

Some Problems of Perspective Planning in Pakistan

by

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The growing confidence of Pakistan's planners in the nation's economic future is indicated by the boldness of their successive plans and by the lengthening of their time horizon. As far as the latter is concerned, the First Five-Year Plan did not reflect any thinking on economic and social development beyond a specific five-year period; the Second Plan, however, contained some remarks on long-term growth; the Third Plan is being prepared in close relation to the work being done on the Perspective Plan. What fifteen years ago would have been regarded as a waste of time is now considered to be of basic importance for sound planning. What nobody dared think about in the earlier days is now the subject of serious analysis and policy-making.

The need for a Perspective Plan is there not only from an economic angle but there are also sound political reasons for it. From the economic angle, we realized that the five-year periods chosen for our plans are only arbitrary periods in a process stretching over a much longer time. Our decisions and policies during one plan influence the pattern of growth in the next one, and influence also the effectiveness of established policies. Therefore, any particular five-year plan has to be part of a whole chain of plans, all fitting together and building further on the work done in the preceding period.

The political aspects of a Perspective Plan enter the picture when we start discussing the targets of our economic and social development. Targets are based on aspirations, hopes and desires, rationalized by a process of confrontation with the policies and sacrifices they ask for, against the background of the economic and social situation in the initial years. Many of the targets we would like to achieve are too ambitious to be included in a five-year plan, and we cannot even be sure whether they are conflicting or not. Measurable improvements and a meaningful change can be promised only over a long period of time and short-run conflicts in policies become reconcilable once the time horizon is suitably lengthened. This calls for careful analysis, bringing

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This article is reproduction of a special lecture delivered by the author at the Fifth Seanza, Central Banking Course, Karachi on 1st February, 1964, as "Strategy for Third Five-Year Plan".

out what kind of long-term strategy should be adopted in order to achieve all the national targets to the fullest possible extent.

What are the issues with which Pakistan is confronted at present, calling for a long-term programme? The basic problems of an underdeveloped economy are too wellknown to be mentioned at length here. Basically, the creation of better living-conditions for a vast and growing poverty-stricken population is the fundamental objective of any development programme. But the programme must be specific in order to make possible rational judgements and policies. Better living-conditions relate not only to the availability of food, clothing and shelter, but also to employment, the provision of education and social security for the population. And it involves decisions with regard to the distribution of the improved conditions over the population, both by regions and by social groups or occupations.

Pakistan's Perspective Plan is being formulated to cover a period of 20 years, from 1965 to 1985. Is it really possible to have any impact on the present living standards over that short a period of time? Again, we have a good deal of confidence in our ability to build a society in twenty years that will differ significantly from the present one. Of course, in some fields, like the growth of consumption or the creation of a full-fledged social security system, the results of our efforts cannot be very impressive in absolute terms, though there will be a significant improvement over the present situation. In some other fields, however, tremendous progress can be made within the limited period of time on which we shall concentrate. This holds true for the provision of employment, the introduction of universal education and the distribution of the benefits of our efforts over regions and groups.

Let us explore the prospects of Pakistan's economic development from this angle. Giving high priority to the target of full employment in combination with the introduction of universal education for eight years and expansion of education at higher levels according to economic requirements, and with specific targets for the regional and social distribution of income, we can try to assess the implications for the other targets and describe the policies to be adopted.

The target of full employment by 1985 will constitute probably one of the most difficult goals ever set by any democratic government, considering the present employment position in the country. There is widespread unemployment, both in rural and the urban areas; there is a considerable loss of valuable manpower through seasonal unemployment—specially in agriculture—and, in addition, it would be possible, even without any change in presently used production techniques, to raise the same agricultural crop with considerably less manpower.

In the case of Pakistan, these three forms of unemployment have been estimated to result in a wastage of about 20 to 25 per cent of the labour force. The task for the future, however, is dominated more by the growth of the labour force than by its present employment position: between the end of the Second Plan in 1965 and the end of the Perspective Plan in 1985, an increase of about 25 million (or 70 per cent of the present labour force) is expected. In terms of employment, this means that the number of full-time jobs must be more than doubled over the perspective-plan period, giving an increase of employment of more than 30 million manyears.

Two questions arise immediately: in which sectors of the economy should these new jobs be provided; and what will be the costs of such a programme? The two questions are closely related, as the costs of the programme, in terms of new investments, will depend to some extent on the sectoral growth-pattern. This pattern, in turn, cannot be chosen freely without any constraints. The development in agriculture must be tied to the progress of industries and services; the growth in the industrial sector must render possible a rapid growth of agricultural production. The target of full employment will, however, set the pace for development in all the sectors of the economy and will determine its future structure and the priorities in the investment programme.

