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**PART II**

**ECONOMIC DEVELOPMENT AND PLANNING**

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## THE PROBLEM OF ECONOMIC DEVELOPMENT

1. Part I has outlined some of the basic economic problems facing the country and has given an outline of the Plan. We now consider the problem of development with special reference to the conditions of economic growth and the role of the Plan in promoting development.

### ORIGIN AND GENERAL MAGNITUDE OF THE PROBLEM

2. The economic history of the developed countries of West Europe and North America illustrates the origin and the general dimensions of the problem of economic development. Its origin lies in the industrial revolution which began towards the end of the 18th century and which placed steam and electric power at the service of man. Led and accompanied by scientific and technological advances, the industrial revolution has transformed the entire technique of production during the last two centuries. It has enabled man to equip himself for a higher standard of living as well as for destruction with deadly weapons. The industrial revolution has been a complete and all-embracing revolution—economic, technological, military, social, political and cultural.

3. The nations benefiting from the revolution acquired political and commercial supremacy over the countries still using primitive and outmoded techniques. This supremacy too frequently led to feelings of mental and intellectual subordination among backward nations, contempt for their own achievements and values, and lack of confidence in their creative faculties. It is now widely recognised that these attitudes are completely unwarranted, as was so convincingly demonstrated in the case of Japan, which in less than one hundred years changed from a backward, feudal nation to a modern, highly productive country.

4. The problem of under-developed countries today is one of achieving in a short space of time and in some appreciable measure the revolution which the developed countries have undergone during the last 200 years. But the problem is even more than this. The aim is to achieve these revolutionary changes without bearing the often very high social costs—exploitation, overcrowding, misery, slums, etc.—which accompanied economic progress in most cases.

5. These are formidable goals. They become all the more formidable when it is remembered that many of the developed countries were aided by favourable circumstances. Many of them had very large natural resources—lands, minerals, forests—waiting to be tapped. Frequently the ratio of population to resources was low, and in such circumstances the growth of population, which has been very large since the industrial revolution, was a source of economic strength enabling them to exploit their physical resources more effectively. Some of them had colonies as sources of food and raw materials, and as markets for their growing industries.

6. The major advantage of the under-developed countries at present is that they are able to benefit from the vast accumulated experience in science, and technology, in planning and organisation, and in social services and accomplishments.

7. The problem, though of staggering proportions, is being tackled successfully by many countries. Japan has been mentioned. There is also the example of Russia, though her methods are not consistent with the ideology and spiritual values of this country. There are the examples of Turkey, India, Mexico, and many other countries which are exerting themselves to transform their economies so as to achieve high standards of living and to acquire the position in the world to which they are entitled by virtue of their history, population and resources. The technique for tackling the problem in all cases is one of planning for orderly and sustained development.

8. Planning is a part of the process of life. All public and private activities, whether large or small, have to be planned. It is especially necessary that the development of a country's economy should be planned in order to set clear and practical targets in the frame-work provided by social and economic goals. The smaller

the resources and the more formidable and complex the problems, the greater the need for planning in order to achieve maximum results in the shortest time.

9. The tasks of converting a stagnant economy into a dynamic one, of revolutionising the techniques and of providing the equipment for the exploitation of resources to achieve high standards of living need a well planned effort extending over many five-year periods. Some idea of the magnitude of the problems facing this country can be formed from the fact that the doubling of *per capita* income—which is less than half that of some other under-developed countries—even in a quarter of a century would be difficult.

10. Pakistan has an under-developed economy. This implies that the standard of living of the people is lower than that of people in many other countries. They have less food and clothing, poorer medical care, less adequate housing and education, less opportunity for recreation and cultural enjoyment than people in many other countries. It means also that the country has the capacity for development ; that the standard of living can be much higher than it is now. The resources that are available, or that can be made available, if used wisely and in accordance with the best of modern knowledge, can yield far greater returns in human welfare than they now do.

11. The country does not produce enough food to provide more than a bare subsistence diet for the people, nor enough clothing for normal warmth and decency for everyone, nor enough exportable goods to pay for the import of what is not produced at home. The basic central purpose of development is to increase the production of goods and services which constitute the national income.

