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Revitalizing the Planning Commission: some recommendations

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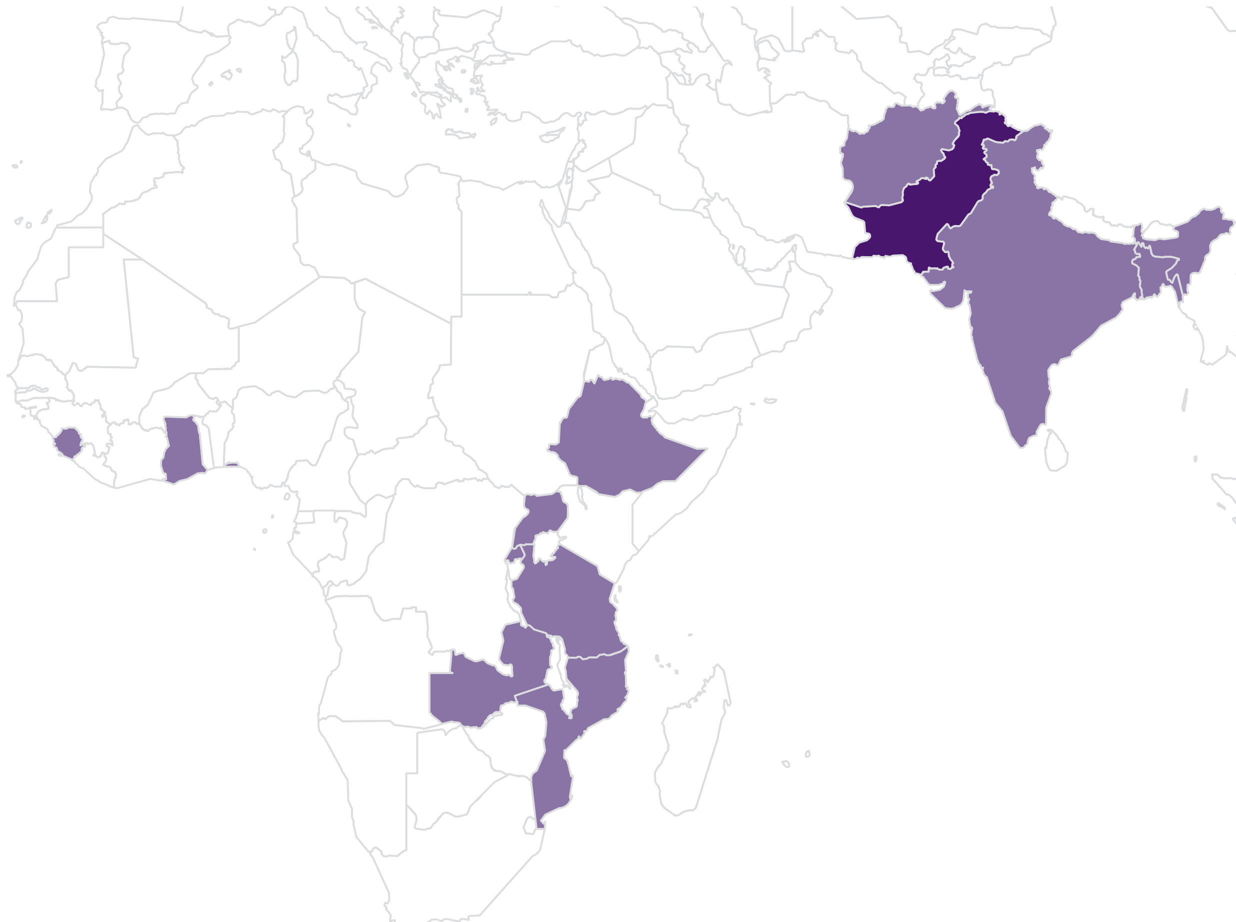

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Table of contents

Page

Executive Summary

This paper considers the key problems confronting the Pakistan Planning Commission; briefly examines the essentials of planning for a mixed economy; draws lessons from the experience of countries, both developed and developing, that have formulated and implemented successful plans; and suggests measures to revitalize the Planning Commission. Some suggestions are put forward for continuous upgrading of the institution's skills in the longer run. The paper also describes ways in which policymakers can learn from their counterparts in successful countries in the neighborhood.

Globalization and privatization, insufficiency of qualified staff, decentralization to the provinces, and an erosion of its remit pose serious challenges to the Planning Commission

Compared with its glory days of the 1960s and early 1970s, the Planning Commission today confronts four major problems:

- The increased globalization and privatization of the Pakistan economy have vastly reduced the space for planning by the former methods, whereby the government set targets and could use licensing and other direct controls to help realize them.
- The Planning Commission does not possess sufficient staff with the qualifications and experience required by the new economic environment.
- The passage of the 18th amendment to the Constitution of Pakistan has delegated responsibility for several important economic sectors to the provinces. This poses special problems of coordination of ends and means between the Center and the provinces, which are made more difficult if the federal and provincial governments are formed by different political parties.
- The Planning Commission has lost substantial parts of its role to other ministries, especially the Ministry of Finance.

If the Planning Commission does not quickly adapt to the new economic environment, rethinking its role and adjusting its focus and methods, its remit will be confined to the public sector development program, whose contribution to the country's development effort is steadily decreasing.

Success in the new economic environment requires the Planning Commission to be selective in its planning aims, focus on strategic thinking and policies, mobilize the potential of other agencies, strengthen its skill base, and facilitate coordination between the public and private sectors

The Planning Commission must develop a program to regain its role as the key strategic thinker for the government and the main repository of its economic expertise. This will require the Planning Commission:

- To be selective in its planning targets—by rigorously prioritizing what goals must be met and which must be provided all necessary resources, and those that are of less importance;
- To substantially develop its capacity to formulate policies—by training and expanding its staff; and harnessing outside resources, such as consultants, think tanks, and universities;
- To work with other institutions (such as the State Bank of Pakistan, the Ministry of Finance, the Federal Bureau of Statistics) to address areas of common concern (such as developing a macroeconomic model and generating a unified set of macroeconomic projections);
- To improve co-operation between the public and private sectors by bringing together important elements of the government and the private sector;
- To substantially increase interaction with the provincial planning departments;
- To learn from the experience of countries that have successfully confronted problems similar to those facing Pakistan;
- To continuously upgrade its stock of skills by reintroducing the system of scholarships for study abroad on the lines of the successful programs of the 1960s and 1970s.

