribution, except temporarily in Sri Lanka [22] and Kerala [23; 38].

6. ANY LESSONS TO BE LEARNT FROM THE FIRST RESULTS FOR PAKISTAN?

The first results of examining consumer subsidies in South Asia, as presented here, do not enable us to draw a consistent picture of the system. This is a reflection on the research situation: only in recent years consumer subsidies have been dealt with more systematically. The only prominent studies are those which were done by the International Food Policy Research Institute (IFPRI) and the World Bank [60]. That so little work has been done in the region⁴⁸ could be interpreted as the mutual disregard of the administrators, politicians and social scientists, who view consumer subsidies from completely different angles. But after some research has been done now at the micro as well as at the macro level, it may be instructive to combine these

⁴⁸For the work done at the Indian Agricultural Research Institute, see [58].

in order to find a 'first best' application of this typical 'second best' instrument of consumer subsidies.

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**Comments on
"Consumer Subsidies in Pakistan and other
South Asian Countries"**

Dr Zingel's paper is useful in giving us some history of consumer subsidies and an outline of future research. My disappointment with the paper mainly comes from the expectations which were raised because so much was promised in the introduction but was not delivered. Although the author did say that this was the first step in a longer research project, he did not distinguish clearly between what he intended to accomplish in the present paper and what topics were to be covered in the future as his research proceeded.

For example, Dr Zingel said he would narrate the history of consumer subsidies, measure their amount, and discuss their impact on the economy. But no measurements were made, and the discussion of their impact on the economy is only in very general terms. We were also told that the paper was to analyse the extent to which differences in consumer subsidies between countries could be explained by differences in resource endowments, political ambitions, and objectives. Yet this was never done.

The section on the history of consumer subsidies is the most informative. In this section, however, there are several intriguing statements which are unsupported by any arguments in the text. For example, we are told that "consumer subsidies were introduced and re-introduced whenever the social and political pressure of the uneven income distribution became economically and politically destabilizing." Also, at the end of the history section, the author states that consumer subsidies have acted more as fringe benefits to select groups than as income supplements for the poor. These two statements along with others in the text are certainly intriguing and perhaps are true, but where is the historical analysis to back them up? I am sure the author had supporting evidence in mind when he wrote them, but unfortunately the evidence is not included in this version of the paper.

Sections 3, 4 and 5 of the paper mainly serve to outline the direction of Dr Zingel's future research in this area. I will confine my comments on this section to highlight six issues that I believe are particularly important and which should encourage him to pursue them in some detail.

(1) The ongoing IFPRI (International Food Policy Research Institute) study has preliminary evidence that there is a big difference between consumer subsidies as measured by the government and consumer subsidies as reported by households. What is the source of this difference? Corruption? Administrative costs? Or incorrect reporting by either the government or consumers?

(2) What percentage of the government's expenses on consumer subsidies is administrative, and what percentage actually reaches the poor?

(3) How important are consumer subsidies to the income of the poor? Do they make up 1, 5, or 10 percent of the income? Does this percentage vary by income group, by province, or by rural and urban areas?

(4) Have any South Asian countries been relatively more successful in reaching the poorest of the poor, or in minimizing administrative costs? Are there lessons from the experiences of other South Asian countries that can be applied to Pakistan?

(5) On the benefit side of consumer subsidies, is labour productivity lowered by poor nutrition in these countries, and, if so, are there efficient methods of fortification or supplementation available which would diminish these effects? Recent research by Henry Levin indicates that some interventions can be quite cost-effective in certain African countries. Does that result hold in South Asia?

(6) Finally, what is the effect of an overvalued exchange rate and other price distortions on production and consumption? Ongoing research by Ijaz Nabi and Naved Hamid indicates that effects in Pakistan have been considerably larger than the author implies in his short section on this topic.

In conclusion, Dr Zingel has presented a fascinating research agenda, which I think was his intention. The tone of these comments would have been much different if this purpose of the paper had been clearly stated at the beginning. I wish him success in this project, and look forward to reading his future papers on the subject as his research proceeds.

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