#### THE SIZE OF THE PROGRAMME

12. There are many and pressing claims on the national income, and unless a satisfactory rate of economic growth is achieved it will be impossible to satisfy them. If national income is increasing, a more equitable distribution can be accomplished and political instability can be kept to a minimum. In a growing economy the resolution of conflicts of interest becomes easier than in a stagnant or declining economy. An increase in economic productivity is not an end in itself ; it is only a means. But it is a means to very important ends.

13. The goal is not only to increase the national income but to increase it faster than the population. This is a difficult task. We estimate from available data that the population is growing at a rate of about 1·4 per cent a year. This means that every year over one million more people have to be fed and clothed and provided with schooling and health facilities. If this rate of increase continued the population would double in about fifty years, and the national production and income would have to double in fifty years merely to maintain the present standard of living. We do not suggest that this rate of population increase will in fact continue for fifty years : this is just an assumption to illustrate the problem. The rate of population growth may become even more rapid as improvements in public health reduce the death rate from disease. Many countries face the problem of population growth, and some of them have deliberately chosen to follow policies designed to limit its rate. It will be necessary to observe how far these policies produce significant results and to consider the extent to which they can be adapted for use in this country.

14. There has been a definite increase in the national income since Independence, although this has not been significantly more rapid than the corresponding increase in population. This in itself is not a small achievement considering the dislocation caused by Partition, the problems of setting up a new Central Government and one Provincial Government, the resettlement of millions of refugees, and the scarcity of resources for development. The Government and the people are determined to accelerate the rate of increase in national income sufficiently to provide a clear and noticeable increase in *per capita* income, and to achieve better and better results in the future.

15. Finally, the process of economic development requires a set of institutions, attitudes and incentives that will assure continuity of growth. High annual rates of savings, a continuous improvement in methods of production, a steady provision of managerial, professional and technical skill, and a streamlined administrative organisation make economic growth a *quasi*-automatic process. In general, countries where this condition is fulfilled have developed a set of attitudes and institutions which place a high value on economic progress, give the individual considerable scope to develop and use his full capacities, and achieve a reasonable relationship between a man's contribution and his rewards. This country must aim at the same goals with an accelerated pace to make up as much as possible for lost time.

#### **Opportunities for economic development**

16. Given the existing natural and human resources the extent and qualities of arable land ; the water, forest, mineral, and marine resources ; the numbers and skills of the labour force ; the available capital equipment ; and above all the united will of the people—the two principal ways of increasing productivity are (a) better use of existing resources and (b) expansion of resources through savings and capital investment.

17. To the extent that idle or partially utilised resources can be put to work by better organisation and superior techniques, a large increase is possible in output per unit of capital employed. The capital requirements, on the other hand, for bringing new land into use through irrigation works or for the creation of new industries are apt to be large per unit of increased output. Since capital is scarce by reason of the low rate of savings and investment, every effort must be made to employ it in those uses in which its effect on production is the greatest.

18. Past development programmes have perhaps tended to give too much attention to large capital-intensive schemes designed to bring new resources into use, frequently many years hence, and too little attention to increasing production through better use of existing resources. Yet the possibilities of increasing production by better use of what exists are very real. They are to be found primarily in the unemployed and under employed labour force, in the low productivity of lands capable of much higher yields, and in manufacturing establishments working at less than full capacity for lack of power or raw materials.

19. The most conspicuous of the under-utilised resources is the large number of workers unemployed or employed less than full time. All these people are not idle by choice but by necessity—they cannot find enough productive work to keep them busy ; if a small amount of capital can be used to employ a large number of people, the returns can be very large. These workers are almost entirely unskilled and live for the most part in rural areas. A few may be drawn into organised training programmes of one kind or another, or absorbed into industrial employment in the factories, but this requires a heavy outlay of capital and will not absorb much labour now unemployed. For a long time to come, most of these workers will continue to be largely unskilled and to live in villages ; the problem is to enable them to work there.

20. In recent years much has been learned about how to bring the energies of these people into play to increase welfare. The best solution found so far is to give them jobs which add to the productive assets of their villages. These unskilled workers can, with a small amount of capital equipment and materials, and with adequate guidance, build roads and embankments, construct water supply and drainage systems, build schools and other community buildings, plant trees, and do many other things of substantial value. Many of these activities are a type of capital formation ; the results in the years ahead may be higher production—as for example, where embankments keep flood waters off fertile lands—or higher consumption—as where a pure water supply reduces disease and increases personal well-being. In either case, idle human energy will have been invested at little cost to yield substantial addition to the national income.