A. Critical issues The Planning Commission faces

Globalization and privatization, decentralization to the provinces, and erosion of staff quality require a refocusing of the Planning Commission's structure and functions

Compared with its glory days of the 1960s and early 1970s, the Planning Commission today confronts four major problems:

- The increased globalization and privatization of the Pakistan economy have vastly reduced the space for planning by the former methods, whereby the government set targets and could use licensing and other direct controls to help realize them. Increasing globalization means that the private sector's view of economic prospects will depend not only the vision of the plan and the impact of its forecasts, but also on factors that are extrinsic to the plan.

  Thus, a credit crisis in the United States, a slowdown in the Japanese economy, a spike in oil prices by OPEC, a decision by China to move aggressively into the manufacture of textiles, or other external events could condition businessmen's investment intentions far more than the picture painted by the government's plan. Privatization raises another set of problems. The government's ability to influence the private sector suffers from a basic asymmetry. The government can stop the private sector from doing something, but it cannot make the private sector do something. Increasing privatization, therefore, means that the government's control over that an ever-enlarging part of the national economy is becoming progressively more diluted;
- The passage of the 18th amendment to the Constitution of Pakistan has delegated responsibility for several important economic sectors to the provinces. This poses special problems of coordination of ends and means between the Center and the provinces, which are made more difficult if the federal and provincial governments are formed by different political parties.

  The Planning Commission does not possess sufficient staff with the qualifications and experience required by the new economic environment. An economy dominated by the private sector and freed from most direct controls can only be guided by the application of carefully crafted policies that offer incentives and apply disincentives. To steer the economy using these tools requires a substantial number of well-trained economists, experienced in policy formulation and aware of 'best practice' in countries that have dealt successfully with the issues confronting Pakistan;
- The Planning Commission has lost substantial parts of its role to other ministries, especially the Ministry of Finance. Even the strategy for poverty reduction, which one would have thought fell unquestioningly within the remit of the Planning Commission—after all, what good are development plans to a poor country if their primary aim is not to reduce poverty?—has been entrusted to the Ministry of Finance.

  Taken together, these developments mean that if the Planning Commission does not quickly adapt itself to the requirements of the new economic environment, it will be relegated to acting merely as custodian of the public sector development program, whose share in national investment is set to decline continuously.

[1] Mahbub ul Haq, 'Planning Machinery in Pakistan.' Paper prepared for a seminar by the OECD, October 1964. See also, Mahbub ul Haq, *The Strategy of Economic Planning: A Case Study of Pakistan,* Karachi: Oxford University Press, 1963, especially pp. 49-55; Planning Commission, *A Brief History of Planning in Pakistan,* Karachi: Government of Pakistan, Department of Films and Publicity, n.d; and Albert Waterston, *Planning in Pakistan,* Baltimore: Johns Hopkins University Press, 1963, Gustav F. Papanek, *Pakistan's Development: Social Goals and Private Incentives,* Cambridge, Mass: Harvard University Press, 1967.

Although the economic environment was changing, the Pakistani authorities did little to refashion the approach to economic management

Compared with the 1960s and 1970s, the Pakistan economy is subject to much fewer government controls. The incidence of licensing, quotas, price-fixing, and subsidies has been considerably reduced. The role of public sector enterprises in the economy has also been abridged. Thus the tools available to the government to direct the economy have substantially changed.

For many years, 'planning' for the private sector involved slapping on a plethora of controls. Many of these worked at cross purposes; the following extract from a paper by one of the leading planners of the time gives a fair idea of the flavor:

In the earlier period, a complex system of direct, administrative controls had been evolved whereby the Government sought to control prices, profits, production, investment, credit and practically all of the decisions in the economic field. These controls multiplied rapidly because of a basic misunderstanding on the part of the Government officials about the role of controls in a planned economy. It was assumed, too readily, that national planning implied a handful of Government officials telling the private sector exactly how to manage its business. There was little appreciation of the fact that strategic planning decisions could as well be enforced through the price system and need not involve direct intervention in the market. Once direct controls were introduced, they bred like mushrooms. In order to control the final price of cotton cloth, the Government started controlling the price of raw cotton, the dealer's margin, the manufacturer's costs, the distributor's profits, and a whole lot of related activities. And as the direct controls started replacing the market, the pyramid kept on building, till the Government officials sitting on top of it did not know any longer what on earth they were controlling.[1]

In another paper, Mahbub ul Haq argued that:
A program of rationalisation of controls in Pakistan must be based on the understanding that, whereas controls are necessary for national planning, the administrative resources of the government are neither sufficient nor well-informed enough to administer controls in all their minute details. The essence of successful controls is to control only certain key decisions of the economy, leaving their detailed and day-to-day working to the market.[2]

Over the years, Pakistan slowly imbibed these lessons; this is documented in several government reports as well as academic analyses[3]. The economy was steadily deregulated, starting in the late 1970s and early 1980s. The deregulation measures may have helped to provide greater incentives to industry and other economic activities, but in many ways they changed the job of the planners and made it more difficult. It is apparent that the Planning Commission did not adjust its tools, methods, and staffing to deal with the new economic environment created by the deregulation measures. The five-year plans said virtually nothing about private sector planning. Thus, the Seventh Five-Year Plan (1988–93) devoted a total of six pages to the private sector; the Eighth Plan (1993–98) covered the private sector's contribution in four. Moreover, neither these nor later plans considered any of the issues relating to private sector planning or how the planners had dealt with these problems. The plans only indicated a notional allocation for private investment without any discussion of how the figure was arrived at, nor did they clarify the measures that the authorities would use to direct this investment into the sectors specified in the plans.

[2] Mahbub ul Haq, 'Rationale of Government Controls and Policies in Pakistan.' Paper presented at the Economic Development Seminar, Center for International Affairs, Harvard University, December 15, 1960.

