

FORTY YEARS OF PAKISTAN ECONOMY

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Pakistan emerged on the map of the world as an independent country on August 14, 1947, comprising the provinces of East Bengal, west Punjab, Sind, Baluchistan, N.W.F.P. and tribal areas. With a population of about 70 million, it was then the largest Muslim country and the fifth largest country of the world. Unfortunately, the country was dismembered in December, 1971 and the Eastern Wing of the country became a separate independent State of Bangladesh. This 40-year review of the economy, therefore, relates only to that territory which is now called Pakistan.

State of the Economy in 1947

The state of Pakistan's economy at the time of independence and the huge problems faced by the new country immediately after its birth are graphically described in the First Plan document (1955-60). Although written in the context of pre-December 1971 Pakistan this description is fully valid for the present territories of the country and is quoted below:

"At the time of partition, Pakistan was an under-developed area even relative to some other Asian countries. The systems of production, transportation, trade and consumption yielded a very low standard of living - most of the people living at, or barely above, the level of subsistence with little opportunity for education, or economic advancement. Agricultural methods were for the most part primitive and average yields were among the lowest in the world. Industry was nearly non-existent. Financial institutions to provide credit and to collect the savings and channel them into productive investments were rudimentary. The numerous problems and pre-occupations of this rudimentary economy were further complicated as a result of the partition and the dislocations coming in its wake. From the standpoint of development, the major effects of partition were the enormous upheaval that accompanied the wholesale transfers of population, the disruption of trade and business, channels of communication, marketing relationships, industrial and commercial organization, and the pressing need to establish new Central and Provincial Governments."

Administrative Infra-structure for Economic Development

It took two years to overcome the initial difficulties faced by the country in the wake of partition. By the middle of 1949 the occupational gaps caused by mass migration were largely filled, banking services were restored. Government revenues started rising, export earnings increased and prices –

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of essential goods stabilized. The necessary administrative infra-structure for promoting economic development was also set up. A Development Board, a Planning Advisory Board and an Economic Committee of the Cabinet were set up in 1948. In 1949 a Ministry of Economic Affairs was established to co-ordinate planning and economic activities of different ministries. A Six-Year Development Plan was prepared and put into effect in the middle of 1951. To execute the Six-Year Plan, autonomous administrative machinery consisting of an Economic Council, a Planning Commission and a number of Sub- Commissions were set up replacing the earlier Development Board, the Planning Advisory Board and the Economic Committee of the Cabinet.

Subsequently a National Planning Board was set up in July 1953 to prepare a 5-year national development plan for the period 1955-60. The actual implementation of the first Five-Year Plan started in 1957. The First Plan has been followed by a series of Five-Year Plans, except during the period 1971-77 when only Annual Plans were prepared.

Available data for the territories now comprising Pakistan show that the country's economy has made considerable progress over the past forty years. Yet there are a number of areas which are cause of serious concern and call for remedial measures as early as possible.

A: Growth Rates of the Economy

Let us first see the positive developments. The economy which was really in shambles during the initial years of independence showed a remarkable degree of resilience and recorded substantial growth rates over the period 1949-50 to 1986-87. Since 1949-50 GDP has registered annual growth rate of 5.3 percent in real terms. Except for the decade 1949-50 to 1959-60 and the non-plan period (1971-77), the growth rates have been above the overall average. Per capita income (based on GNP at constant factor cost) has increased by 142% from Rs. 351 in 1949-50 to Rs. 849 in 1986-87, despite an increase period. The growth plans and the performance there against are shown in Table-1.

Table-1: Growth Rates of G.D.P.