21. The possibilities of expanding the productivity of the employed labour force with little capital investment through adequate health measures are also large. The loss of working time and output because of disease and ill health is high. Even those at work frequently produce less than could be expected from able-bodied men because of the debilitating effect of chronic disorders. Consequently, an opportunity exists through an expanded health programme, particularly a programme of preventive measures, of increasing the productivity of the labour force with a very small expenditure per unit of increased output.

22. A second great under-utilised resource is agricultural land. Much of the land yields a fraction of what it could produce with more water, better seeds, better grading, more tools and improved techniques. The increased yield per rupee of properly-directed investment on lands already in cultivation is likely to be much greater than the increased yield per rupee of investment required to bring new lands into cultivation. This is not to say that large irrigation projects designed to open up new areas are not worthwhile ; the country needs new arable land and must take all feasible measures to obtain it. But it is necessary to increase the productivity of land already under cultivation, and this can be done with relatively small expenditures of scarce capital resources. The problem here is largely one of organisation.

23. What has been said of land is also true of other natural resources. The off-shore fisheries of the Arabian Sea and the Bay of Bengal can add to export earnings and yield sizeable additions to the national food supply by relatively small investments in better boats, better fishing gear, and better marketing facilities. This is also mainly a problem of organisation. The forests of the Chittagong Hills and the Sunderbans are waiting to be tapped for the wood so badly needed in the country.

24. A third under-utilised resource exists in the industrial plant operating at less than full capacity, largely because of the inevitable unevenness of our industrial development programme. Some facilities are completed before the power and raw material supplies on which they have to depend are fully available ; some facilities are not utilised with full effectiveness owing to the lack of repair parts ; many plants are not operating on an efficient scale for these reasons. The removal of bottlenecks to capacity operation provides opportunities for investment which must inevitably yield high returns.

25. We have emphasised that the effective use of unemployed or partially idle resources frequently provides the opportunity for a large increase in national output per unit of investment and that this, in a country acutely short of capital, is a highly important consideration. This does not mean that investment in capital-intensive economic activities, where the capital requirement per rupee of value added is high, should be neglected. In fact, more than half of the public investment proposed in the Plan is in power and irrigation, railways and large-scale industry, which by any test are capital-intensive activities. What it does mean is that opportunities for utilising under-employed resources should be explored and exploited to the full. The factor limiting the use of these resources to the full will usually be found not to be capital but administration and organisation. The country must and will have a developing industry and new lands to cultivate. At the same time it is necessary to exploit the many opportunities of increasing our national income by putting the existing resources more effectively to work.

### **Obstacles to economic development**

26. There are no absolute limitations on economic development, but there are obstacles that must be clearly understood in order to be overcome. The major obstacles lie in shortage of factors essential to the process of development. The country has a plenitude of unskilled labour, of land capable of higher yields, and even of some industrial facilities operating at less than full capacity. In order to put these assets effectively to work and to create the additional assets needed for a balanced and growing economy it is necessary to have more resources for development, more foreign exchange, a broad dissemination of technical knowledge, a larger supply of trained administrators and better administrative procedures and techniques. The lack of adequate supplies of these essential elements will limit the rate of economic development over the next few years. These shortages represent the obstacles which must be overcome.

### **Shortage of resources**

27. The first, though not necessarily the most serious, obstacle arises from a shortage of development funds. As the term is here used, development is not the same thing as formation of physical capital. In addition to increases in physical structures and equipment and to improvements in the national resource base which are the normal objects of investment, we have treated as development increases in expenditure on research and surveys, social and extension services, and Village AID. The justification for this is, first, that it is required

by our Terms of Reference and, second, that the development and productivity of country's resources is closely dependent on the improvement and expansion of these activities and services. The expenditure figures represent gross investments and make no allowance for depreciation of the existing capital stock. There are no reliable figures on capital depreciation, but we know that the major part of the proposed investments in the railway programme is intended for renewals and replacements, and other capital plant and equipment also depreciates. Our estimates of development expenditure exclude capital investment which does not originate in the monetary sector of the economy : additions to capital resulting from improvements to agricultural land and structures, and additions to housing facilities and the like, arising from the application of labour to local materials and involving little or no monetary expenditures. At a guess, this type of expenditure amounts to perhaps 300—400 million rupees a year.