[3] As an instance of the changing government position, see, for example, *Deregulation: The First Phase—The First Report of the Deregulation Committee,* Ministry of Finance, Islamabad, 1982, and Ministry of Finance, *Deregulation: The Second (Interim) Report of the Deregulation Committee,* Islamabad, 1983. Academic accounts include P. Hasan, *Pakistan's Economy at the Crossroads,* Karachi: Oxford University Press, 1998; I. Husain, *Pakistan: The Economy of an Elitist State,* Karachi: Oxford University Press, 1999; I. Husain, *Economic Management in Pakistan 1999-2002,* Karachi: Oxford University Press, 2003; and S. R. Khan (ed), *50 Years of Pakistan's Economy,* Karachi: Oxford University Press, 1999.

B. The essentials of planning in the new environment

The new economic environment calls for a different approach to planning

Market theorists argue that an economic system based on free markets should be able to find a competitive equilibrium set of prices. These prices not only equilibrate supply and demand for all goods and services in the economy, they also allocate resources in a manner that is technically efficient (i.e., you cannot produce more of any good without producing less of another) and Pareto efficient (i.e., you cannot make any individual better off without making at least one other individual worse off). The planners' main task then is that of computing the equilibrium prices of a competitive solution. In view of the millions and millions of demand and supply functions that make up a general-equilibrium system, these theorists—led by Hayek[4] —consider planning to be impossible.

However, Lange showed that it was possible for a planned economy to mimic the operation of a market system if the state-owned enterprises behave in a profit-maximizing manner in response to prices announced by the state[5]. It was therefore not necessary for planners to engage in the millions and millions of calculations that Hayek and his followers envisaged.

These theoretical arguments can be disposed of as background. Writing today, surrounded by the detritus of the international financial system occasioned in very large measure by the unregulated working of the free market, one wryly recalls Keynes's comment on Hayek: 'It is an extraordinary example of how, starting with a mistake, a remorseless logician can end in Bedlam.'[6]

The new economic environment calls for indicative, not controlling, planning

The practical problem confronting Pakistan is the type of planning that would be appropriate to a mixed economy and the ability of the planners to undertake it effectively. Many non-Communist countries have confronted this problem since the Second World War, starting with France which instituted its first plan in 1947. The response has been to develop a form of planning that is not 'controlling,' but is 'indicative.'

As described by Arthur Lewis, a 'controlling' plan is of the type that used to be prepared by communist countries and was a document of authorization; it instructed economic units on what they had to produce, how much to invest, how much labor they could hire, and so on[7]. On the other hand, an 'indicative' plan for the private sector does not attempt to define binding commitments, but only reflects expectations and intentions. An indicative plan can lay out targets, but there is no way of making them compulsory for the private sector.

The basic theory behind indicative planning has been articulated by Meade, Estrin and Holmes, Crémer and Crémer, and others, but perhaps most succinctly by Brada and Estrin[8]. The latter argue that since forward markets do not exist for many commodities and services, economic agents are forced to make decisions based on incomplete or incorrect information. This lack of coordination is likely to produce a suboptimal allocation of resources, which will impact adversely on saving, investment, and future growth. On the other hand, if credible forecasts of future production, exports, imports, labor market trends, and so on were available, they would

4 F. Hayek (ed), *Collective Economic Planning,* London: Routledge & Kegan Paul, 1935. See also a clear review of the theoretical discussion in M. Cave and P. Hare, *Alternative Approaches to Economic Planning,* London: Macmillan, 1981, pp. 1–6.
5 O. Lange, 'On the Economic Theory of Socialism,' in B. Lippincott (ed), *The Economic Theory of Socialism,* Minneapolis, Minnesota: University of Minnesota Press, 1938.
6 Quoted in R. Skidelsky, *John Maynard Keyne*, Volume Two: *The Economist as Saviour,* 1920–1937, London: Macmillan, 1992, p.457.

provide much the same information as would prices generated by a complete system of forward markets. The provision of missing information about the future by means of indicative plans would enable economic actors to share a coherent view of the future. This should lead to more efficient decisions and a more optimal allocation of resources. The government would reinforce the informational and exhortative effects by measures such as taxes, subsidies, and interest rates, to push private decisions in directions that were judged to be socially optimal.

While dyed-in-the-wool planners might feel uncomfortable with the degree of looseness and uncertainty implicit in such an approach to planning, there is no way around it. Making plans for an economy with a large and growing private sector is intrinsically more precarious and less definite than doing it for a command economy. As the Pakistan economy becomes more complex and privatized, the Planning Commission will increasingly have to develop the tools and hire staff with the appropriate background or train some of its existing officials for indicative planning.

Privatization and globalization require coordination with the private sector

With the private sector acting as the principal engine of growth for the Pakistan economy and with a marked reduction in the number of direct government controls over the economy, it is clear that the role of the Planning Commission must change. In the future, planning will have to rely more on policies that provide an appropriate mix of incentives and disincentives to move private sector activities in the desired direction than on controls imposed or fiats issued by the government.

This is especially important because in dealing with the private sector the government faces an important asymmetry—it can stop the private sector from doing something (for example, by passing a law or by denying it access to a key input), but it cannot make the private sector do something. In the latter case, the government can only provide incentives, which the private sector might or might not consider sufficient.

The incentives on offer, while seemingly high, might be considered insufficient because they outweigh incentives to move in some other direction. In Pakistan's economic history, for example, businessmen have generally favored producing for the domestic rather than the international market because the structure of trade protection assured a high level of profitability on safe terms in the domestic market. Or even genuinely high financial incentives might be trumped by other considerations. Thus in the socialistic period of Pakistan's economic development (roughly speaking, the 1970s), private businessmen were reluctant to invest at all because of fears that their assets would be nationalized. I suspect that today the reason that private investment is not higher is due to the security situation; there is little point in creating productive assets (no matter what the financial incentive) when your life and limb are at risk.

In such an environment, the Planning Commission will have to listen closely to what the private sector views as the main impediments to increasing its investment. It is likely that many of the things that the private sector would like reformed do not relate at all to financial incentives; it is quite likely that they center on questions of governance. The economic reports on the four provinces of Pakistan prepared by the World Bank, the Asian Development Bank, and DFID show that while in all the provinces there was an overarching theme of security—governance 'in the large,' so to speak—many of the most important impediments (and those that distinguished the interests of the different regions) concerned what one might call 'governance in the small.'