Period (Ending fiscal year)	Targets	Realized
Pre-plan (1950-55)	-	3.1
First plan (1955-60)	2.8	3.1
Second plan (1961-65)	4.7	6.8
Third plan (1966-70)	6.5	6.7
Non-plan (1971-77)	-	3.9
Fifth plan (1978-83)	7.0	6.6
Sixth plan (1984-88)	6.5	6.9*
1949-50 to 1986-77	-	5.3

* 1983-87 Sources: Pakistan Economy Survey, 1986-87, p.1

B: Structural Changes in the Economy

The structure of the economy has also undergone significant changes. The share of agriculture sector in GDP has come down from 53.19 percent in 1949-50 to 25.54 percent in 1986-87 while that of manufacturing and mining has increased from 7.97 percent to 20.55 percent. The share of construction sector has also gone up from 1.44 percent to 5.72 percent, of electricity and gas from 0.22 percent to 3.63 percent and of services from 37.18 percent to 44.56 percent. In keeping with the structural changes, the sector-wise employment picture has also undergone a change. Agriculture now employs 54.01 percent of the total employed labour force as against 66.00 percent in 1949-50 while the share of labour force employed in manufacturing and mining sector increased from 9.60 percent to 13.40 percent over the same period. These changes are also reflected in the composition of imports and exports. The share of consumer goods in total imports fell from 49.7 percent in 1949-50 to 18 percent in 1985-86 while those of intermediate goods and capital goods increased from 25.4 percent and 24.9 percent to 45.5 percent 36.5 percent over the same period. In the case of exports, the share of primary commodities in total exports fell from 91.3 percent in 1949-50 to 34.6 percent in 1985-86 while the share of manufactured goods rose from 8.7 percent to 49.5 percent and that of "others" from 3.7 percent to 15.9 percent over the same period.

Although the relative importance of the agricultural sector has gone down as other sectors developed over time, it has also made considerable advances on account of adoption of improved technology, improved credit supply, better transportation and marketing facilities and rising support prices. The growth rate of the agriculture sector which was only 2.1 percent per annum during the First Plan period rose to 3.8 percent during the Second Plan period and 6.3 percent during the Third Plan period. During the non-plan period of 1971-77, however, the agriculture sector suffered a set-back and its growth rate came down to 1.6 percent per annum mainly due to unfavorable weather conditions and unimaginative policies of the Government. The growth rate staged a recovery to 4.4 percent per annum during the Fifth Plan period (1978-83) but receded again to 3.7 percent per annum during first four years of the Sixth Plan period.

C: Agricultural Production

Data on production of important crops show that over the period 1947-48 to 1986-87 wheat production increased from 3.35 million tonnes to 14.25 million tonnes (+320 percent), rice from 0.69 million tonnes to 3.52 million tonnes (+410 percent), maize from 0.40 million tonnes to 1.11 million tonnes (+177 percent), other pulses from 95,000 tonnes to 218,000 tonnes (+129 percent), sugarcane from 5.52 million tonnes to 29.79 million tonnes (+439 percent), and cotton from 1.1 million bales to 7.8 million bales (+609 percent). Production of some other crops such as Bajra, Jowar, grams and oilseeds has, however, not shown notable improvements.

It is indeed an achievement of the agriculture sector that the country has become self-sufficient in food. It no longer needs to import wheat and has been exporting substantial quantities of rice. The per capita availability of cereals went from 139.3 Kg. in 1949-50 to 154.0 Kg. per annum in 1985-86,

of sugar from 17.1 Kg. to 28.3 Kg., of meats from 9.8 Kg. to 16.3 Kg., of eggs from 0.17 Kg. to 2.4 Kg., and of edible oils from 2.3 Kg. to 8.6 Kg. However, per capita availability of pulses declined sharply from 13.9 kg to 6.1 kg and of milk from 107 kg to 95.8 kg over the same period. Per capita calories intake per day increased from 2078 to 2348 or by 13 percent.*

Thanks to improved technology substantial improvement has occurred in yield per hectare of wheat, rice and cotton. However, the yields per hectare of wheat rice and cotton. However, the yields have not recorded a notable improvement.

D: Industrial Production

Significant achievements have also been made in the industrial field. Starting from a nearly complete absence of an industrial base the country has developed a considerable range of industries and is now producing a variety of manufactured goods, including iron and steel, cement, machinery, textiles, foods, fertilizers, chemicals, electrical implements, tools, medicines and drugs, etc. Self-sufficiency has been achieved in a number of manufactured items. Manufactures and semi-manufactures now also account for the bulk of the country's exports.

