A Few Comments on Professor Huda's Conference Address: "Planning Experience in Pakistan"

by

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Professor Huda's conference address on the "Planning Experience in Pakistan" covers, within a space of some twenty pages, a wide range of issues important for the country's economic planning and policies. Many problems are not, however, considered at length, and some questions are just raised for detailed study by experts. But with its analysis, suggestions and questions, this address is highly stimulating to economists and policy-makers in their endeavour to identify and resolve the problems confronting development planning in Pakistan.

He dwells, among other things, on the problems of relationship between the planning technician and the policy-maker, appropriate planning techniques, interregional balance in development, the pace and the pattern of industrialisation, incentives to private enterprise and role of the public sector, income distribution and saving generation, and costs and benefits of external aid. He finally reflects on the major tasks that should be undertaken in the Fourth-Plan period. The main focus of the following comments will be on the relationship between the technician and the politician in development planning, private incentives and social goals, and income distribution and mobilisation of domestic savings.

THE POLICY-MAKER AND THE PLANNING TECHNICIAN

Professor Huda should be congratulated for explicitly raising the question of the respective domains of the planning expert and the policy-maker. If I understand him correctly, his proposition is that while the goals and objectives of development planning have to be determined at the political level—ideally through a democratic process—the planning expert should mainly endeavour to find out the best possible way of attaining these objectives without changing them, although he may help in identifying these objectives. This, to my mind, is basically a sound view but needs to be elaborated. Otherwise,

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one might get the impression that the need for close cooperation between the planning expert and the policy-maker is underrated.

The purpose of economic planning is to direct development along pre-determined lines towards pre-determined goals. I think that the choice of paths and goals is essentially determined through the political process, whether democratic or not. However, an enlightened choice requires the expertise of the planner. All goals or targets are not feasible because resources are limited. But for any feasible goals there are usually alternative paths which a country can follow. The policy-maker—the politician or the civil servant—can hardly be expected to be aware of all the feasible and consistent choices open to the country. Only an expert can advise him.

The expert should be called upon to use his analytical framework to prepare broad outlines of alternative plans specifying alternative sets of targets (choice elements), tracing out their implications and indicating alternative policy instruments for their implementation. The alternatives may refer to rates of growth and domestic saving, sectoral priorities, interpersonal and inter-regional income distributions, levels of consumption over time and so on. To prepare all the feasible alternative plans is practically an impossible task for any group of planners. But a few of them, which are considered more relevant by the expert, can be broadly indicated so that the policy-maker can see these feasible alternatives and their implications and, hopefully, make his choice more rationally.

Thus, even before setting the goals and objectives of planned development, the policy-maker would do better by exchanging ideas with the planning technician. Assuming that in setting these goals the policy-maker wants to articulate people's aspirations as he sees them, he can do it better if he is sufficiently exposed to the ideas of the planning expert. This is not to say that the political leadership has to be composed of specialists, but the policy-maker should make the choice of goals and paths of development with the knowledge of the feasible alternatives, as far as the expert can provide.

Professor Huda emphasises the desirability of a democratic process in arriving at a concensus of popular opinion in regard to this choice of paths and goals. This is exactly how it should be, but not necessarily how it is. One is, however, a little puzzled when he says that "if the policy recommendations (by the planning expert) are basically sound and well considered, consultation (with various sections of people) will hardly make any substantial difference". A planner may consider his recommendations 'sound and well considered' but they may hardly be acceptable in the absence of the necessary political conditions. The hard fact of life is that the choice among alternatives in development planning is determined mainly by the constellation of forces operating in the political system and not by any optimizing exercise of the technicians. Perhaps

Professor Huda implies that the planning technician, if he understands the political realities, may be able to provide a plan-frame and policy recommendations which would pass through the political process without major alterations.

HOW USEFUL ARE MATHEMATICAL TECHNIQUES IN PLANNING

He warns us about the limitations of sophisticated planning techniques, such as input-output analysis and mathematical programming, in Pakistan's development planning. His remarks, at places, seem to be unduly sceptical about the usefulness of such techniques. It is true, for example, that the poor quality of statistical information, the low degree of structural interdependence and the lack of structural stability due to rapid change in industry-mix, and productivity severely limit the reliability of the quantitative results of any input-output analysis.