In agriculture, even the most optimistic forecasts of future development do not show any significant increase in employment opportunities. This will be clear from the fact that improved agricultural techniques in general will be of a labour-saving kind. Mechanisation, fertilizer and better seeds will result in increases of labour productivity and their net effect on employment will result from expansion of the total cultivated area and from more intensive use of available cultivable land. At present, most of the cultivable area produces one crop in a year. The scarcity of water in the noncrop season is the main reason for this. With the present techniques of water use, there is hardly any possibility of increasing the area producing more than one crop in a year. Only by providing more storage facilities for water will it be possible to distribute the water resources more evenly over the year.

Altogether, there is little chance that the agricultural sector of our economy will be able to absorb a larger labour force. The most realistic assumption seems to be that the present agricultural labour-force, which is unemployed or underemployed to a large extent now, will be fully employed in agriculture by 1985. In terms of manyears, this still means an increase of employment by about 5 million manyears, leaving us with another 25 million to be accommodated in the nonagricultural sector.

Approaching now the question of creating sufficiently large number of additional employment opportunities in the nonagricultural sector, let us first look at the relationship between the growth of total employment and total production in industries. Historical evidence shows that there is a fairly stable relationship between production increases on the one hand and the growth of employment and labour productivity on the other. In general, we find elasticities between production and labour productivity in industry ranging between 0.40 and 0.50, which means that labour productivity grows by 4 to 5 per cent for each increase of the national product by 10 per cent. It also appears that the elasticity is somewhat lower in the earlier stages of development and gradually increases over time. Thus, we find for the United Kingdom an elasticity of 0.41 between 1841 and 1907, increasing to 0.47 between 1907 and 1930; for the United States the elasticity ranges from 0.42 between 1869 and 1899 to 0.47 between 1899 and 1950. Let us assume an elasticity of 0.45 in the case of Pakistan. This is, of course, a bold assumption, as we have hardly any evidence to prove its validity, but it is sufficiently sound as a first attempt to show orders of magnitude of the employment task.

Next, we have to establish the same kind of relationship between employment and labour productivity in the tertiary or service sectors, under which we can also include traditional occupations like rural construction and cottage industries. It is a wellknown fact that in these sectors the growth of productivity is relatively slow, and it would not be too far off the mark to assume here an elasticity of 0.30.

Finally, we have to introduce a relationship between the production of goods—specifying agricultural and manufactured products—and the production of services. Again, making some rough estimates, we can simply assume that the production of services will grow at a rate which is the weighted average of production in industries and agriculture. The implicit equations are given in Annexure I.

Solving this simple system for full employment, we find that the full-employment target can be achieved by 1985 by increasing production in modern industries by about 900 per cent and in the services sector by nearly 400 per cent, assuming that agricultural production will just about double over the period of the Perspective Plan. This adds up to a two-and-a-half-fold increase, in the total national product, or an average rate of growth of over 6 per cent per annum.

What does this mean in terms of investment? Will Pakistan be able to provide the means for such a bold programme? This depends partly on the

role that foreign assistance is assigned in the future development strategy. Even if we assume that foreign assistance will be available over the entire period of the Perspective Plan, we still must ensure that an increasing part of our development programme is financed from our own resources.

Some tentative calculations carried out in the Planning Commission show that a programme of this size can be carried out if the country is able to step up its savings to nearly 25 per cent of the total national product, requiring a marginal rate of savings of 23 per cent in the Third Plan increasing to 33 per cent by the end of the Perspective Plan. Some of these preliminary calculations are given in Annexure II.

How can we afford such high rates of saving? We have assumed that our employment policy will greatly increase the share of wages in the national income, which will mean at the same time a movement in the direction of a more egalitarian distribution of income. However desirable this may be from a social point of view, we nevertheless have to ask ourselves the question what the consequences are for the capacity of the country to save for accelerated development.

Wages are, to some extent, a function of labour productivity. We cannot assume for the future that wages will remain at the same low level as they are at present. The rapid growth of industrial employment will in itself require drastic revisions of wage rates.

Let us assume, for purposes of demonstration, that wages increase at the same rate as labour productivity. At present, the share of wages in total income is roughly estimated at 80 per cent in agriculture, 30 per cent in industries¹ and 50 per cent in services, giving a share of 65 per cent in the total economy. Even when the wage bill in each sector increases at the same rate as productivity, the changing structure of the economy in the direction of those sectors which have a relatively low wage-share is likely to bring down the total share of wages to about 55 per cent by 1985. This may seem quite strange, but it represents a realistic picture of what happens to the total wage bill in the early stages of development.

Finally, let us turn to the educational side of the long-term goals I have been outlining before you. Full employment will put a heavy burden on our educational system, as the structure of employment will change dramatically over the next few decades. The demand for skilled labour, which is already much

¹ For industries, this figure is justified by the reports of the census of manufacturing industries.

greater than what our educational system can produce, will call for enormous and sustained efforts in the field of technical and vocational education. Besides, we are planning to extend universal primary education by 1975 and universal education up to the eighth class by 1985. This will require a manifold increase in teacher-training facilities. We estimate that the number of teachers has to increase from 220,000 at present to about 1,300,000 by 1985. This means that the teacher-training institutes have to increase their capacity from the existing 80 to 90 thousand per five years to about 500,000 per five years by the end of the Perspective Plan.