Steep rise has been recorded over the years in the production of those manufactured goods for which some capacity did exist initially. For instance, output of cotton yarn increased 57 times between 1948-49 and 1985-86, of cotton cloth by about 7 times, of vegetable ghee 204 times, of sugar about 88 times and of cement 13 times. In addition, industrial capacity has been created from a nil base in respect of a large number of other items. Data in respect of major items, showing trends in production from 1948-49 to 1985-86, are shown in Table-2.

Table-2: Production of Selected Manufacturing Industries

Item	1948-49	1969-70	1980-81	1985-86
Cotton Yarn (mln. Kg)	8.4	273.2	374.9	482.2
Cotton cloth (mln. Kg)	37.5	606.5	307.9	253.5
Vegetable ghee (000 MT)	3	126	505	612
Sugar (000 MT)	13	610	851	1138
Cement (000 MT)	383	2656	3538	4979
Soda Ash (000 Tonnes)	-	67.8	96.4	128.4
Caustic soda (000 Tonnes)	-	28.4	38.5	44.3
Jute Textiles (000 Tonnes)	-	33.1	50.2	100.0
M.S. Products (000 Tonnes)	-	180.0	494.7	731.7

Source: Pakistan Basic Facts, 1985-86, P.46

- Source: Pakistan Basic Facts, 1985-86, P.23

As a result of the growth of the manufacturing sector over the last 40 years, the contribution of the manufacturing sector to GDP at constant factor cost of 1959-60 increased from a mere Rs. 961 million in 1949-50 to as much as Rs. 16,339 million in 1986-87 or 17 times. More remarkable has been the increase in value added in large-scale manufacturing which went up from Rs. 277 million to Rs. 11,739 million or 42 times over the same period, while value added in small scale industry increased from Rs. 684 million to Rs. 4,600 million or about 7 times.

E: Growth of Service Sectors

The contribution of the two major commodity producing sectors viz., agriculture and manufacturing increased from Rs. 7556 million in 1949-50 to Rs. 37,306 million in 1986-87 at constant factor cost of 1959-60 or about 5 times. Their combined share in GDP, however, declined from 60.9 percent in 1949-50 to 45.4 percent in 1986-87. This shows that other sectors of the economy, which were in a more rudimentary stage at the inception of the country, had achieved a generally more vigorous growth. Thus, value-added in banking and insurance increased about 44 times over the period 1949-50 to 1986-87, in construction 26 times, in electricity and gas 110 times, in transport and communications 10 times, in wholesale and retail trade 8 times, in public administration and defence about 6 times, in services about 10 times and in ownership of dwellings 3 times.

The statistical data available no doubt indicate that Pakistan's economy has advanced a good deal over the past 40 years. The base of the economy has become diversified and a considerable degree of self-sufficiency has been achieved.

Critical Assessment

However, certain elements tend to take notice only of these positive developments, and try to create some kind a euphoria among the public by putting only the rosy picture into lime-light and brushing the negative aspects under the carpet.

This phenomenon was witnessed in the sixties when Pakistan's economy, under the impact of the so-called 'decade of development' was presented as a "model" for the developing countries. Again, in recent years certain quarters are busy in trumpeting that: Pakistan has reached the threshold of "middle income" countries, as if this is enough to set the house of the economy in order and banish the ill-effects of poverty and exploitation.

Real Goals of Development

An objective assessment of Pakistan economic record during the past four decades would show that there have been serious failings in economic policies and performance over these years, as a result of which not only the full growth potential of the economy could not be utilized but several grave distortions have been produced or aggravated. Consequently, the real goal of development i.e. creation of a society where everyone is assured of a respectable life and ample opportunities for life-ful|ilment, through provisions for meeting basic human needs, availability of opportunities for

productive employment, equitable income distribution, so that a fair degree of prosperity and contentment exists among the people, high moral values prevail, rule of law is strictly enforced and national honor and sovereignty are fully protected - in short, the dignity of man is guaranteed - has not been achieved.