It is, however, quite another thing to say, as Professor Huda does, that the use of input-output analysis "is most suitable in the case where planners can choose the desired goal themselves". These techniques do not become inapplicable just because the goals of planning are given to the planner by the policy-maker or set through exchange of ideas between them. They can be used to check whether the goals are feasible and consistent and can also indicate the optimum among alternatives given the objective function. The use of these planning techniques as such does not require the delegation of power to the planner to choose the desired goal.

If, however, the goals and objectives set by the policy-maker cannot be incorporated by the technician in the mathematical plan-frame, rather than simplifying the goals, the technician should endeavour to develop his techniques further. Only when the objectives are not consistent and feasible, they have to be modified. Perhaps Professor Huda sees some danger that specialists in model-building are too zealous in promoting their speciality with the policy-making authorities even if that requires changing goals and objectives which were set earlier through the political process and partly embodied in the Constitution of the State.

Professor Huda would not give much importance to input-output analysis and mathematical model-building at this stage of Pakistan's development, but would prefer simpler planning techniques which can take into proper consideration the policy-maker's choice of objectives in all fields such as growth of employment versus output, growth of national income versus regional income, 'aggressive industrialisation' versus agricultural development and, in general, sectoral priorities. One should not forget, however, that input-output analysis and programming may be useful ideas in Pakistan's national and regional development planning purported to fulfil these objectives although these techniques have to abstract from many complications of reality implied in these objectives.

Therefore, while evaluating their results, one should have a critical eye on the assumptions and hypothesis used in such exercises rather than have an overly sceptical view of such techniques.

PRIVATE INCENTIVES AND SOCIAL GOALS

While discussing agricultural and industrial development, Professor Huda suggests some economic incentives to agriculture and private industry. He maintains that along with the provision of physical inputs and extension services as in the past, there is need for a price policy for increased agricultural production. But he does not argue his case with as much emphasis as it deserves. He does not question the view that high prices of agricultural products do not guarantee increased production. He only says that low prices reduce the incentive to raise output. He accepts the proposition that an improvement in the terms of trade of agriculture would raise wages, lower profits, and curtail investment in industry, while higher income of the agricultural sector would be dissipated through higher consumption.

It is true that price incentives by themselves are not enough to overcome the barriers to increased agricultural production arising from lack of capital and technical know-how. Moreover, if peasants have limited wants, they would not have the motivation to increase output and, hence income, after a certain level. But in a situation in which the consciousness of increasing wants and aspirations for higher income can be taken for granted and, the technical obstacles to increased production are gradually removed through public programmes, price incentives may be considered not only *necessary* but also *sufficient* to evoke the desired response from the cultivators. It is time that we de-emphasised the erstwhile beliefs in peasant inertia and irrational economic behaviour and designed policies on the premise that they are in fact affected by economic incentives, given the opportunities to improve their lot.

The stabilisation of agricultural prices at a higher level, supply of subsidised inputs for agriculture, and the provision of extension services and rural infrastructure would imply an improvement in the terms of trade of agriculture *vis-a-vis* industry. This would not, however, reduce the overall saving, investment and rate of growth of the economy simply because of a probable decline in profitability of industry. The resulting increase in the income of the agricultural sector, rather than being entirely consumed, is likely to raise saving and investment in agriculture and related activities, provided that economic policies generate expectations of a high rate of return. Some of these savings may be mobilised through financial institutions for investment in industry. Moreover, direct taxation on land and/or agricultural income may be used to mop up a part of the increase in income and thus add to public saving. Pakistan's experience in the 1950's apparently points to the need for and the effectiveness of price incentives to agriculture.

Agriculture was squeezed, particularly in the 1950's in the process of industrial development in a captive market. While the prices of manufactures were high, taxes on agricultural exports, compulsory procurement of foodgrains at uneconomic prices depressed agricultural prices. Till the late 1950's adverse movement of the terms of trade against agriculture was very great indeed [3]. Only a fraction of what was extracted from peasants was given back to them in the form of subsidised inputs and government expenditure for agricultural development [4]. No wonder, agriculture remained practically stagnant in the 1950's and private investment in the sector was in all probability small.

