BOOK REVIEW

Planning and Growth in Pakistan

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The Strategy of Economic Planning : A Case Study of Pakistan by Mahbub ul Haq; Oxford University Press, Karachi; 278 Pp; Price in India Rs 31.25.

"ALL economic plans read alike."

Thus begins this treatise by Mahbub ul Haq on the strategy of economic planning. "If one picks up the plans of India, Pakistan, Ghand, Egypt, Nepal or Ceylon, at random, what is surprising is not their apparent differences but their basic similarity. This is no accident. This basic similarity in planning techniques is due to the basic similarity of their problems of development." If this is true of development planning in general, it is all the more true of development planning in India and Pakistan, for our problems are remarkably similar. In view of this, it is perhaps more than a little surprising how little study of planning experience in Pakistan is made in our country. And if the Indian economist wants an introduction to the subject, he cannot do better than be guided by Mahbub ul Haq's astonishingly lucid presentation.

Growth Philosophy

The book has seven chapters and three Appendices. There is, to start with, a chapter on approaches to economic planning, where the problems of accumulations of capital are discussed in the context of "a growth philosophy** in general, and in terms of four alternative definitions of a "socially necessary rate of growth'', in particular. Four criteria of adequacy are used: (a) to maintain per capita incomes; (b) to absorb net current additions to labour force during the plan period; (c) to keep the country abreast of its underdeveloped neighbours in its economic race with them; and (d) to maintain the momentum of development and lead to a self-sustained growth in the long run.

The literary arguments are supplemented by numerical exercises of a contrast between what Haq calls "the Russian model" and "the Rostow moder, which "is basically a comparison of high and low growth rate models and has nothing to do with the political background of each model".. Haq concludes that "the sacrifice of consumption is less, not more, in choosing a higher growth moder. The clue to the apparent paradox is in judging "sacrifice" of consumption not in terms of the ratio of consumption to income, which individuals tend to do, but in terms of alternative profiles of consumption level as such. With a 25 year horizon that Haq uses, combined with a given capital-output ratio, the result is indeed not surprising, and fits in well with recent discussions of optimum accumulation in terms of a Harrod-Domar type of model. Haq argues his case extremely persuasively, and supporters of "bold planning" in India will find it useful to look through this section carefully, including his pointed reminder that "if India and Pakistan manage to maintain an annual growth rate of 5 per cent and pass through loughly the same ' take-off' period as Rostow id amines for many of the Western countries, their per capita income after another twenty years will be no higher than the present-day per capita income in Egypt".

Shadow Prices

The second chapter goes into the "rationale" of planning decisions. There is a versatile discussion of "shadow prices", with rapidly alternating presentation of economic theory and practical problems, with the discussion concentrating on the shadow prices of unskilled labour, capital and foreign exchange. What Haq takes up is really an exercise in the theory of the "second-best", and the reviewer .finds this chapter a little too sanguine. However, it should be borne in mind that Haq claims no greater merit for his rules of thumb in shadow prices than that "there is some virtue in deriving rough and ready shadow prices for planning purposes and in experimenting with them on a basis of trial and error, till economic theory provides a better basis for the empirical derivation of shadow prices". There are, in addition to all this, interesting discussions on the role of an "infrastructure", and some useful thoughts on controls, and on government policies related to conflicting objects like growth and social justice.

The third chapter is on a long-term growth model for Pakistan. This is done largely at an aggregative level, using considerations outlined in the previous two chapters. In this chapter and the ones that follow Haq's role as one of the chief architects of Pakistan's economic planning has to be borne in mind, for Haq shuttles between his own notions of optimality and the ideas implemented in Pakistan's planning. Haq is no blind admirer of the way things are going in his country; indeed quite the contrary. But he sees hopeful signs in "the recent revision of the Second Plan...in favour of a higher growth path."

Haq envisages a bold plan of export expansion, but notes himself that "such 'high' targets for exports will cause eyebrows to be raised because Pakistan has been having considerable difficulty in maintaining her export earnings, let alone increasing them". He indicates several channels of possible expansion, including a closer trade link with India. Even with all this export optimism, however, Haq sees no way of escape from building up a sizeable capital goods tector within the economy. This touches on a point of some controversy in India today, and the Indian reader might lament the fact that Haq does nut give more data on the comparative economics of domestic production and exports, with which he is undoubtedly concerned as a practical planner in Pakistan, and which undoubtedly forms the raw materials to his conclusions that he reports in this section.