It must be stressed that GDP growth rate and per capita income, however important for the calculus of national income accounting, are not true indicators of welfare of the mass of population in the presence of glaring inequalities in interpersonal and inter-regional income distribution, and this, unfortunately, has been the situation in Pakistan ever since Independence.

Quality of Life

The quality of life of the masses has remained highly unsatisfactory. The vast majority of the population has still no access to clean water, sewerage facilities and electricity. Literacy rate is among the lowest in the world. In most of the rural areas there are no doctors. Life expectancy at birth is still lower than the one prevailing even in many South and South-East Asian countries and most of the Latin American and African countries.

Improvement in the quality of life of the people has received a very low priority in the development strategy during the entire history of our economic planning. The share of social sectors, encompassing education, health and physical planning and housing in total public sector outlay has fluctuated between 13 percent and 20 percent in different periods since the mid-fifties. It fell from 18 percent in the First Plan period to 13 percent in the Sixties, rose to about 20 percent during 1970-78 and again fell to 14.4 percent in the Fifth Plan period ending 1983. In the Sixth Plan, the share is envisaged at 20 percent or only slightly higher than in the First Plan.

Technology

The sufferings of the people have compounded due to certain other aspects of the development strategy also. For instance, the adoption of an increasingly capital-intensive technology in both the agricultural and industrial sectors has tended to aggravate the problem of unemployment and underemployment. This, coupled with the failure to achieve interregional balance in industrialization has led to large scale internal migration of labour in search of employment opportunities, leading to proliferation of slums in cities with sub-human living conditions, explosion of crimes and other social evils.

Income Inequalities

Available statistical data on income inequalities and poverty in Pakistan have shown diverse trends. The degree of inequality in distribution of income among households decreased in the Seventies. The degree of inequality in personal incomes decreased in rural areas but increased in urban areas in the Sixties, while in the Seventies the degree of inequality increased in both urban and rural areas. Absolute poverty decreased between 1963-64 and 1966-67 but increased thereafter in both

rural and urban areas. In the Seventies, absolute poverty decreased in rural areas but remained almost unchanged in urban areas.

True, the abject poverty observable in certain other South Asian countries is not so widespread in Pakistan. Yet, this is no ground to feel satisfied with the status quo. The problem of mass poverty must be viewed in our own national perspective which is characterized by wide income disparities. On the one hand, the quality of life of the masses is among the lowest in the world and, on the other, there are palatial houses, fleets of glittering limousines and extravagance on ceremonies. As a result, the sense of deprivation among the poor masses has been deepening and may cross the limit of tolerance if the situation is allowed to persist. This is all the more obnoxious in view of the fact that Pakistan was established to create an Islamic welfare state, an objective to which policy-makers are never tired of paying lip-service.

Growth man-ship

In the above context, as also in view of the fact that the futility of attaching too much significance to growth rates and per capital income per se has long been recognized, it is no use taking pride at the prospect that Pakistan may soon join the group of "middle-income" countries. Attainment of the status of a "middle-income" country cannot by itself be expected to ensure a happy and contented life for the people. Examples exist of several "middle-income" countries where large masses live in object misery, social tensions are rife and violence, robberies and kidnappings in broad day light are almost a routine matter. Growth in national income is no doubt a necessary but by no means a sufficient condition for establishing a fairly prosperous, happy and contented society.

Resource Mobilization

From the available data one can easily see that inadequate domestic resource mobilization has led to undue dependence on foreign resources. The investment level has also been held down by the low level of domestic savings. The economy remained characterized by low investment level till the mid-fifties, after which heavy infusion of foreign resources combined with considerable improvement in the saving performance of the country resulted in a marked acceleration in the rate of investment. Gross fixed investment which formed less than 5 percent of GNP in 1949-50 rose to 21 percent of GNP in 1964-65. Since then there has been an-almost continuous deterioration in the ratio of domestic savings to gross national product. From 12.2 percent in 1964-65, domestic savings as a proportion of GNP went down to 3.6 percent in 1984-85. This had adverse effects on the investment rate which fell from 21 percent of GNP in 1964-65 to 14.5 percent in 1984-85 even this level achieved by heavy infusion of foreign resources.