7 W. Arthur Lewis, *Development Planning—The Essentials of Economic Policy,* London: Allen & Unwin, 1966, pp. 19-20.
8 J. Meade, *The Theory of Indicative Planning,* Manchester: Manchester University Press, 1970; S. Estrin and P. Holmes, *French Planning in Theory and Practice,* London: Allen & Unwin, 1983; H. Crémer and J. Crémer, 'L'apport des théories économiques récentes a la plannification indicative,' *Revue Économique* 44 (Numéro hors serie, 1994): 57-73; J. Brada and S. Estrin, 'Advances in the theory and practice of indicative planning,' *Journal of Comparative Economics* 14 (December 1990):523-30.

Thus, for example, one learned from the response to a questionnaire circulated to stakeholders in Sindh that the security situation was not perceived as the main impediment to increased private investment in Karachi; it was the cost of acquiring land. In rural Sindh the security situation dominated investors' concerns; the price of land as an impediment to investment was regarded as even less important than inadequacies in the infrastructure. In the Punjab, a very important disincentive was the frequent and arbitrarily-timed government inspections of enterprises—under labor laws, safety regulations, taxation queries; even the Boiler Act of 1923 gave the authorities excuse for frequent and intrusive inspections in a wide range of areas. Businessmen complained that these frequent and uncoordinated inspections unsettled the working of their enterprises and also, perhaps a little cynically, thought that the disruptions were deliberate and that the inspections would stop or become much less if a bribe were paid. Inadequacies in the registration of property figured as disincentives in virtually all the provinces. Another common theme was the lack of confidence in the continuity of economic policies.

The point is that with the private sector providing the main impetus to growth, the Planning Commission must have an institutionalized mechanism for regularly finding out what the sector sees as its main problems and what its plans are for the next few years. Once such machinery has been created, it can also be used for the flow of information in the other direction—the government can use the same channel to explain its policies to the major players in the private sector and perhaps also indicate why some of them may have to be changed.

C. How planning institutions in other countries have dealt with the shrinking ability to use direct methods of influence

The pressures generated by increasing privatization and globalization are not unique to the Pakistan Planning Commission; similar, and even additional, factors impact on planning in other market economies. It has been argued, for example, that French planning—the originator of 'indicative' planning—is challenged not only by the forces of globalization and privatization, but also by rapidly expanding expenditures on welfare and education that grow more or less automatically, which limit the government's ability to invest directly in infrastructure and erode its capacity to intervene with subsidies, tax concessions, credit allocations, or other incentives to encourage capital investments by private industry[9]. In the second half of the 1980s and early 1990s, these constraints were considered sufficiently troubling to arouse discussion of a 'decline' or 'waning' of planning, and of national plans being called to account to justify their continued utility.

Successful planning in mixed economies has depended on reducing the number of independent decision-makers and focusing on key sectors of the economy

Planning for the private sector has proved to be a difficult challenge for all mixed economies. A fundamental (but not the only) rationale for planning is to reduce the degree of uncertainty in the economy[10]. This uncertainty results largely from decision-makers having different views of future prices and other economic variables, therefore perceiving incentives differently and thus making different decisions regarding investment, acquisition of new technology, hiring of labor, and so on. The key difficulty in any type of planning, therefore, is that of getting a large number of independent decision-makers to collectively make the sort of decisions that society—as intermediated by the government of the day—would want them to make. The Soviets tried to solve this problem essentially by having only one decision-maker—the government itself. This solution obviously is not possible in a democratic market economy.

Most successful examples of mixed economy planning show the benefits of limiting the number of independent decision-makers. Among industrialized countries, perhaps the biggest success of planning in the post-World War II era is provided by the Netherlands and France; industrial policy in Japan offers another case. Among developing countries, Korea presents perhaps the most successful example. It is worth taking a quick look at each of these cases.

The success of planning in the Netherlands owed a great deal to the domination of the economy by a few enterprises and organizations. If the government was able to affect the plans of Unilever, Royal Dutch Shell, the railways, KLM (the national airline), the trade unions, and a few other institutions, it could exert major influence over the course of the economy. The chief method used was price control; enterprises that wanted to raise prices had first to discuss these with the government. The authorities were more 'understanding' about price increases by enterprises that went along with the investment, employment, and export targets of the Annual Plan, and later the Five-Year Plan.

France is a much larger country with a more diversified economy, and therefore had to follow a more complex route. The implementation of France's plans relied heavily on three principal instruments, two of which benefited from a reduced number of decision-makers.

The first tool was the government's direct control over public enterprises, which formed major elements in key sectors of the economy. In the 1950s and 1960s, up to 50 percent of investment each year was made by the nationalized industries and in infrastructure. This provided the authorities with considerable leverage over the rest of industry. 'Since the government had a substantial part of the nation's economic activity under its direct control and exerted and indirect, though powerful, influence on a great deal more, it was not too difficult to convince private business that its decisions would be more intelligently made, over a wide range of industry, if they were made in unison with the public authorities.'[11]

The second was fiscal and other direct financial inducements offered to individual private enterprises in order to obtain their cooperation to move in the direction required by the plan.[12] Schonfield comments that some of these inducements amounted to virtual contractual arrangements with the tax authorities under which a specific advantage was accorded to an enterprise as a counterpart of a program of investment that was judged to be of national interest.

The third was a pressure to combine enterprises together so as to reduce the number of firms in an industry; 'the planners make no secret of their belief in the iron law of oligarchy.'[13] The planners appeared to believe in the '80–20 ratio.' In their view, in the ideal planning situation, something like 80 percent of production ought to come from about 20 percent of the firms. A significant dilution of this ratio would make planning difficult; the planners apparently considered even a 60–40 ratio to be unmanageable in the long run.

The example of Japan, especially in the area of industrial policy, is important. The prewar industrial structure of Japan was dominated by the zaibatsu—conglomerations of industries (of which the largest and best-known were Mitsubishi, Mitsui, Sumitomo, and Yasuda). After the war, General MacArthur dissolved the holding companies that held these conglomerates together. However, most of the constituent companies in the conglomerate have come together again informally, centered around a bank; their CEOs lunch together monthly and coordinate the policies of the group.[14] It is not difficult for the powerful Ministry of International Trade and Industry (MITI) to offer appropriate incentives to this relatively small group of business leaders to coordinate their policies and to move in the direction that the nation deems important.

