

Inaugural Address

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Mr President of the Society, Secretary of the Society, Distinguished Guests, Ladies and Gentlemen:

It gives me great pleasure to inaugurate the Third Annual General Meeting of the Pakistan Society of Development Economists (PSDE). I am happy to note that, within only four years of its existence, the Society has become one of the most important national forums for discussing economic and demographic issues relating to Pakistan's economy and has attracted to its fold a large number of social scientists from all over the world. The first and second Annual General Meetings of the Society, held in the last two years, have already generated a substantial body of relevant knowledge about development economics and Pakistan's economy. I am sure that the third meeting will be even more fruitful in this respect.

The Third Annual General Meeting of the Society is being held at a critical time in our history. Far-reaching decisions have been taken that are likely to make an important contribution to resolving the economic problems facing our country. We are in the process of building a prosperous and just society which requires, among other things, correction of the structural imbalances inherited from the past, guarantee of full employment and provision of education and health facilities for all. In short, we must combine as best we can the dictates of efficiency, growth and equity within a conceptually integrated plan of action. In this context I may also mention the great intellectual challenge posed by the requirement that we "Islamize" Pakistan's economy in the shortest possible period of time. A lot has been done to resolve these problems but a lot more has to be done to break loose from the gravitational pull of our past imbalances and to make a decisive move in the 'right' direction.

We are responding positively to these challenges.

A FIVE-POINT PROGRAMME OF ACTION

Immediately after the withdrawal of Martial Law, Prime Minister Mohammad Khan Junejo announced a five-point Programme of Action, to provide a sense of

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direction and purpose to the development efforts of the present democratic government in the next four years and which it is my task to implement. The Programme is democratic in nature and seeks to establish a strong Islamic democratic political and economic system based on the ideology of Pakistan with a view to ensuring that everyone participates in the growth process and shares in its fruits, thus helping to create a sense of mutual respect and a feeling of common destiny. It also seeks to guarantee a viable growth pattern and an adequate provision of basic needs to the bulk of the population. In short, according to the Programme, economic growth strategy will be part of an integrated action plan to ensure the creation of a just and equitable society. The Programme gives top priority to the promotion of Islamic values, reduction in unemployment, development of education and training, maintenance of law and order, dispensation of justice, establishment of the supremacy of law, and creation of a strong defence.

ECONOMIC ACHIEVEMENTS

With the restoration of fundamental rights and a full transfer of power to the elected representatives of the people, a proper political milieu has been created for tackling outstanding economic problems in a democratic fashion, keeping in view the dictates of idealism and *realpolitik*.

The Gross Domestic Product (GDP), targeted to grow at a rate of 6.5 percent this year, has increased by almost 7.5 percent. This healthy growth rate has been sustained mainly by the growth in agriculture which is expected to be much higher than the target rate of 5.3 percent. Preliminary estimates show that the production targets for wheat and cotton have already been attained. This year's wheat production has exceeded last year's actual growth by 18 lakh tonnes, and cotton production is also expected to exceed the planned output by about 59 lakh bales. Had rice and sugar-cane crops not been affected by water shortage and unfavourable weather, the overall growth of the agriculture sector would have been even more impressive.

Industrial production has also increased by 8.2 percent this year, although it has been less than the growth target of 8.7 percent. There have been favourable developments in the foreign-trade sector as well. The balance-of-payments position has been eased substantially owing to a 19-percent increase in exports coupled with a one-percent decline in imports. Remittances by Pakistani workers have continued to rise — this year by 5 percent — despite the doomsday forebodings of the prophets of gloom. The domestic resource-mobilization effort has been strengthened by the increase in national savings which now amount to 13.5 percent of the GNP, while the rate of inflation has been brought down to the level of a manageable 5 percent.

PROBLEMS AND PROSPECTS

The dynamism that our economy has exhibited in the past eight years has given us ample room for manoeuvre to solve our outstanding problems. The realized growth rates of 6.8 percent per annum in the GDP and 3.8 percent per annum in per capita income are impressive both in absolute terms and in relation to the growth performance, during the same period, of other LDCs, which lumbered with GDP growth rates of less than 4 percent. While this impressive overall growth performance has provided us a modicum of prosperity, its foundations are not very solid. Commodity-producing sectors have been losing their share in the Gross National Product (GNP) much too soon in our short economic history. In fact, a substantial part of the recent progress is due to a disproportionate growth of the services sector, which now contributes almost 54 percent to the GDP as compared with only 45 percent in 1969-70. Correspondingly, the share of the commodity-producing sectors in the GDP declined from over 55 percent to about 46 percent during the same period, making Pakistan an overwhelmingly service-oriented economy. This is not a healthy sign for the long-run growth prospects of a medium-sized economy like ours: among other things, it imparts an inflationary bias to the growth process.