Regional Planning

To the reviewer, much the most interesting and important chapter in the book is Chapter 4, which goes into models for regional planning. The question of the contrast between the two wings of Pakistan has been a burping one in that country, and not surprisingly Haq devotes a great deal of time and analysis to a study of this problem. The background to the problem is lucidly clarified. He starts with a comparison of formal income data, which indicates that in 1959-1960, the per capita income of West Pakistan was 20 per cent higher than that in the eastern wing. Then several refinements are introduced. The remarkable difference in the structure of relative prices in the two wings is noted. Under such circumstances comparison of real incomes has several notorious difficulties. Haq uses a basis of comparison which will probably be criticised by some, but which seems to have some strong merits. He notes that "in national income terms, one ton of rice in East Pakistan has more than twice as much value as one con of wheat in West Pakistan, whereas *one* ton of rice has roughly the same nutritional value as one ton of wheat". When Haq makes a correction for this, taking nutritional equivalence to be equivalence in terms of satisfaction, it turns out that the "true" extent of the disparity in per capita incomes of West and East Pakistan in 1959-1960 was about 60 per cent rather than 30 per cent.

How sound is this correction? It might be thought that it runs quite counter to consumers' sovereignty which provides the basis for conventional national income comparisons, and in some sense it does. But perhaps not as much as might appear at the first sight. There is no doubt that an East Pakistani will get a great deal more satisfaction from a ton of rice than he will get from a ton of wheat, nutrition or no nutrition. But what is being compared is not how much satisfaction an East Pakistani gets from one ton each of the two crops, but how much satisfaction an East Pakistani gets from a ton of rice compared with the satisfaction that a West Pakistani gets from a ton of wheat. And it is not at all clear why *it* should be assumed that the relative prices of *rice in* East Pakistan *and* wheat *in* West Pakistan represent relative *satisfactions* that *the* two groups of people get from a ton each of the respective cereals.

Relevant to India

The whole problem arises from the fact that conventional national income comparisons make sense when *the* two groups compared can be assumed to have the same tastes and when they face a uniform set of prices. Neither condition holds, and the contrast in both the fields is very sharp. Under these circumstances assuming nutritional equivalence to be the same thing as equivalence in terms of satisfaction is- still open to doubts, but does not seem to be inferior to any other basis of comparison that one can think of. In this exercise, Haq suggests an approach that might well be found interesting and useful in the contest of regional national income comparisons in India also.

The detailed vector-comparison that Haq. supplements his analysis with is also quite significant, and confirms his thesis that conventional national income comparisons understate the degree of disparity. It seems that "an average West Pakistani consumes about 19 times as much electricity, about 10 times as many cars, about 8 times as much tea and petrol, about 7 times as many radios, about 6 times as many cigarettes, about 3 times as much cloth and sugar, and about twice as much paper and coal as an average East Pakistani."

Disparity and Government Policy

It turns out also that the disparity has been growing between the two wings, and part of the reason seems to have been the result of government policy itself, Haq estimates That each year 1 to 2 per cent of East Pakistan's income has been transferred annually to West Pakistan, and this transfer along with a disproportionately higher allocation of foreign borrowings and aid, has allowed West Pakistan to maintain an investment rate of 12 per cent with a regional saving rate of only 7 per cent in the pre-Plan period (up to 1955) and 5 per cent in the period of the First Five Year Plan. The other side of the coin is seen in East Pakistan's regional saving rate of about 7 per cent in both these periods with a gross investment rate of 5 per cent in the pre-Plan period and of 6 per cent in the period of the First Plan,

In the light of this background, Haq considers alternative models for regional planning. He rejects any plan that will increase the present disparities, and considers the requirements of an egalitarian plan that will eliminate the disparity altogether by 1985. A plan of maintaining constant disparities is also considered, but since this is done *in* absolute terms, with differential rates of population growth, this amounts to some intensification of disparities of per capita income. The implications of the model of elimination of disparity are judged to be unrealistic in terms of the necessary marginal savings required and also in terms of the possible upper limit to the acceleration of the pace of growth in East Pakistan. Haq ends up by recommending a regional plan lying somewhere in between the maintenance of the disparity and complete elimination of it. The exact plan outlined is relatively less instructive from the point of view of economic insight, than the considerations underlying the problem that Haq analyses with such lucidity and force.