9 P. Bauchet, 'L'avenir des plans nationaux,' *Revue D'Économie Politique* 2 , 1987, 135-55.

10 Other important reasons that have often been cited in the literature are (a) to take full advantage of external economies; (b) to ensure the existence of an appropriate infrastructure for industrial and agricultural growth; and (c) to bring about an industrial structure—especially as concerns the balance between industries producing capital goods and those producing consumer goods—that would support a sustained and rapid growth of the economy. See, for example, Maurice Dobb, *An Essay on Economic Growth and Planning,* London: Routledge and Kegan Paul, 1960.

11 Andrew Schonfield, Modern Capitalism, London: Oxford University Press for the Royal Institute of International Affairs, 1965, pp. 128-9.

12 For details see Schonfield, op. cit; and J. and A-M Hackett, Economic Planning in France, London: Allen and Unwin, 1963.

13 Schonfield, op. cit., p. 138.

Moreover, as in Korea, France, and other countries, MITI encouraged and promoted mergers, in order to develop stronger enterprises that could benefit from economies of scale, as well as to limit the number of significant independent decision makers. Johnson provides a number of telling examples, such as the reamalgamation of three companies that had come into existence after the Supreme Commander for the Allied Powers (SCAP) had broken up the former Mitsubishi Heavy Industries, and the merger of Prince and Nissan automobile companies in 1966 (a part of the inducement to merge involved the provision to Nissan of a large subsidized loan).[15]

Among developing countries, perhaps the most successful example of planning is provided by Korea. The Korean industrial structure is dominated by the chaebols (Hyundai, Daewoo, Samsung, Lucky Goldstar, Hanjin, Kia, SK [formerly Sunkyong], Ssangyong, etc). These are the Korean equivalent of the zaibatsu; the model is not surprising, after all, Korea was heavily influenced by Japan and indeed ruled by it from 1910 to 1945. It was not difficult for the planners (especially in the early military governments) to influence—through a combination of incentives and threats (including that of imprisonment)—the small group of businesses that controlled the commanding heights of the economy and to make them follow what the government considered to be the supreme national interest.[16]

However, the Koreans were flexible and adjusted to the changing structure of the economy and its needs. The potentially coercive tools were gradually pushed into the background (but never totally abandoned[17]) and the government relied increasingly on providing financial incentives and technical and other information to businesses in order to move them along the desired path. After reviewing the experience of six Five-Year plans from 1962 through 1991, Paul Kuznets concluded that: 'The Korean experience suggests that planning has increased and improved the information needed to make private economic decisions and has coordinated government economic policies. It has also spurred the development of new industries and has raised exports and export competitiveness, mainly by providing incentives to private entrepreneurs to implement planned goals.'[18] He went on to say that the relative roles of indicative, coordinative, and prescriptive functions in Korean planning changed and were likely to continue changing as the economy became increasingly complex and the country more democratic.

Planning in India also has had its ups and downs. It would be fair to say that its role in Indian economic management today is considerably more diluted than in the 1960s and 1970s. In the earlier period, the goals of development planning to set out to be the creation of an economy that was capable of self-sustaining growth, and a transformation of society that would ensure the end of poverty. Recent studies of Indian planning suggest that commitment to these goals continues to attract ritual references from the planners, but little in the plans' policy or program content bears on these objectives.[19]

It appears that Indian planners have scaled back their expectations of what planning is capable of doing, and are focusing increasingly on a more limited number of objectives. They are increasingly concentrating on narrower goals, such as the modernization of the industrial base and acceleration of the rate of growth of the GDP. A third element that occupies an important part of the Indian Planning Commission's attention is determining the distribution of surpluses of the central government to the states for their public investment programs. In short, therefore, the Indian Planning Commission has become more selective in its objectives, a selectivity that will become even more pronounced as the country's rapid economic growth is driven by an ever-growing private sector which the government apparatus exercises less and less control.

[14] Some of these groupings represent a regathering of the former clans; for example, around the Mitsubishi Bank are connected Mitsubishi Motors, Mitsubishi Heavy Industries, Mitsubishi Shipbuilding, Mitsubishi Food, and so forth. However, seemingly disparate enterprises can also get together to form such a group. Thus, around the Mitsui Bank one finds Mitsui Shipbuilding, Toshiba (electronics), Toyota (automobiles), All Nippon Airways (airlines), etc.

[15] Chalmers Johnson, *MITI and the Japanese Miracle,* Stanford: Stanford University Press, 1982, pp. 266-8

[16] The story has been told often. See, for example, Edward S. Mason, Mahn Je Kim, Dwight H. Perkins, Kwang Suk Kim, and David C. Cole, *The Economic and Social Modernization of the Republic of Korea*, Cambridge, Mass, and London: Harvard University Press, 1980; Alice H. Amsden, *Asia's Next Giant,* New York: Oxford University Press, 1989; Lee-Jay Cho and Yoon Hyung Kim, *Economic Development in the Republic of Korea: A Policy Perspective*, Honolulu: University of Hawaii Press, 1991.

D. Lessons from experience of indicative planning

Successful planning in mixed economies requires five broad conditions

A review of the experience of successful planning in mixed economies yields five broad conclusions.[20]

First, there must be a social consensus upon an overall set of goals—reconstruction in post-war France, rapid growth in Japan, accelerated exports in Korea, and so on. This appears to give planners the moral, and even administrative, authority to use more or less coercive actions. The literature on French and Korean planning is rife with examples of such actions; let me quote one from the Japanese experience.