In the 1960's economic policies began to recognize the responsiveness of peasants to economic incentives. Export duties on agricultural products have been reduced, compulsory procurement of foodgrains has been abolished, and stabilisation of agricultural prices has become an accepted policy. The resulting incentives together with larger public investment in rural infrastructure and greater efforts for dissemination of technical know-how have begun to show encouraging results, particularly in West Pakistan.

Professor Huda lays great stress on incentives to private industry for the fulfilment of the tasks assigned to it. The private sector has been progressively freed from some direct controls. However, he is not sure how far, in the face of many difficulties, this process of liberalisation of controls can be allowed to go further. But he thinks that administrative bottlenecks and delays must be removed at all costs. More importantly, he suggests greater fiscal incentives in the form of reduced import duties, relief from sales tax, longer tax holiday, and also provision of land and power at concessional prices. He proposes exemption of import duties on machinery, and a review of the Export Bonus Scheme if it is found to affect investment adversely as a result of high prices of imported machinery under bonus.

Some of the suggested fiscal incentives would, however, help some industries and hinder others. Their effects would be partial rather than general, although Professor Huda intends to give incentives to all industries irrespective of the kind of products, or the nature of the industry as indicated by import substitution or export orientation. For example, abolition or reduction of import duties on machinery and intermediate goods, while helping the using industries, would hinder the producing industries unless one envisages a situation in which effective protection is given through direct import controls, and tariffs have only a revenue effect. Moreover, such discrimination is inconsistent with his own views favouring the development of domestic, intermediate and capital-goods industries. It is also not quite clear how the suggested relief from sales tax would provide the desired incentive. The incidence of sales tax in a highly protected market with no strong internal competition hardly falls on the producer who would not be relieved of any significant burden if sales tax is removed. It is true that abolition of this tax is likely to enlarge the market for some products. But it will not enlarge the market for all products because alongwith a reduction of tax revenue on this account there would be a corresponding reduction in government expenditure on goods and services.

Professor Huda argues for balancing the loss of revenue resulting from fiscal incentives against additional saving and investment in the private sector. Such balancing is legitimate only under the assumption that the government spends the revenue mainly on consumption. This may not, however, be a realistic assumption given the need for increased resources for financing the planned investment in the public sector. The whole idea of giving further concessions to and pampering private industrialists who have been enjoying over two decades lush profit opportunities in a protected market is very unusual. Moreover, this is inconsistent with his own preference for a less unequal distribution of income and wealth.

The question of incentives to encourage socially desired decisions should not be considered in isolation from the question of improving the efficiency of resource allocation. As direct controls are progressively dismantled, incentives may be given through fiscal and other measures which also ensure a more appropriate pricing of scarce resources. For example, efforts may be directed towards introducing a uniform import surcharge and export subsidy to raise appropriately the price of scarce foreign exchange and influence its allocation without any bias for import-substituting or export industries. For the protection of infant industries, in addition to these surcharges and subsidies, further assistance may be given more or less uniformly through tariffs for import substitutes and subsidies for exports. Such measures will protect infant industries, encourage investment, and at the same time generate pressures for improving efficiency.

There is, however, a very strong case for Professor Huda's proposal for differential protection to industries in less developed areas, such as East Pakistan. But he does not state clearly how this can be provided. By implications he suggests larger reductions in import duties, lonegr tax-holiday, and more price concessions in power and land provided to industry in East Pakistan. It is very doubtful whether such measures would provide the differential protection necessary for accelerating industrial growth in East Pakistan. To provide differential protection and thereby encourage private investment, policies of separate taxes, tariffs and subsidies for East Pakistan would be required. For instance, import tariffs and export subsidies may be applied to East Pakistan's external trade with any foreign country or West Pakistan. If the arguments for protection are valid for the country as a whole, they must be valid for a part of it. Such differential protection would recreate for East Pakistan the conditions which attracted private investment in protected industries in West Pakistan particularly in the early 1950's. The need for differential protection to industries in East Pakistan arises because of the advantages West Pakistan industries have required through an early start. Moreover, the political realities require that industry in East Pakistan be dominated by East Pakistanis. Therefore, in addition to the public-sector programme mainly through the EPIDC, such differential protection would be necessary for providing incentives and encouragement for private industrial investment particularly by East Pakistanis.