28. The Plan calls for a development expenditure of the order of Rs. 10,800 million of which Rs. 7,500 million represents investment decisions by Government and Rs. 3,300 million represents investment decisions by private individuals. Development activities of a value of Rs. 10,800 million represent 10 percent of the estimated gross national product during the Plan period.

29. Our own gross internal saving, public and private, during the Plan period might be of the order of 6 to 7 per cent of the expected national income ; we hope that external finances will be available in sufficient amount to provide the remaining resources required for the Plan. This ratio of savings to expected income is low compared with what many economically-developed countries have achieved in the full flush of their development. But it represents a substantial increase over this country's rate of saving hitherto : this discrepancy between current performance and what should be done is one measure of the magnitude of the task before the country. To increase the current rate of savings, it is necessary to devise ways to capture for productive investment a substantial share of the increase in national income resulting from economic development. Allowance has been made for this in deciding the size of the Plan : it means that the increase in levels of consumption in the Plan period will be modest.

30. It is sometimes said that in under-developed countries it is impossible to attain high rates of saving and investment because of the existence of a "vicious circle of poverty". People are poor; therefore their savings are low ; consequently, the rate of investment remains low, and people continue to be poor. In addition to being defeatist, such a view is totally mistaken. All economically developed countries have passed through a stage of poverty. This so-called "vicious circle" can be broken through at many points. Co-operative effort in the villages can create development resources without the reduction of current standards of living ; better agricultural techniques can increase yields without massive injections of capital ; improved tax administration can yield additional funds for development ; improvement and enlargement of banking and insurance facilities can stimulate the flow of savings ; foreign assistance can markedly assist the development process.

31. Increasing the ratio of savings to national income is, however, a slow process : it can be accelerated only if a substantial part of the addition to national income resulting from the better use of existing resources is captured for development. This does not mean little or no improvement in standards of living. But it does mean foregoing now, the full benefits of increased productivity, in the interest of later gains. There is substantial evidence that most countries that have achieved a continuous process of economic growth have passed through a period during which a retarded rise in standards of living was necessary to rapid increases in capital formation.

32. During the period of the Plan then and for some years beyond it is clear that shortage of capital will be one of the factors limiting the rate of economic growth. If this shortage is to be regarded not as a permanent limitation but merely as an obstacle to be overcome, two things are necessary. First, every opportunity must be used to increase the rate of public and private savings ; the measures to accomplish this end judged to be practicable during the Plan period are discussed in Chapters 9 and 10. Second, it is necessary, in view of the current shortage of development resources, to ensure that they are so distributed among various possible uses as to maximise their contribution to the national income. Some of the technical problems involved in assuring this distribution are discussed in the next chapter.

## Shortage of foreign exchange

33. A second shortage, which in certain areas of development, will be even more serious than lack of capital resources generally, is the scarcity of foreign exchange required to pay for imports of equipment and materials necessary for development as well as to support current economic activities. The fact of scarcity has been manifest in strict import limitations, high tariffs, and exchange controls. Even the severe levels of austerity enforced in the import of consumer goods has hitherto barely sufficed to provide the minimum foreign exchange needed for development. Meanwhile, established enterprises have often found it impossible to maintain the scale of their operations because of shortage of materials or spare parts, obtainable only from abroad.

34. The causes of this shortage of foreign exchange are not far to seek. First, unless the nation is willing to continue indefinitely as a low-income, overwhelmingly agrarian economy with its people ill-fed and ill-clothed it must accelerate its economic development and industrialisation. But partition left very few of the facilities required to produce the machines, the plant and the materials required for development and, particularly, for industrialisation. These things must be imported from abroad along with essential consumer goods, fuels and materials necessary to keep existing plant in operation.