Let me now describe in some detail the performance of the key sectors of the economy.

Agriculture

Measured by its contribution to the GDP, agriculture still occupies a prominent place in our economy. Even though its share in the GDP has declined over time, it is still around 25 percent. The government aims at increasing agricultural production to generate a large enough marketable surplus, especially with respect to food crops, to meet the growing needs of the urban sector and to earn foreign exchange.

So far our efforts have been crowned with success. For three consecutive years, from 1978-79 to 1981-82, record harvests were reaped of all principal crops, which helped agricultural production to grow at a high rate of over 4 percent, despite set-backs in sub-sectors of agriculture in recent years. This has been an impressive achievement by any standard. It definitely excels the agricultural growth performance of many other LDCs. This is largely due to a carefully orchestrated policy response in the form of subsidization of vital agricultural inputs and appropriate product-pricing policies. The availability of water at farm gate is more assured now than before; the offtake of fertilizers has, in a short time, more than doubled from 631 thousand tonnes to 1.49 million tonnes; the number of tractors in use has reached a respectable total of over 100,000; and disbursed agricultural credit has more than tripled.

However, agriculture in Pakistan still remains precariously dependent on weather conditions. Bad weather led to the failure of wheat and cotton crops in

1983-84, and the underlying forces responsible for stagnation in the agriculture sector continue to haunt us. Low productivity and inter-crop imbalances compromise our agricultural production possibilities. The supply of vital agricultural inputs is still far below our 'requirements'.

Manufacturing Sector

Let me now turn to the manufacturing sector, which at present contributes almost 20 percent to the GDP. The adverse domestic and international economic environment during the early and mid-Seventies has rendered difficult the task of managing the manufacturing sector. Since then, it has taken a conscious effort on the part of the government and a vigorous industrial policy to restore the dynamism of this crucial sector of the economy. Of utmost importance in this regard has been the government's resolve to attain a fruitful balance between the public and private sectors. The working of the public sector has been improved through cost-reduction measures and an enhancement of its managerial efficiency. At the same time, the private sector has been provided with a comfortable room for manoeuvre. I may mention here such liberalizing measures as streamlining of investment-sanctioning procedures, provision of tax holidays, concessionary credits, etc. As a result of these measures, the manufacturing sector now is more diversified than ever.

Foreign-trade Sector

Turning now to the foreign-trade sector, it should be noted that, during the past ten years, exports have grown at a rate of 16 percent per annum. Total exports this year are expected to exceed Rs 4500 crore. Much of the improvement in export performance has been induced by a proper policy response: various concessions and incentives have been given to the export sector, while the competitive edge of the country's exports has been sharpened by the depreciation of the Pakistani rupee. A fairly high degree of diversification has also been achieved in the export sector. But the situation is far from satisfactory as our imports still exceed exports by a large amount. This means that even if our exports rise faster than imports, a favourable balance of payments may still not be achieved for a long time to come. But we can draw some comfort from the fact that the trade gap, which widened from 9 percent of GNP in 1976-77 to 11.6 percent in 1981-82, is expected to fall to 7.3 percent in 1985-86. As a result, the economy's dependence on external resources to finance the trade gap has declined. And yet the backlog of external debt of over 14 billion US dollars constitutes a heavy burden on posterity, whose freedom of choice will be severely limited.

RESOURCE MOBILIZATION

Of great concern to us in this connection is the problem of sustaining adequate levels of investment and saving with the help of the fiscal and monetary policies which have been more effective than those pursued in the past. However, our efforts to mobilize adequate domestic resources are checked by an inelastic tax structure, which is sustained almost entirely by indirect taxation. Almost every year, additional tax measures have to be taken only to keep the tax-GNP ratio from falling. Our current tax effort, amounting to about 13 percent of the GNP, is almost equal to the tax efforts of the low-income countries but is significantly lower than those of the lower-middle-income countries' group (where, on an average, it amounts to 19 percent of their GNP). In countries belonging to the upper-middle-income group the average tax effort is almost 24 percent of the GNP, while in the developed industrial market economies, it is over 27 percent.