The main reason for the low level of domestic savings has been the high consumption orientation of the Pakistan society and the large increase in the non-developmental expenditure of the Government. The life style of the well to do classes has come to be characterized by lavish spending habits and conspicuous consumption. In the Government sector, sizable increase in expenditures on

defence, debt servicing and general administration have not allowed any significant amount of public savings.

Dependence on Foreign Aid

The development strategy adopted by Pakistan has led the country to depend more and more on foreign aid, the terms of which have become increasingly stringent over the years and its political implications more and more unbearable. Committed and outstanding external debt, which amounted to \$12.9 billion at the end of June, 1984 increased to \$16.4 billion in June, 1986. Debt servicing ratio to exports of goods and services (excluding remittances) stood at 27 percent in 1985-86. In absolute terms, debt service payments amounted to \$1,060 million.

The costs of this development strategy in terms of compromising on our freedom to pursue socio-economic policies entirely of our own choice, persistent strain on our balance of payments and carry forward of the debt burden to posterity have been inestimably high. The benefits, on the other hand, have been flowing predominantly to the already affluent sections of the population, while the quality of life of the vast majority of the population in both urban and rural areas has remained abysmally low. Moreover, the rise in the national income appears to have been largely frittered away in consumption. Normally, rising real incomes should be accompanied by increase in the propensity to save, but our experience in the past several years has been the opposite. In 1972-73, the ratio of domestic savings to GDP was 10 percent. Thereafter, the ratio has been declining, amidst fluctuations from year to year, and touched as low a level as merely 3.6 percent of GDP in 1984-85. In 1985-86 there was a marked improvement and the ratio went up to 6.2 percent. However, in the light of the past trend this improvement again cannot be considered to be of a lasting nature unless concerted efforts are made to promote and popularize simple life style and to weed out conspicuous consumption in the private sector as well as to effectively check non-development expenditure of the Government. To achieve this objective, example should have been set by the top leadership in the country.

Problems of Agriculture Sector

Following problems have been faced by the agricultural sector:

- a) Modern inputs such as high yielding varieties of seeds, fertilizers and pesticides play a crucial role in the growth of agriculture. However, their supply to all farmers and to all crops has not kept pace with the growing needs of the country for food and non-food crops. Hardly any high yield varieties have been introduced for crops, such as maize and sorghum.
- b) Perhaps the most serious constraint faced by agriculture is irrigation water. Canal irrigated areas continue to suffer from irregular and uncertain supplies of water as well as losses between the source of water and farm-gate. Water courses remain silted and clogged and allocations made to clean and repair them are not fully spent.

Water-logging and salinity have proved unconquerable menaces of the irrigated sector.

- c) Another important problem relates to the ownership and control of land. A large proportion of the total farm area continues to be in the hands of a few, notwithstanding the so-called land reforms. According to 1980 Census of Agriculture the top 10 percent of farm households owned 42.28 percent of total farm area whereas the bottom 10 percent had only 2.38 percent of the land.
- d) The loss of tenants and share-croppers has also not improved despite various legal reforms. In many cases, the landlord still continues to receive more than 50 percent share of the produce on different accounts over and above the Begar and free services which tenants have to provide. Perhaps one of the important reasons why tenants and share-croppers are not getting a fair deal from landlords is the growing phenomenon of land- lessens. For several reasons big farmers now, prefer to cultivate land themselves. As a result tenants and share croppers are being displaced. Supply of land for cultivation is shrinking whereas the demand is growing. This is likely to worsen the bargaining position of tenants. Mechanization had enhanced the plight of the weak in the agricultural sector.
- e) The flow of agricultural credit has increased appreciably in recent years. But all this credit is not being properly monitored. There are certain issues which need to be seriously studied. How much of the credit is going to the farmer himself and how much of it is being received by landlords in the name of their tenants? How much agricultural credit is contributing to agricultural productivity and at what cost?
- f) Agricultural credit is mainly crop-production- oriented with little marketing orientation, such for storage, transportation, etc
- g) Agriculture does not provide full time occupation for most of the labour force in this sector. The labour remains unemployed for substantial part of the year. The human resources in agriculture thus remain under-utilized.