INCOME DISTRIBUTION AND DOMESTIC SAVING

Professor Huda raises the questions of the distribution of income and the ownership of the growing capital stock which are two of the most important and difficult questions of the political economy of development. The Plan strategy of increasing domestic savings has been, and continues to be, to generate higher income in the capitalist sector whose average and marginal saving rates are considered to be relatively high. He asks how far this policy has changed income distribution in the past and whether this policy is more efficient than savings mobilisation by government for expanding the public sector which may ensure more equitable distribution in the long run.

While no serious study has been made about the changes in Pakistan's income distribution, there is little doubt that inequality of income distribution and concentration of wealth has increased over time, while the consumption level of the bulk of the population hardly improved. Dr. Mahbubul Haq has recently said that at present about 20 families control 66 per cent of industrial assets, 70 per cent of insurance funds, and 80 per cent of bank assets [2]. Such concentration of assets imply great concentration of income which surely did not exist 15 or 20 years ago.

Without disputing the fact that a high proportion of capitalist income is saved, one can maintain that capitalists do not live frugally. To the first generation of industrial entrepreneurs in Pakistan, frugality was perhaps a cardinal virtue. But not so to their sons and grandsons who inherit wealth and develop expensive tastes and imitate the living standards of their Western counterparts. The wealthy industrialists rather than performing the desirable social function of high saving tended to become monopolists and conspicuous consumers. The consumption habits of the rich infect others, not-so-affluent. It is possible that saving and investment habits of the rich are also similarly infectious. But when great income inequality results in glaring consumption disparity, it is likely that the demonstration effect of consumption is predominant.

It is not suggested that savings can simply be raised by more equal distribution of income, but that higher savings and more equal distribution of income would go together if the public sector is assigned the major role and is operated properly. To get resources for investment has been and will long remain the most difficult problem in Pakistan's development planning. Availability of external aid apart, everything appears to depend on what can be mobilised in taxes and voluntary savings. To give people income and then take it by taxation, inflation, or appeals to thrift is not an efficient procedure. Whether the major reliance is on the private sector or the public sector, investment will have to be financed in very large measure from the earnings of the industrial enterprises. This has been true in both capitalist and socialist countries. The industrial enterprises accumulate surplus which becomes available either for their own expansion or investment elsewhere.

The necessary domestic finance for the initial establishment of public enterprises will have to be obtained through taxation, inflation or borrowing. But once established they should endeavour to maximise surplus for reinvestment and not just to break even. If such policies are pursued, an expanding public sector can be a superb machine for generating saving more effectively than the private sector. This is because, given the same rate of gross profit, the rate of saving out of profits would be higher in public enterprises which would not distribute dividends to individuals for high consumption.

If, however, public-sector enterprises endeavour only to cover costs they will make little contribution to saving. It is this sort of opertion of public enterprises which Professor Galbraith called 'post office socialism' in the Indian context [1]. There is not the least doubt that private capitalism is far superior to post-office socialism in extracting savings from the economy.

Who owns the growing capital stock is of great importance for the country's economic and social goals. Economic development, mainly through expanding the public sector, would avoid increasing concentration of wealth and economic power (and political influence) in the hands of a few industrialists, and thus obviate the genuine worries of many thinking people, including Professor Huda, about the formation of cartels and monopolies by private industrialists.

While he raises the need for studying the comparative efficiency and the welfare implication of the alternatives of private and public-sector expansion, Professor Huda is inclined to rely mainly on the private sector. He would, however, like to protect consumer welfare, and adopt measures to prevent the formation of monopolies and cartels. One cannot argue with ideological preferences, but one can question the feasibility in our conditions of ensuring these welfare objectives while leaving the field to private enterprise.

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