35. Second, the export of raw materials to earn foreign currencies, on which so many under-developed countries have relied to finance their development programmes, presents exceptional difficulties in present circumstances. The adverse movements in the terms of trade have been a very important factor in the shortage of foreign exchange. The country at present depends for nearly four-fifths of its foreign exchange earnings on exports of jute and cotton—commodities which face severe competition in world markets from other sources of supply and from substitutes. The earnings from other exports and from services rendered to foreigners are individually small, though the proceeds from certain of these exports may be expected to increase.

36. Third, the flow of foreign private investment, which in the nineteenth century made such a large contribution to the economic development of the United States, Canada and many other countries, has except in exploiting commodities such as petroleum and other internationally traded minerals, greatly diminished. Its place has been taken in part by loans from governments and international institutions and, to a larger extent, in recent years, by grants-in-aid for economic development. A decline of foreign governmental loans for grants in-aid would be unlikely, in present circumstances, to be offset by a renewed flow of private international lending.

37. The emergence of foreign exchange deficits is not an unusual phenomenon for a country engaged on economic development. A country with a static agricultural economy has simple needs for consumer goods, which are easily satisfied from its internal resources. Its needs for the import of capital goods are limited, but begin to rise steeply under the impact of a social and economic policy based on development.

38. This sombre picture is painted not to state a limitation to economic development, but to outline a problem. But it must be emphasised that this is one of the most serious problems facing the country and that every effort must be made to solve it. The principal courses of action that can lead to a solution are obvious, and indeed substantial progress has been made since independence towards a solution. The prices of the principal exports must remain competitive in world markets. The range of export goods and services must be widened, to reduce the present excessive dependence on jute and cotton. Imports must be replaced by domestic production wherever an appreciable economy of foreign exchange could be achieved without involving inordinately high domestic costs. Foreign investors must be encouraged to undertake part of the development programme, releasing the country's supplies of foreign exchange for other uses.

39. It must be recognised, however, that the establishment of a level of foreign earnings sufficient to finance the import requirement of an expanding development programme without severe control of imports for other purposes is a slow process. The scarcity of foreign exchange will certainly last through the period of the Plan and longer, though the improvement will be constant and decisive. During this period the allocation of available supplies of foreign currencies to those uses that will make the largest possible contribution to the national income and its growth is a matter of prime importance. It involves a problem that overlaps with, but is distinguishable from, the problem of allocating domestic financial resources to their most productive uses.

If there were no import restrictions and the rupee were freely convertible into other currencies, the two problems would be identical, and resources would be reasonably distributed among different uses without regard to whether these uses required domestic or foreign goods or services. Since this is not so, an additional element is added to planning calculations, the technical aspects of which are considered in the next Chapter.

### Shortage of technical knowledge

40. Increases in productivity are mainly the result of added amounts of capital and the use of superior techniques. Frequently it is impossible to adopt superior techniques without some investment of new resources. There are, however, many situations in which it is possible greatly to increase output by using improved methods of production that require very little capital investment. The introduction, for example, of a superior type of seed may, over time, double the yield per acre at very small cost.

41. Under-developed countries have at least one great advantage over the economically advanced countries when the latter were at a similar stage of development. There is today a vast store of accumulated technical knowledge in the world on such subjects as : how to grow more and better food per acre ; how to produce better and cheaper clothing, houses, vehicles and a thousand other products ; how to transport things faster and more safely ; how to harness rivers to gain the maximum benefits at the least cost ; how to prevent and cure diseases ; how in countless ways to meet human needs more effectively and at lower cost. This knowledge exists : the methods have been discovered and invented, tried in practice, and applied on a large scale.

42. The existence of a large stock of technical knowledge is not, it is true, an unmitigated advantage. These techniques have for the most part been developed in technically advanced countries where capital is relatively plentiful and labour frequently scarce. There are, moreover, many other differences among countries in qualities and relative quantities of natural resources, and in customs, incentives, and skills, so that techniques applied elsewhere may be completely unsuitable to conditions in this country. Pakistan should borrow ideas when it can, and adapt where it must. At the same time research should be started wherever possible to devise technical methods better adapted to the requirements and conditions of the country.