It would not be an overstatement to say that the educational problems of the coming decade will perhaps be just as challenging, if not more so, as the problems of financing our future development programmes.

I have set before you, in very broad outline, some of the problems that the planners have to confront in devising a long-term growth strategy for Pakistan. The success that we achieve in formulating and implementing such a strategy will undoubtedly be of decisive significance for our entire economic future.

Annexure I

The demand for labour can be written as:

$$1) L_2 = 0.55 V_2$$

$$2) L_3 = 0.70 V_3$$

L_2 = employment in modern industry

L_3 = employment in services (including traditional sector)

L_1 = employment in agriculture, estimated autonomously at 5 million additional manyears

V_2 = production in modern industry

V_3 = production of services

V_1 = production in agriculture (autonomously estimated to increase by 100 per cent)

The present (1965) distribution of production is:

				(in per cent)
modern industry	...	...	...	10
agriculture	...	...	...	55
services	...	...	...	35
				<hr/> 100 <hr/>

We assume that a 1-per-cent increase of production in modern industry results in an increase of 1 per cent in its demand for services, and the same relation is assumed for agriculture. On the basis of input-output analysis for 1964/65, the following equation is constructed with these assumptions:

$$3) V_3 = 0.30 V_2 + 1.00 V_1$$

Finally, the equation for the increase in the nonagricultural labour-force:

$$4) L_{na} = 0.07 L_2 + 0.93 L_3$$

which is based on the present distribution of the nonagricultural labour-force over industries and services.

The solution of this four-equation system gives the following results:

					<i>Percentage increase over the Perspective-Plan period</i>
L_1	...	...	...	...	+ 33 (autonomous)
L_2	...	...	...	...	+ 486
L_3	...	...	...	...	+ 186
V_1	...	...	...	...	+ 100 (autonomous)
V_2	...	...	...	...	+ 884
V_3	...	...	...	...	+ 265

Annexure II

TENTATIVE PHASING OF THE PERSPECTIVE PLAN
(in 1964/65 prices)

Investment lag (in years)	Year	GNP (.....in crore rupees.....)	I	S	C _F	c/o	S/GNP	I/GNP	$\frac{\Delta S}{\Delta GNP}$ (.....in per cent.....)	GNP
3.00	1960/61	160	405	260	145	3.10				
3.00	1961/62	170	460	300	160	3.10				
3.00	1962/63	40	515	275	240	3.10				
3.00	1963/64	180	605	340	265	3.10				
3.00	1964/65	190	660	380	280	3.10	9.0	15.6	18.5	
		740	2645	1555	1090	3.10				4140 (+21%)
3.00	1965/66	200	730	420	310	3.10				
3.00	1966/67	220	805	480	325	3.11				
2.95	1967/68	240	885	530	355	3.12				
2.90	1968/69	270	980	590	390	3.13				
2.85	1969/70	310	1080	660	420	3.14	12.3	20.0	23.2	
		1240	4480	2680	1800	3.12				5380 (+30%)
2.80	1970/71	310	1185	735	450	3.15				
2.75	1971/72	315	1305	825	480	3.16				
2.70	1972/73	335	1430	920	510	3.17				
2.65	1973/74	365	1565	1025	540	3.18				
2.60	1974/75	410	1710	1140	570	3.19	16.0	24.0	28.0	
		1735	7195	4645	2550	3.17				7115 (+32%)
2.55	1975/76	460	1825	1295	503	3.20				
2.50	1976/77	510	1955	1465	490	3.20				
2.50	1977/78	560	2100	1650	450	3.20				
2.50	1978/79	600	2260	1850	410	3.20				
2.50	1979/80	640	2430	2060	370	3.20	20.9	24.6	33.3	
		2770	10570	8320	2250	3.20				9885 (+39%)
2.50	1980/81	650	2600	2275	320	3.20				
2.50	1981/82	700	2760	2510	250	3.20				
2.50	1982/83	760	2935	2765	170	3.20				
2.50	1983/84	810	3125	3035	90	3.20				
2.50	1984/85	860	3320	3320	—	3.20	24.4	24.4	33.3	
		3780	14740	13905	830	3.20				13665 (+38%)

Explanation of Symbols

GNP = gross national product at market prices

Δ GNP = increase in GNP

I = gross domestic fixed investment

S = domestic savings (gross)

C_F = net foreign economic assistance

c/o = capital-output ratio

S/GNP = average rate of (gross) domestic savings

I/GNP = rate of investment

$\Delta S / \Delta$ GNP = marginal rate of savings

Investment lag: average lapse of time between investment expenditures and full-capacity output

The second- and third-plan figures are from: Government of Pakistan, Planning Commission, *Guidelines for the Third Five-Year Plan*. (Karachi: Manager of Publications, November 1963).