A city bank executive called on the Ministry of Finance to protest that his bank could not absorb the full quota of government bonds assigned to it by administrative guidance. A Banking Bureau official replied, 'So you think your bank can survive even after Japan collapses? Go back and tell your president exactly what I said.'[21]

Second, it depends upon minimizing the number of independent decision-makers; in a mixed economy it means identifying the key sectors and the key players within these sectors who must be influenced. As was pointed out earlier, governments have sought to do this through different means. In the market economies, this generally has taken the form of a pragmatic attitude of the government intervening in areas where it perceives private markets to fail. For example:

'Although South Korea is thought of and, in the main, in fact is, a private-enterprise economy, government enterprise has played a remarkably large flow, a role as large, in fact, as is common in developing countries following a 'socialist pattern.' obviously this is not the product of ideology but of an essentially pragmatic policy that supports public enterprise where private-market failures or the inability of private enterprise to do the job are thought to exist. Over the last decade [i.e., the 1970s] some 30 percent of total industrial investment has been directed to publicly owned enterprises, though these enterprises account for only 10 to 15 percent of total industrial employment.'[22]

Third, the authorities must be clear about their priorities; all economic activities are not equally important. The French planners distinguished between key industries, the fulfillment of whose targets was essential to the success of the national economic effort, and others that could be allowed to fall behind. The literature on French planning points to a distinction between 'objectifs' (targets in the fulfillment of which the public authorities disposed of effective instruments) and 'prévisions,' to the attainment of which the state was not prepared to fully commit its resources; the latter were offered more as forecasts consistent with the plan. Korean policymakers also had a similar attitude—the meeting of export targets was absolutely crucial and firms could be severely penalized for failing to do so; many of the import-substituting activities were judged to be of only secondary importance.

[18] Paul Kuznets, 'Indicative Planning in Korea,' *Journal of Comparative Economics* 14 (December 1990): 657–690.

[19] A. Mozoomdar, 'The Rise and Decline of Development Planning in India,' in T. J. Byres (ed), *The State and Development Planning in India,* Delhi: Oxford University Press, 1994, pp. 73–108; W. A. Byrd, 'Planning in India: Lessons from Four Decades of Development Experience,' *Journal of Comparative Economics* 14 (December 1990): 713–735.

[20] Apart from the country studies cited earlier, see Albert Waterston, *Development Planning¬—Lessons of Experience,* Baltimore: Johns Hopkins University Press, 1965; W. Arthur Lewis, *Development Planning—The Essentials of Economic Policy,* London: George Allen and Unwin, 1966; and Keith B. Griffin and John L. Enos, *Development Planning,* London: Addison-Wesley, 1970.

[21] Johnson, *op. cit.* p. 266-7.

[22] E. S. Mason, "Preface," L. Jones and Il SaKong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case,* Cambridge, Mass, and London: Harvard University Press, 1980.

Fourth, the private sector must be convinced of the seriousness of the government's efforts. Schonfield puts it succinctly:

'The first and indispensable condition for successful economic planning in the context of modern capitalism is confidence on the part of the business community in the seriousness of the Government's intentions, as stated in the Plan. Once it is thought that the public authorities may, after all, not be in earnest, that their production targets are little more than maximized hopes, which will be readily forgone as soon as circumstances demonstrate that there is going to be some difficulty in achieving them, businessmen will hold back. They will refuse to risk their own capital on Plan projects, which they will come to regard more and more as unhedged bets. Scepticism is corrosive to the whole exercise.'[23]

A Korean study provides an interesting quantification of the effect of a government's seriousness on businessman's perceptions. President Chung Hee Park, who was responsible for the acceleration in Korea's development, laid great emphasis on carrying out announced policies. Policies were implemented through a rigorous structure of rewards and punishments, including compulsion and administrative discretion. The result was a sharp increase in the public's perception that the government meant what it said. According to a major study of businessmen's perceptions of the government's resolve, only 3.2 percent of the respondents indicated that under President Syngman Rhee (President Park's predecessor) decisions were 'always implemented' and 17.2 percent believed that they were 'almost always implemented.' In the Park period, 78.2 percent of the businessmen responded that decisions were 'always implemented and that it was impossible to avoid complying,' and 16.6 percent said that they were 'almost always implemented.'[24] This shift in perception—that a business could not thwart the government's will—made it easier for the government to implement its policies without actually having to resort to extreme measures. The confidence placed by the private sector in the will of the government to adhere to the plan is crucial to the success of an indicative plan.

Fifth, much depends upon what authority the planners are given, whether they are backed by the most influential levels of government, and can attract the highest quality of talent. The French Commissariat du Plan was regarded as an élite institution that attracted some of the ablest minds in the bureaucracy; indeed, several commentators have ascribed much of the success of French planning to the intellectual leadership provided by the Commissariat. In Japan, MITI is similarly regarded as a policy powerhouse, and has acted as the path to the prime ministership for some of its ministers. A former Deputy Chairman of the Planning Commission, Manmohan Singh, is the current Prime Minister of India.

The Korean structure of planning and economic policy-making goes even further. The Blue House (the executive mansion) contained a small and extremely powerful economic secretariat with the First Economic Secretary generally holding the rank of a minister or a vice minister. Moreover, when I was responsible for the World Bank's program for Korea (1985-95), the Cabinet comprised 23 ministries, 12 of which came under the Deputy Prime Minister for economic affairs, who was also the Minister of Planning. The Prime Minister nominally was responsible for only 11 ministries; 'nominally,' because in practice the President oversaw the Ministries of Defense, Foreign Affairs, and the Interior. The group of economic ministers met twice a week (with additional informal meetings also taking place); interministerial conflicts were resolved during these meetings and the decisions sent to the main Cabinet which, in these matters, was described as 'largely a rubber stamp' by some commentators.[25]

For particular aspects of economic policy, the support went even higher. President Park personally chaired monthly meetings of the major exporters. At these meetings, export targets were set, difficulties confronting exporters discussed, and reasons for shortfalls from targets had to be explained. Enterprises that met their targets received a variety of financial preferences (in

[23] Schonfield, op. cit., p. 134.
[24] Leroy Jones and Il SaKong, *Government, Business, and Entrepreneurship in Economic Development: The Korean Case,* Cambridge, Mass and London: Harvard University Press, 1980, pp. 136-7 and Table 22.

particular, access to heavily subsidized credit) while those persistently failing to meet their export targets were penalized: by being denied access to credit at favorable terms, by the withdrawal of tax concessions, or in extreme cases, even by the forced sale of parts of the enterprise to a successful exporter. [26]

Other developing countries have also recognized the importance of providing backing to the planning agency from the highest levels of the political hierarchy. The Economic Planning Unit in the Malaysian government is part of the Prime Minister's secretariat. The Planning Commission in India derived its importance from the fact that Prime Minister Nehru was the Chairman; this is why the Minister is termed the Deputy Chairman of the Planning Commission. The Pakistan Planning Commission was also at its most effective during the period it formed part of the President's secretariat and President Ayub Khan acted as its Chairman.