43. The economic applicability of foreign techniques exhibits a wide range of differences among the various investment areas. In the erection of a paper mill at Chandragona there is no reason why the best process available as judged by available standards abroad should not be introduced in this country. Other methods of making paper, better adapted to a relative scarcity of capital and abundance of unskilled labour, are no doubt conceivable, but to devise them either through innovation or adaptation is apt to be a very slow and costly process. On the other hand, to attempt to apply in Pakistan the same combination of seed, fertiliser, tools and methods of cultivation as have yielded excellent results in producing wheat in Western Canada would obviously be unreasonable. There is something to learn from the experience of Canada, but Canadian methods are unlikely to be applicable in Pakistan conditions without substantial modification. It seems probable that most areas of investment fall somewhere between the example of paper making and the example of raising wheat.

44. Where techniques of the economically-advanced countries can be employed intact in this country, the major limitations on development may be the shortages of capital resources and of foreign exchange. Where it is necessary to adapt what can be learnt from abroad, and to devise techniques suitable for this country, progress will be checked also by the lack of scientists and engineers, of institutions devoted to research and development, and of the trained personnel required to disseminate the knowledge of new techniques to those who could use them.

45. To remedy these deficiencies takes time, money and organisation. An investment in scientific and technical training and in applied research will ultimately yield a very large increase in national income per rupee invested. Applied research is of very great importance in industry, transport, construction, education, health and every other field of development : all of which offer numerous urgent problems awaiting applied research. What are the most efficient and economical uses for Sui gas, and what are the comparative costs and returns of using the gas or domestic coal for various purposes ? How can the production of glass and paper containers



for food stuffs displace the use of imported materials ? What is the most economical way to construct and surface roads in East Pakistan or in the different regions of West Pakistan? What are the best designs, materials and methods for people to use in constructing better housing for themselves in the different parts of the country ? What is the best way to provide and maintain pure water supplies in the villages of East and West Pakistan ? What parts of the country are best suited to the production of sugar-cane ?

46. The list could be extended indefinitely. Clearly a steadily-enlarged national programme of research will be needed for many years to solve problems which can already be identified quite apart from those which will arise in future years. Much of the necessary research will have to be done by specially organised and equipped institutions—agricultural, industrial and educational research institutes, and many others. But research should not be confined to institutions. In the development of other countries, much has been accomplished by the research efforts of private companies, of teachers and graduate students in universities, of government workers, of individual workmen in factories and shops who tinker with methods of producing better goods at lower costs. To encourage and support applied research in all fields must be a major element in any development programme for this country.

47. When the best technical knowledge has been acquired and adapted to the conditions of the country, the hardest step is still to come. That is the task of spreading the knowledge to places where it is needed, of making it available to the millions of people who should use it in their daily lives ; this has always been the most difficult step in every country.

48. The educational system has a very important role to play in this respect. But the schools can meet only part of the problem. In agriculture, the most effective device found in other countries is the extension service—government employees whose duty it is to carry to the farmer the information he needs to improve his methods and his results. This country has had agricultural extension services for some years ; they need very substantial expansion and improvement, however, to enable them to perform their functions effectively. The Village AID Programme in one sense is a specially-designed extension service and the most promising agency yet discovered for the dissemination of technical knowledge in the fields of agriculture, animal husbandry, health and sanitation and others. In industry, the necessary institutional arrangements have not yet been made. In health, housing, transport, and in many other fields this problem needs to be investigated and appropriate institutional solutions need to be devised. The problem is of major significance to the development programme and will require steady, persistent efforts for its solution.

### Management and organisation

49. Increasing productivity is the result not merely of expanding the available supplies of capital resources, foreign exchange, and technically-trained personnel. These and other resources must be brought together into effectively functioning units : this requires organisation and management. The supply of managerial and organising talent available for economic development in Pakistan is very short. At partition, there were very few manufacturing enterprises of any size in the country, and there were very few Muslims in the Civil Services of undivided India. In general, the Muslims had a very small share in administration and industry ; the people of East Bengal, Sind and Baluchistan had practically none. Despite these difficulties, it has proved possible to organise and staff new Central and Provincial Governments, to supply the deficiencies created by the exodus of people with special kinds of business experience, and to create a rapidly growing industry. Men have come from all over India with skill, knowledge and experience and there has been considerable up-grading in the Civil Services, transfer of talent into new lines of activity, and import of technical and managerial personnel from abroad.