Problems of Manufacturing & Energy Sectors

Industrial sector has shown a respectable growth. However, this has been achieved under an umbrella of heavy protection which has implications for its competitiveness in export markets. A good part of the industrial sector lacks modernization. The textile industry which did quite well in the early period almost collapsed in the seventies and is still in difficulties. Export of manufactured goods continues to be heavily concentrated on a few traditional items. Pakistan has not been able to capture a good share of the market of even garments which has been exploited gainfully by certain other developing countries, particularly in the Asian region. Energy is one of the most vital infra-structural inputs needed for long term sustained economic development. Wide-spread energy

shortage faced in recent years is a clear reflection of inadequate planning to meet the country's developmental needs. The energy crisis is the result not only of poor planning but also of poor management of existing energy supplies. The existing practices of generation, transmission and distribution are highly defective and lead to inefficient utilization of a highly scarce national resource. An astonishing pilferage-cum-wastage to the extent of 38 percent is reported during transmission. The actual loss to the society due to energy shortages has become colossal.

Having despaired of any significant improved in energy situation; the private sector is resorting to oil-based internal generation of energy. This has led to almost complete disappearance of fuel oil from the list of Pakistan's exports.

These developments are not only exerting pressures on balance of payments but have also raised the cost structure in the country. This in turn has hit consumers as well as reduced the competitiveness of our exports.

Problems of Management

Lack of capable managers has been affecting the performance of the economy. Scarcity of good managers was attributable to the following:

- a) Deteriorating educational standards, particularly due to indiscipline in institutions of higher learning and professional colleges and universities. De- emphasis and dilution of the criteria of merit and lack of concerted efforts to develop professional and management skills are causing a serious short-fall in the standards and availability of trained and capable managers.
- b) Our bureaucracy is organized on the basis of generalist philosophy. As a result, the task of economic planning and policy-making as well as management of the public sector programmes is entrusted to a cadre of generalists. Of particular significance is the entrusting of management of public enterprises in the top echelons to this class of generalists. This is reflected in the dismal performance of our public enterprises.
- c) There are around 350 autonomous corporations of the federal and provincial governments of different sizes and shapes and the number is ever increasing. Substantial resources are being channeled through these institutions. These institutions created in the hope of working in a business-like fashion with high level of efficiency and productivity, have largely belied these hopes.

Balance of Payments

The structural problems in our balance of payments have persisted inspite of good growth performance of exports. In this connection, the following points are not worthy:

1. The level of imports has continued to be more than double of exports.

2. Bulk of export earnings arise from a few items and the share of non-traditional exports in total exports have stagnated.
3. The exchange rate of Pak Rupee was depreciated in 1954, in 1959-72 under the Export Bonus Scheme in 1982 under the managed float it continues to slide downwards in terms of major currencies.
4. Debt servicing burden continues to rise.
5. Destination of exports also continues to show degree of concentration on our traditional trade partners.
6. The value added part of our exports of even manufactured goods is very low.

Public Finance

A number of negative developments have also been place in the field of public finance, particularly in recent years. Since 1982-83 the current expenditure has consistently exceeded revenue receipts, leading to negative savings in the Government sector. Combined current expenditure of the Federal and Provincial Governments, over the decade ending 1986-87, is estimated to increase taking Rs. 20.1 billion in 1976-77 to Rs. 107.6 7 (budget). The ratio of current expenditure to GNP at current market prices is estimated to increase from 22.7 percent in 1976-77 to 24.2 percent in 1986-87. Over the same period, development expenditure is estimated to increase only 3-fold i.e. from Rs. 15.1 billion to Rs. 46.1 billion.

The increasing encroachment of current expenditure on development expenditure is evident from the fact that the share of development expenditure in total expenditure of the Federal and Provincial Governments, which stood at 42.6 percent in 1976-77, has been falling over the years, amidst fluctuations, and in 1986-87 it was only about 30 percent of the total.