Our poor tax effort is due to a number of reasons, which include an extremely narrow tax base, a small range of excise duties, and a corporate tax whose effectiveness is seriously undermined by too many exemptions and concessions. Clearly, this state of affairs cannot be allowed to prevail for long. A more broad-based tax system, in which each sector makes an adequate contribution, is required for mobilization of domestic resources. This should also ensure that the tax-GNP ratio rises over time. Without this happening, any steps taken to reduce the rates of income and corporate taxes for stimulating economic activity will prove to be counter-productive, further reducing the share of direct taxes in total taxes. It is obvious that direct taxation of all sectors is essential for mobilizing domestic resources with equity.

DEVELOPMENT OF SOCIAL SECTORS

Education

The Prime Minister's five-point Programme, which I mentioned earlier in my speech, is very explicit about eradication of illiteracy from the country. One of its main aims is to prepare "the nation for the modern scientific age after removing illiteracy from the country".

A cursory examination of the historical process of societal development clearly shows that the real power of a nation flows from its mastery of science and technology. Backwardness in this field leads to a perpetual subordination to the scientifically developed nations. I do not have to emphasize that for assimilation of scientific skills and mass diffusion of technology the resource-base need not be a constraining factor. What is more important in this connection is an efficient utilization of available resources through scientific means. This fact underlies the need for an accelerated pace of *human* capital formation. We have the example of many leading industrialized nations, like West Germany and Japan, which have progressed with a material resource-base no richer than ours.

I must admit that in this sector we have failed so far to bring about any significant improvement. The 26-percent rate of literacy in Pakistan places us at the bottom of the Third World countries. In this respect we are in the company of such countries as Bhutan, Nepal, and Afghanistan. Our enrolment ratio of 56 percent for primary education is the lowest in South Asia and far below the average ratio of 94 percent for the LDCs taken together. There are examples of many countries in Asia which, by recognizing the critical role of education, attained a remarkable structural transformation of their economies. By allocating, on an average, about 3 percent of the GNP to the education sector, countries like South Korea, Hong Kong, Thailand, the Philippines, and Indonesia achieved high rates of literacy of over 85 percent in a short period of time. Other developing countries like Morocco, Tanzania, Cuba, etc., spend, on an average, more than 6 percent of their GNP on education. In sharp contrast, Pakistan's annual expenditure on education during the past decade has been only 1.8 percent of the GNP. We cannot be proud of our neglect of this vital sector.

But we are fully aware of the central role that human capital formation plays in the process of economic development and are determined to forge ahead in this field. An ambitious plan to eradicate illiteracy has been formulated at the highest level and is being implemented in earnest. Under the Prime Minister's Programme, the rate of literacy in our country will be raised from 26 percent to 50 percent by 1990. For this purpose, Rs 1443 crore have been earmarked in the current financial year, which exceed by almost Rs 160 crore the expenditure on this sector during the last year. This is not an awful lot in absolute terms, but, relative to the observable historical trends in Pakistan, it is indicative of our sensitivity to what must be regarded as a monumental national failure.

Employment of Teachers

The attainment of the Programme's education targets will also generate maximum employment opportunities for teachers, whose wholehearted commitment to their vocation is essential for spreading the light of knowledge to every nook and corner of the country. Altogether one lakh new positions for teachers will be created by 1990, of which half will be available by the end of this year. In addition, 53000 whole-time and part-time jobs will be created under the Mass Literacy Programme. But this is only a part of our efforts to provide decent employment opportunities to all the working-age persons.

Health

As part of our employment-generation programme for this year, we hope to create 7000 new jobs in the health sector, which also has high priority in our socio-economic objectives. In this sector, our main aim is to establish one Basic Health

Unit (BHU) in each Union Council and one Rural Health Centre (RHC) in each group of 4 – 5 Union Councils. At present, there are only 2308 BHUs and 488 RHCs, which is not enough. By the end of this year, 343 BHUs and 30 RHCs will be established at a cost of Rs 100 crore, which will still leave 961 Union Councils without such facilities. We hope to provide medical cover to the remaining Union Councils during the next two years. In the mean time, some of these Centres will be equipped with ambulances so that far-flung and sparsely populated areas can be provided an effective medical cover.

Social Welfare

The government attaches utmost importance to the welfare of the “better half” of our population. To facilitate full participation of women in the country’s progress, additional funds have been provided to the Special Programme for Women along with an enhanced budgetary allocation for an improvement of their welfare. We are also encouraging the use of mass media to educate the general public about the extent of neglect that women have suffered from and the harmful effects of this criminal neglect on the society. We are determined to eliminate all – literally, *all* – disparities and discriminations where women’s employment in government and semi-government organizations is concerned. We are bringing to the forefront of public debate the condition of women in Pakistan, which should improve the general perception about their problems and ultimately lead to their full integration into the national development effort.