50. Nevertheless, as the development programme expands, the country will still face a serious shortage of competent managerial and technical personnel. In many important areas this, rather than a shortage of capital resources or foreign exchange, will limit the rate of development. Taken as a whole, administrative deficiencies, procedures and attitudes will in our opinion offer the most serious obstacles in the way of

accelerated development. Delays in taking decisions, unwillingness to decentralise powers, inability to prepare proposals properly, and lack of sufficient encouragement to promising men are some of the impediments to be faced. Moreover, there are many opportunities for expanding output and providing people with necessary services that do not require large quantities of capital and foreign exchange. What is needed is initiative, organisation and skill in administration. People in the villages, if properly helped and guided, and with a minimum of capital assistance can supply many of their local needs themselves—schools, houses, roads, drainage and sewerage systems, and better water supplies. In urban areas many families will be able to construct their own houses if given some help with sites, materials and direction. Unemployed and under-employed labour can be put to work on irrigation projects, afforestation and other public works, with little drain on scarce capital and foreign exchange resources, if projects are properly organised and administered.

51. Because the direction of more than two-thirds of the development programme during the Plan period will be in the hands of the Government, an especially heavy burden is laid upon the public services. It is a burden that neither the Centre nor the Provincial Governments are at present particularly well equipped to bear. In addition to facing the shortage, inherited from partition, of experienced civil servants, the Government, in promoting economic development throughout the economy, is assuming a series of new tasks lying somewhat outside the traditional role of government in this sub-continent. It is inevitable, therefore, that effective initiation and management of development enterprises will require some reorganisation and strengthening of the administrative services. This problem is discussed in the Chapter on Public Administration.

#### RATE OF DEVELOPMENT

52. With some variation between East and West Pakistan there are plentiful supplies of certain resources—unemployed and under-employed labour, large acreages of potentially productive land, capital facilities not fully utilised, undeveloped marine, forest and mineral resources, and others—which, if effectively put to work could greatly increase the national income and standard of living. East Pakistan is short of land, but can make more productive use of what is available. West Pakistan is short of water, but present supplies can be increased by storage reservoirs and other means. To put these resources effectively to work and to expand the productive equipment as a whole, it is necessary to overcome certain obstacles, in particular the existing shortages of capital resources, foreign exchange, relevant technical knowledge, and management and administrative skills. It must be re-emphasised that these shortages represent problems to be solved, similar to those encountered by other developing countries. They are problems which the economically advanced countries of the world have, for the most part, already solved. Nevertheless, because the solution will take time, existing shortages will limit the rate of growth during the Plan period, and well beyond. How fast, under these circumstances, can the national income be expected to grow?

53. Problems of estimation of this sort are sometimes handled by applying what are known as incremental capital-output ratios, that is, ratios between net new investment and increases in national income. If the incremental capital-output ratio were 3 it would mean that every 3 rupees of investment would yield an increase of one rupee in national income. If the incremental capital-output ratio in Pakistan turned out to be 3 to 1, the net new investment in the development programme we propose might be expected to produce an increase in national income of about 3,000 million rupees by the end of the Plan period. This would represent an addition of about 15 per cent. to the present national income. We do not know what the incremental capital-output ratio in Pakistan is, nor is it useful to attempt to apply ratios calculated from the very different experience of other countries. The ratios, moreover, that have been calculated show a wide range of variation, which is what we should, *a priori*, be led to expect. In recent years several undeveloped countries, including India, appear to have realised a more favourable ratio than 3, but the experience is yet very limited.

54. The application of incremental capital-output ratios to an estimation of the rate of growth of national income is equivalent to assuming that net investment is the principal determinant of national income, in the sense that all other conditions of economic growth adapt themselves in *quasi*-automatic fashion to the rate of capital formation. This is not only far from the truth but carries with it the implication that the only serious

problem to be solved is the shortage of capital. In fact, in certain very important areas of the development programme, lack of capital is not the limiting factor : there is, for instance, the opportunity of greatly increasing the yields on agricultural land without large injections of capital.

55. A direct estimate, sector by sector, of the additions to national income to be expected from the development programme also yields a figure of about 15 per cent. These estimates can, of course, only be approximate. Moreover, the important point is that the growth of the national income can be less or greater than 15 per cent during the Plan period depending on how vigorously and successfully the nation tackles the problems of improving organisation and administration, training the citizens for a more effective role in production, and saving and investing more resources in development, taking the many other actions that will contribute to the process of development.