It needs to be pointed out that Government borrowings from non-bank domestic sources have increased steeply over the years, rising from Rs. 2.8 billion in 1977-78 to an estimated Rs. 26.5 billion in 1986-87, or about 10-fold. This has been achieved by offering highly attractive rates of interest on various National Savings Schemes. The contribution of domestic non-bank borrowings towards financing the development expenditure, which was 18.2 percent in 1977-78, is estimated to rise to 46.1 percent in 1986-87. Besides causing a heavy debt service burden on the budget, the increasing Government recourse to non-bank borrowings through its "crowding out" effect has caused diversion of savings from the private sector to Government, thereby forcing the private sector to resort to debt financing on a larger scale than would otherwise have been necessary. This is evidenced by the fact that self-financing ratios of private sector companies deteriorated from 67 percent in 1977 to minus 13 percent in 1985. Thus contrary to the traditional assumption about the non-inflationary nature of Government borrowings from non-bank sources, there may have been a considerable inflationary effect of such heavy borrowings. Further, the servicing of this debt,

financed from tax (which are predominantly indirect) or deficits financing, has regressive effects both via inflation and redistribution of incomes in favour of those who are well-to-do enough to have surplus savings to lend. Finally, the debt servicing of such heavy borrowings by the Government, particularly when these are used to finance part of the current expenditure, causes inter-generational inequity.

The tax system of the country has continued to be regressive in character and inelastic. Direct taxes are estimated to account for only 17.5 percent of the total tax revenue in 1986-87. Moreover, on account of large scale tax evasion, tax holidays and concessions, exemption of agricultural incomes and non-coverage of urban non-organized sector, the income tax, which is the most important direct tax is practically a tax on the urban middle class and, notwithstanding the progressive tax rates, appears to serve as an instrument of inequitable rather than equitable income distribution in the country.

The inelasticity of taxes is evident from the fact that the ratio of tax revenue to GDP at market prices, which was 14.0 percent in 1980-81, has been declining almost continuously and is estimated at only 11.2 percent for 1986-87. In 1980-81 tax revenue financed 96.3 percent of combined current expenditure of Federal and Provincial Governments. In 1986-87 it is estimated to finance only 61 percent of the total current expenditure. As a result, the dependence on non-tax revenue and borrowings has been increasing even to finance current expenditure.

Monetary Policy

Monetary expansion mostly proceeded at a high rate, particularly since early seventies, caused mainly by excessive recourse by Government to borrowings from the banking system –for budgetary support and laxity in fiscal and monetary discipline have led to intensification of inflationary pressures, aggravation of the strain on the country's balance of payments and erosion in the external value of the Rupee, which has been hampering investment activity in the country.

In the context of monetary policy vis-à-vis Islamization of the economy it needs to be pointed out that the non-interest system introduced in banking from July 1, 1985 continues to lean preponderantly on “Mark-up” and “buy-back” arrangements, the validity of which as a genuinely Islamic substitute for interest is highly doubtful. The general public as well as bankers and their clients regard the 'mark up' as nothing but interest in disguise and it is widely acknowledged that nothing has changed in substance. During the period of over two years, since the non-interest system **was** introduced, no effort has been undertaken by the authorities to promote the incontrovertibly Islamic financing modes of Musharaka and Mudaraba or to make any other improvement in the system to bring it in line with Islamic Shariah in the true sense. On the contrary, certain measures in the opposite direction have been taken. For instance, banks have been allowed to invest their PLS deposits in the interest-bearing Government bonds, securities and treasury bills. New and old types of interest-bearing Government bonds are being any realization of the contradiction involved.