The reason for locating or associating the planning agency with the highest levels of government is simple. In terms of protocol, all Cabinet ministers are supposed to be equal; thus, the minister in charge of planning (no matter whether he is called the Deputy Chairman or by some other title) has the same rank in the Cabinet as, say, the Minister of Culture or of Youth and Sports. If the planning person is to be able to coordinate the actions of a number of his equals, he must speak with the authority of someone of higher rank than the other ministers. The Koreans resolved this by making the Minister of Planning the Deputy Prime Minister in charge of economic matters; he was explicitly given a higher rank in the Cabinet than the other ministers. Other countries, such as India and Malaysia, in effect let the planning body speak with the authority of the Prime Minister, because the planning agency is formally headed by the latter. Because President Ayub Khan was the Chairman of the Pakistan Planning Commission and took an active interest in economic matters, the planning body prospered during his regime.

The effect of the absence of some kind of hierarchy is also instructive. Egypt has not had a Deputy Prime Minister in charge of economic affairs since the second half of the 1990s. In 2002 I was told by the Prime Minister, Dr Atef Ebeid, that he had asked Youssef Boutros-Ghali, the Minister of Economy, to act informally as 'convener' of the economic group of ministers. When I asked Dr Boutros-Ghali how this arrangement was working, he replied emphatically that it was not. The reason he gave was that since he did not have formal authority over the other ministers, they were wont to demonstrate their equality with him and their independence from him by not turning up for meetings. He described the situation as a 'bad joke,' and said that he had asked to be relieved of his duties as convener.

E. A strategy to make the planning commission the linchpin of the government's economic team

In light of the foregoing discussion, what should the Planning Commission do in order to revitalize itself? I am taking it for granted that the Commission will continue to be responsible for the public sector development program and will devote all the resources that are necessary to discharge this responsibility in the most effective manner. I will not, therefore, deal with that aspect of the Commission's remit.

The following measures should form key elements in a strategy for making the Planning Commission the fulcrum of the government's economic team.

[25] Jones and SaKong, *op. cit.*, p. 59.
[26] Such action *pour encourager les autres* evidently had a salutary effect—Kyung-Hoon Lee, then President of Daewoo Heavy Industries, told me that once an example had been made of some companies for failing to meet their export targets, "We were ready to export our grandmothers."
[27] In 1996, Dr Kemal El-Ganzoury, the Deputy Prime Minister, was made Prime Minister and he did not appoint a successor to his former office.

1. The Planning Commission must recapture its reputation for economic expertise

The Planning Commission will have to regain the reputation that it has lost as the principal body for strategic thinking in economic matters, and as a key contributor to the Cabinet dialogue on economic policy. As an important part of this process, it must adopt an aggressively proactive approach to policy proposals.

(a) A section should be created with the remit to provide the Deputy Chairman three or four points of intervention on any economic matter that is brought before the Cabinet at its weekly meetings by some other ministry. This section would be given notice as far in advance as possible of economic subjects that have been tabled for Cabinet meetings, together with the relevant Cabinet summaries and other papers. At present, it appears that Cabinet summaries are sent to the existing economic sections to comment on. The indications are that this has not been very productive. The sections are already overburdened with their normal work, and are unable to take time off to examine proposals from other ministries in any depth. Experience from other planning organizations suggests that a small, but well-qualified group assigned to preparing the Minister's comments on economic policies works more effectively.

(b) The economic divisions in the Planning Commission should be told to prepare a major initiative that the Deputy Chairman could bring to the Cabinet every six months or so. These major initiatives could include matters such as policies to control food-price inflation, new proposals for poverty alleviation, the development of inflation targeting (in cooperation with the State Bank of Pakistan), measures to increase domestic savings, regular reports on private sector investment (both in total and by major sector) and on what the private sector regards as the main impediments to increasing its investment, regular estimates of the cost of doing business in the different provinces, and so on.

As a result of being vigorously proactive on the entire gamut of economic issues, the standing of the Planning Commission in matters of economic policy should be considerably enhanced. The Planning Commission has the advantage that it is the only body that mirrors virtually the rest of the government—there is a Ministry of Health, there is a health section in the Planning Commission; there is a Ministry of Education, there is an education section in the Planning Commission; WAPDA has its counterpart in the water and power section; and so on. The Planning Commission is well positioned, therefore, to comment on proposals brought to Cabinet or any other interministerial committee.

Moreover, the heads of some governments—for example, of Korea and Malaysia—have taken advantage of this aspect of their planning agencies to indirectly monitor the performance of the separate ministries. In effect, the planning agency in these countries has acted as a key member of the head of government's secretariat. It would be very useful if a revitalized Planning Commission were to position itself to play the same role in Pakistan.

The foregoing steps referred to changes in the structure of the Planning Commission. However, the issue of the quality of the incumbent staff must also be addressed. A long-term approach to improving and sustaining staff quality is put forward later in this paper, but some steps must also be taken in the short run.

For the immediate future, the Planning Commission might consider concentrating its best talent in three or four key sections. In my time, on the economic side there were sections for perspective planning, economic research, plan coordination (short-term planning), international economics, fiscal and monetary, and one or two others. It was implicitly accepted that some of the sections, for example economic research, were not of much use—the organization simply did not have researchers of the requisite quality. It was therefore considered more sensible to use the research capacity of other organizations, such as the Pakistan Institute of Development Economics, and let the economic research section deal largely with procedural and administrative matters relating to the research program and to liaise with the Central Statistical Office (the present Federal Bureau of Statistics) on the subject of national income accounting. It did not do any economic research; thus there was no point wasting economic talent in that section, and it was therefore staffed mainly with administrative types.

Again, after a short experience, it was recognized that the plan coordination section was best left as a semi-administrative section whose job would be to bring together elements of the Annual Plan that had been developed by other sections, such as those dealing with international economics and fiscal and monetary issues. Most of the economists were therefore taken out of the plan coordination section and dispersed to the sections that were doing the real work.

I doubt very much that the Planning Commission contains a surfeit of economic talent. In fact, a cursory look suggests that it may be quite short of properly trained staff compared to its resources in the past, and even more so compared with that required to deal with the new economic landscape.