Chapter 5 goes into an evaluation of Pakistan's First Five Year Plan, The targets and policies are discussed, and the underlying methodology is analysed. The neglect of a producer goods sector and *of* mining comes under heavy fire, and so does the neglect of primary education in contrast to higher education, and the lack of a satisfactory agricultural policy. The picture about domestic savings is discouraging, related to what Haq nnds to be an inadequate spelling out of policies in this field, and it appears that the marginal rate of saving was *minus* 21 per cent in this period.

Haq, however, gives better marks to the Second Plan, which came into operation in 1960, and which is just reaching completion. Some shortcomings are, however, listed, and the Indian reader might find it interesting to note that Haq's list of these is very similar to what seem to have come out to be the shortcomings in his neighbouring country as well. I cannot resist the temptation of quoting; "These include: lack of basic information on private investment, domestic saving, foreign exchange component and income distribution; distortion of Plan priorities in the course of actual implementation; an inordinate rise in the cost *of* various projects above the original estimates; increase in the general price level affecting the cost of development; excessive dependence of project-type assistance which conflicts with the sanctity of national planning; and the lack of consumption planning."

Moderate Blue-print

The last chapter outlines a "blueprint for Pakistan's Third Five Year Plan", which starts with the classic statement that "blue-prints are usually embarrassing"! In some ways this is indeed a weaker chapter than the rest of the book, as in fact one would expect. Its main usefulness lies in clarifying the lessons learnt from the earlier two plans, and in putting into focus some of the general ideas that form the core of Haq's general approach to planning. As a document it is not unlike various proposals that make the rounds in New Delhi about a year and a half before the next Plan is due to begin. The tone here is rather more moderate in contrast with the radicalism of the earlier chapters of the book, and some of the readers could feel that the pointed analysis of the earlier part of the book does not get adequate representation in the blueprint put forward by Haq. This might, however, be a futile complaint, for it is perhaps shaped as much by the considerations of economic optima lily outlined by Haq, as it is by his conservative evaluation of political feasibility. There are three Appendices to the book, providing the background sums to Chapters 3, 4 and 5.

Altogether the book is a very impressive one, and the reader will find Haq's presentation of Pakistan's planning problems to be extremely lucid and interesting, and his general approach to development planning to be deep and instructive. Some of the more technically minded readers might lament the absence of such creatures as input-output tables and other modern quantitative techniques of development planning. But the document is not concerned with that kind of issue at all, and goes deeply into a type of planning problems that fit in well with Haq's own fields of interest.

There is, however, one technical point on which I would like to take issue with Haq. This is on his suggestion that "in the case of unskilled labour, it should be legitimate to use a shadow price which is x per cent lower than the market price if unemployment is x per cent in the country". Why? Haq points out that "if all the labour force can be employed with the existing total wage bill, it will increase the total production without reducing the total investible funds. This means that if a certain percentage of the labour force remains unemployed at the ruling wage rate, then the wage rate should be 'reduced' by the same percentage *so* as to employ all the labour force with the same fund as before."

One can view a shadow wage rate in two ways: either as a pure *accounting* concept without any change in the actual cost of employing labour to employers, or as the cost of labour employment that is *actually reflected* on to the employer through taxes and subsidies. In the context of the former, there is obviously little justification for the proposed shadow price. Since the origin of the problem that Haq considers is the consumption-creating effect of additional employment, even when there is surplus labour, it is not clear how an x per cent reduction in the accounting wage rate without any change in the actual wage rate will make the allocation right. For the private sector, however, he takes the concept in the tatter sense, and recommends that the employers be actually subsidised to the extent of x per cent of his wage cost, and the cost of it be met by taxation on the wage earners in general; or alternatively, by taxing profits.