Concentration of Credit

It may also be noted that the problem of non-access of the small business to bank credit persists as ever and the chronic problem of concentration of credit has hardly received [any dent in spite of the operation of the Small Loans Scheme of the; State Bank since 1972 and the practice of prescribing mandatory credit targets for banks to meet the credit needs of small borrowers. Data on bank advances to private sector (business) classified by size of accounts show that at the end of June, 1986 over 32 percent of a amounting to Rs. 29.9 billion, were outstanding against parties (0.09 percent of all borrowers) who had borrowed exceeding Rs. 10 million. At the other end of the scale of 863,203 parties, or 74.24 percent of all borrowers, advance (with individual loan accounts not exceeding Rs. 25,000) was only 7.23 percent or Rs. 6.7 billion. It is also reported that banks are charging higher mark-up rates from smaller borrowers than from big parties.

Prices and Cost of Living

Inflationary pressures caused by excessive monetary expansion, continuing decline in the external value of the Rupee and rising burden of indirect taxes have over the past two decades eroded the purchasing power of the masses. However, the price data published by the Federal Bureau of Statistics indicate achievement of a considerable degree of price stability since 1985-86. The rates of increase in combined consumer price Index and the Sensitive Price Indicator have slowed down. It may, however, be noted that the subsidence of inflationary pressures may be due largely to better supplies of food grains and decline in the import prices of certain important consumer goods, like tea and edible oils. The improvement cannot be regarded as of a lasting nature in view of continuation of monetary expansion at a high rate. However, the consumer price indices do not - faithfully reflect the true picture of the plight of the common man because the basket of goods covered by them and the weights assigned to individual items have been tailored to the "average" consumer. As far as the common man is concerned, his income has lagged so much behind the rates of inflation in the past that he has been priced out of many nutritional food items and other quality goods. As a result the quality of life of the low income groups has gone down to an extent that the price indices have little relevance in their case.

Education

It needs also to be stressed that the country can make no real progress without a good educational system. It is unfortunate that the education sector continues to receive a low priority in the country's planned economic development. The quality of education has been declining steadily and even the literacy rate has remained among the lowest in the world. Moreover, educational facilities at different levels and in terms of subjects have not been planned in line with the emerging pattern of employment opportunities. Consequently, large numbers of youths are passing out from educational institutions with little prospects of getting gainfully employed. The educational system has also failed in regard to character- building of the youth, accentuating the tendencies of waywardness and lack of correct perspective in real life. Another scourge of our educational system

is the increasing polarization between the elite institutions and the ordinary ones which has resulted in widening the gulf in the level of knowledge imparted to their respective products. Thus, education, which is normally expected to even out socio-economic inequalities, has tended to work the other way round in this country. The needs of the country in the educational field are varied and complex, necessitating basic and comprehensive reforms, which have not come by.

Employment

Documents of all the Five-Year Plans of Pakistan have carried the Government of Pakistan's declared commitment of promoting gainful employment in the country. But the seriousness of the commitment becomes suspect in the light of the knowledge that employment implications of these plans were usually worked out after the basic structures of the plans had been decided. This has led to a wide gap between what is desired and what is achieved in terms of employment. Consequently, not only the problems of unemployment and under-employment have continued to plague our economy but certain other problems such as regional employment- imbalances, unemployment of the educated, job dissatisfaction and skill losses have also become increasingly intractable.

There are reasons to believe that presently one in every is either out of job or under-employed. The problem has been snow-balling over the years. Successive Governments, planner and policy-makers have grossly neglected this problem. Even the sixth Five Year Plan treated it as a peripheral issue, assuming a patently unrealistic rate of unemployment i.e. 4.9 percent by 1988. Perhaps there could not be a greater understatement of facts about a problem that has grave economic, social, political and humanitarian consequences. It is utter neglect of this problem that has, among others, led to social and economic unrest in major cities of Pakistan, uncoordinated migration of population, deteriorating law and order situation, brain drain and rebellion of the youth along with huge waste of human resources.

The problem is too grave to be neglected. Off on the subject is too scanty and unreliable. As against the official estimates of approximately 3-4 percent unemployment the real rate of unemployment may be around 15 percent, involving the fate of some 4-5 million people. And if 10-15 percent underemployment is also taken into account the overall real incidence of unemployment may be in the range of 20-25 percent, which cannot be tolerated in any civilized society, what to say of one that is committed to be an Islamic Welfare State.