56. If, in fact the national income is increased by something like 15 per cent during the Plan period, this will represent a very sizeable achievement, give a promise of greater possibilities, and provide a good foundation for the future. It will imply a rate of increase of national income of slightly less than 3 per cent per annum and a rate of increase of *per capita* income of slightly less than 1.4 per cent annually. This compares favourably with rates of increase in countries for which reliable statistics are available over a period long enough to make such calculations useful. The following Table presents rates of growth in total and *per capita* income in four countries for which such information is available for 60 years or more. In only one country, the United States, has the rate of growth per decade averaged more than 30 per cent. and in only one country, Sweden, has the rate of growth in *per capita* income averaged more than 20 per cent.

*Growth of national income and income per head in certain countries*

Country	Initial period	Terminal period	Number of decades	Percentage rate of growth per decade in		
				National income	Population	<i>per capita</i> income
United Kingdom ...	... 1860—69	1920—29	6	20.7	9	10.7
France ...	... 1840—49	1920—38	8.5	14.5	1.7	12.6
Sweden ...	... 1861—80	1921—44	6.1	29.4	6.5	21.6
United States ...	... 1869—88	1929—48	6	37.7	18	16

(Source : Simon Kuznets : " Population, Income and Capital " in *Economic Progress*, Papers and Proceedings of a Round Table Conference held by the International Economic Association, Santa Margherita, Italy, 1953).

57. Other countries, it is true, have shown higher growth rates than those shown in the above Table. But for some the period covered by the statistics is too short to establish a trend ; for some the reliability of the statistics is subject to serious question ; for others the presence of a totalitarian government, capable of dictatorially reducing standards of living, has permitted investment of a much higher percentage of national income than would be possible in a free society. Professor Kuznets, who is a leading authority on national income statistics observes : " Our long records of national income are with some exceptions (Italy, Japan) for countries at the top of the income pyramid. These rates of growth in *per capita* income are found to vary from about 10 per cent to over 20 per cent per decade. These rates are extremely high ; an increase of 10 per cent. per decade means a rise over a century to more than two and one half times the initial value ; an increase of 20 per cent means a rise over a century to more than six times the initial value "

(Simon Kuznets : "Towards a theory of Economic Growth" from *National policy for Economic Welfare at Home and abroad*. Columbia University, Bicentennial series, 1955).

58. Against these considerations it is worth remembering that the planned approach to the problem of development has a relatively short history. It is only in recent years that democratic countries have begun to guide, control and accelerate the growth of their economies under carefully prepared plans. India has achieved an increase of some 18 per cent in her first five-year plan, and is basing the second five-year plan on a 25 per cent increase. We assume that her second Plan targets derive their validity from the experience gained in the first. The experience of some Latin American countries points to an incremental capital out-put ratio of 2 : 1. There is every reason to expect that results in this country will be better than those of countries which under largely uncontrolled atomistic enterprise followed hit-and-miss methods without any conscious national targets in view. Frequently they had to retract in order to overcome the effects of failures, under-production, or over-production in particular sectors. Experience alone will show what rate of growth Pakistan will be able to attain. If in addition to a plan in which targets are clearly specified and the necessary resources foreseen, preparations can also be made for institutions, policies, and incentives capable of ensuring a continuously high rate of capital formation, and for developing organisations and technical and managerial skills capable of putting basic resources to effective use, the rates of economic development can be greatly accelerated.

59. If the national income rises by 15 per cent during the Plan period and continues to rise at that rate thereafter, it will double in about 19 years. On the same assumption, and also assuming the present rate of population growth, the *per capita* income will double in approximately 30 years. If the Plan is applied vigorously with a united will and purpose and measures are taken to create favourable conditions, there are good reasons to expect that the increase in the national income will be greater than the countries with un-planned approach to economic development. What will then happen to *per capita* income depends on the rate of population growth. But the outcome is largely within the country's own control. How fast Pakistan develops hinges on the zeal and intelligence applied in planning and executing the programmes, and the spirit of the people in striving for greater prosperity and welfare.