But is this all right? If we do grant that the fiscal machinery is so powerful that it can keep the consumption level constant through these means irrespective of the wage bill, should not then the relevant shadow price simply be given by the appropriate alternative marginal productivity of labour? (Note that considerations of the second-best type are not introduced.) Perhaps the following procedure will make the point involved clearer. We assume unemployment and a fiscal machinery of the type considered by Haq. Let the government first consider a shadow wage rate of zero, by subsidising the entire wage rate and having the desired level of consumption through taxes of one kind or another. If at this shadow wage rate of zero, the entire labour force is absorbed and there is an excess demand, then clearly this was the wrong wage rate. Then, instead, a positive shadow wage rate is considered, and higher and higher values of this wage rate is taken until the labour market completely clears. Presumably at this point the marginal product of labour in every field just equals the wage rate and, therefore, equals each other. Except through a pure coincidence there is no reason to expect that this wage rate wilt turn out to be just equal to that obtained by taking x per cent off the initial market level of wages when x is the percentage of initial unemployment.

The essential point to note is that if the fiscal machinery is really powerful enough to keep consumption at the level desired, ie, to give the desired pattern of capital accumulation then the only condition that the labour market has to satisfy (assuming that other markets are competitively cleared) is that the marginal productivities be equated all around and equal the supply price of labour. The current ratio of unemployment does not come in at all unless we happen to make some coincidental assumptions. If we wish to bring in fiscal limitations, as some people have tried to, then the relevant labour cost can be calculated only by explicitly bringing in the extent of the limitation. If there are some distortional effects of taxation, or some other costs attached to a high level of taxation, that too must be brought in. There is no *a priori* reason to expect that the shadow wage rate calculated in this way, with an explicit statement of the fiscal limitations and an explicit statement of the objective function involving present and future consumption will turn out to be equal (or even be close) to x per cent below the initial market wage rate when x is the proportion of initial employment. I should, however, add that this point is not crucial to Haq's approach to development planning, and indeed whether the rule of thumb of shadow wage rate that is proposed by him is taken or not, does not affect the general run of his arguments in the rest of the book.

Goodwill at Economists' Level

In conclusion, it is worth emphasising that Haq's admirable book should be studied by all students of development planning, not only because of the light it throws on the problems of Pakistan, but also because of the general range of issues that Haq succeeds in covering in this slender volume. The question of regional disparities is, in particular, an extremely important one for practically all underdeveloped countries, irrespective of whether it is as big as India, or whether it is as small as British Guiana. Haq himself is from West Pakistan, but his wife, who is an able economist in her own right, is from the East. The work is acknowledged by Haq to have been done in close co-operation with her, and indeed - it seems to be a very good team to work on this thorny question on regional disparity. Indeed, the question of regional allocation has engaged some of the best brains of Pakistan, as indeed one would expect. The same interest, I *urn* afraid, has not been expressed on this question in India. No doubt this is partly because the contrast takes a particularly sharp form in Pakistan because of its division into two nearly equal wings, whereas in India the regional disparities get more diffused because of the variety of Indian divisions. But this does not mean that the problem is any less serious in India, and in fact the "rear income contrast between some of the Indian States (e g, Punjab and Orissa) may well turn out to be greater than that between the two wings of Pakistan. Indian economists can gain considerably from studying this aspect of Pakistani economists' thinking.

One final comment on the economic thinking in the two neighbouring countries may not be out of place. Not only are the economic problems faced by the two countries similar, one is continuously struck by the impartiality and goodwill in terms of which the best Pakistani economists seem to discuss the problems involving the two countries. This is in sharp contrast with the feeling of competition that the leaders of the two countries are known to feel, and a study of the impact of which on planning provides one of the themes that Haq discusses, viz, the plannig objective to "rival growth rates experienced in neighbouring underdeveloped countries''. Haq's analysis of this "economic competition" is eloquent. "This economic competition may be overtly publicised or dimly felt; it may be the reflection of a political struggle or an ideological competition; it may be overplayed sometimes to attract attention and get more aid (as India's competition with China) or underplayed sometimes to keep public expectations in check (as Pakistan's competition with India); but it remains a hard reality." Indeed it does, but the benign side of the reality includes the fact that the penultimate sentence will probably be resented by proportionately just as many Pakistanis, as the sentence before that will be resented by Indians. And at the risk of sounding somewhat sentimental and gooey, I would like to suggest that in this there is a lot of hope.