During the current fiscal year we will be following with keen interest the implementation of the measures announced in the budget for the welfare of the deaf, dumb, blind, disabled, and mentally retarded children. This is only a small step in the right direction.

We have redoubled our efforts to improve the welfare of the working class whose dedication and hard work are a *sine qua non* for the country’s social and economic advancement. These efforts include sweeping changes in the Employees Old-age Pension Scheme which will extend such benefits to the workers as have been unprecedented in Pakistan’s history. In the last budget, the government instituted a new and important scheme under which every employed Pakistani will be insured against accidental death so that his family will not have to face sudden destitution on the accidental death of the bread-winner. The scheme will provide cover to each and every employed person irrespective of his employment status. The cost of the insurance premium will be borne by the national exchequer. This may be only a drop in the ocean; but it is drops like these which make up an ocean.

ISLAMIZATION PROCESS

We have taken a number of steps to 'Islamize' Pakistan's economy. These steps include the introduction of interest-free financing to re-orient banking operations. The institution of the system of *Zakat* and *Ushr* has added to the effectiveness of our resource-mobilization efforts and has enabled the government to make a beginning, however modest, towards poverty reduction.

We are fully conscious that these efforts are no more than a modest beginning in the right direction and that our ultimate goal is to bring about a societal transformation based on the eternal Islamic principles of *'adl* and *ihsan*. But it is the beginning of an end, not the end of a beginning. So we must be patient.

This is a vast subject, but I believe that, fundamentally, the problem of Islamization is one of establishing consistency between observed socio-economic processes and the cultural and ethical values cherished by the society in order to enlist the voluntary commitment of the individual for maximizing social welfare. Theoretically, this problem is part of a general problem of synthesizing ethical values and economic reasoning. Operationally, the problem is to weave individuals' economic behaviour into an ethical texture. At both theoretical and operational levels the task at hand is challenging and difficult; and yet it is one that development economists in this country must tackle to remain relevant to their socio-economic environment. Let me make a few general points to illustrate the nature of the problem.

The first point that I wish to make about the Islamization process is that the dictates and meaning of Islamic ethical norms, which form the fulcrum of our efforts at societal transformation in Pakistan, as in the rest of the Islamic world, must be re-interpreted in the broadest possible terms, eschewing dogmatism and narrow-mindedness. Indeed, we should highlight the 'universality' of the Islamic message not for Muslims alone, but for all men of faith and reason belonging to other religions as well.

This brings me to my second point that the Divine Laws of *'adl* and *ihsan*, which have been accepted as the prime movers of an Islamic society, constitute a set of ethical principles which would command universal acceptance. While the Law of *'adl* enjoins a delicate balance between consumption, production and distribution activities in the economic 'universe', the Divine Law of *ihsan* prescribes that the needs of the least privileged in the society must take precedence over all else.

My third point about the Islamization process relates to the problem of 'operationalizing' these divine principles by creating appropriate institutions. I must emphasize here that the guiding principle of this process of institution-creation will be to think of ways and means of minimizing *zulm* — i.e. a gross imbalance of socio-economic forces — in the society. This would require, at the most general level, an adoption of policies that reduce, rather than increase, the existing concentration of

income and wealth in a few hands. In my opinion, an integral part of such a policy-set will be a wide-ranging social-security programme, such as the one introduced in this year's budget, to bring back into the social system those members of the society whose creative potentialities have been greatly impaired by poverty and social deprivation.

CONCLUSION

I think I have said enough to underscore the fact that the problems we face today are much more difficult than those we had to tackle in the past. But while we have tasted a modicum of prosperity, we should be prepared to face stoically a run of bad luck as well.

As we wrestle with the past and try to reshape our destiny to carve out the contours of a new social equilibrium, we must replace outdated growth prescriptions with new ones that aim at an all-round development of the society. I must emphasize in this connection that it is not enough merely to espouse the right cause; there is the even-more-difficult task of translating ideals into a concrete programme of action which not only respects societal constraints for what they are but also strives to *change* their nature and intensity so that social welfare is maximized. But it is my conviction that, given firm determination and commitment, we shall overcome.

With these few words, I inaugurate the Third Annual General Meeting of the Society. I wish you fruitful and enjoyable discussions.