The Planning Commission in the 1960s and early 1970s not only had a significant number of staff with MA's and Ph.D.'s from major universities abroad, it also had about 10-12 advisers from the Harvard Advisory Group stationed with it for periods of 3–5 years each, with additional experts making regular visits from American, British, and European universities and institutions (including planning institutions) for shorter periods (3–6 months) for specialized assignments. The Harvard Group had also positioned 4-6 advisers each in Lahore and Dacca (plus short-term visitors), which were the respective capitals of West Pakistan (the present-day four provinces of Pakistan had been merged into a single unit) and East Pakistan. These advisers played a dual role. They supplied knowledge of best practice in other countries, and they provided extra pairs of hands for the technical work. In the construction of the first input-output tables and their use (especially for planning import requirements) for Pakistan in the 1960s, for example, members of the Harvard Advisory Group not only clarified the theoretical points of the exercise, but also participated in the calculations for several of the sectors.

Given the present staff situation, it might make the most sense if the Planning Commission took a hard look at what sections it really needs to discharge its core duties. It should then concentrate its best talent in these sections, and frankly recognize that some work will just have to slip, or be performed by consultants or outsourced to other institutions (of course, under the Commission's own overall supervision) until the Commission is able to build up the requisite cadres.

2. The Planning Commission should organize and lead a group on macroeconomic issues and projections

There is one clear area of crucial importance that is not being studied as thoroughly as it should, and it is one in which the Planning Commission, working with the Ministry of Finance, the State Bank of Pakistan and the Pakistan Institute of Development Economics, could take the lead. This is the area of macroeconomic analysis and projections.

No agency in the government has developed a credible and useful macroeconomic model for the economy. The absence of such a model damages the government's policy functions in three ways: (a) it makes it difficult to create reliable and consistent economy-wide forecasts; (b) it becomes virtually impossible to assess the impact of a particular policy on the economy at large; and (c) it puts the government at a disadvantage when discussing policies and conditionalities with international financial institutions which, of course, use their own macroeconomic models to chart their view of the likely future path of the economy.

The Planning Commission could begin by acquiring the model used by the World Bank or the International Monetary Fund. These models, of course, have been developed for the particular purposes of these organizations—for example, the RMSM model of the World Bank is primarily a consistency and not a behavioral model—and may not be the best for Pakistan. However, employing them represents a useful starting point and the ability to quickly make several different consistent projections would be a considerable improvement over the present situation. The Planning Commission could set up a committee incorporating representatives from the Ministry of Finance, the State Bank of Pakistan, the Federal Bureau of Statistics, and perhaps the Pakistan

Revitalizing the Planning Commission: some recommendations
IGC International Growth Centre

Institute of Development Economics that could work to either develop a new model or modify one of those obtained from the international financial institutions or elsewhere to make it better fit the Pakistan reality.

Projecting macroeconomic variables in a more rigorous manner will also aid the Planning Commission to do a better job of discharging another of its key responsibilities, namely, forecasting the gap on the balance of payments and thus estimating the requirements for external assistance.

In this connection, the Planning Commission must also work with the Federal Bureau of Statistics to develop a reliable set of quarterly national accounts that should be available with the shortest possible time-lag. In the beginning, the model might make do with proxies—for example, changes in electricity consumption in the industrial sector might serve as a proxy for movements in industrial production—but the aim should be to strengthen institutional capacity to make reasonably accurate quarterly estimates of value-added in the major sectors as soon as possible.

3. Planning for a mixed economy requires coordination with the private sector

The Planning Commission must recognize that if it is to be relevant in Pakistan's present and future economic environment, it must work more closely with the main actors in the private sector than it has done in the past.

A wide spectrum of possibilities exists for effecting this coordination. Perhaps the most detailed example is provided by the French Commissariat du Plan, which had separate sections virtually for each major industry and made bureaucrats responsible for monitoring the progress and problems of groups of particular enterprises. At the other end lie the very occasional and informal meetings that some planning agencies have with institutions, such as chambers of commerce, representing elements of the private sector.

Somewhere in between is the sort of structure that was set up in the Egyptian Ministry of Planning. This involved an overarching committee comprising prominent representatives of the private sector and officials from the Ministry. Under this committee were, if I recall correctly, 12 subcommittees dealing with subjects such as agriculture, industry, tourism, education, health, and so on. Some of these subcommittees spun off sub-subcommittees; for example, the industry subcommittee created subunits for some of the major industries, while that for education spawned units for primary, secondary, tertiary, and technical education.

The Korean experience provides an interesting example of coordination in planning for the private sector. Korean plans were prepared by a number of committees under the aegis of the Ministry of Planning. These committees were rigorously controlled by the government. At the time of preparation of the Sixth Five-Year Plan (1987-91), it became clear that the economy had become much too complex and much too dominated by the private sector to be guided in the traditional fashion by the government. I was able to persuade the Deputy Prime Minister (Mahn-Je Kim) and the Director of Planning (Bong-Gyun Kang, later Minister of Finance and subsequently Minister of Foreign Affairs) to break with tradition and draw from the private sector the heads and half the membership of the 32 committees that were preparing the plan. It turned out that the law required the heads of these committees to be government officials; however, pragmatic as ever, the Koreans decided that the law did not forbid the appointing of co-chairmen (and half the membership) from the private sector, and they proceeded to do so. The joint formulation of the plan greatly helped to give it credibility with the private sector.

If the Pakistan Planning Commission decides to go down this route, it will probably have to begin modestly; i.e., the structure is likely to be closer to the Egyptian than to the French model. However, even if the Commission is able to get a reasonable fix on the views of enterprises in the major economic activities regarding the costs of doing business and the main impediments to increased investment and exports, it will have made a very worthwhile beginning. The Commission could supplement its findings with the results of the studies on doing business in Pakistan and on the investment climate that the World Bank and the International Finance Corporation (IFC) conduct from time to time.

4. In preparing five-year and annual plans, the Planning Commission must prioritize its aims more sharply

Reading Pakistan's plans, whether five-year or annual, one gets no idea of priorities or tradeoffs. It is as if all targets were equally important and there never was the possibility of a conflict—that some targets would have to be reduced or even abandoned if others were to be met. This was not always the case in the past. After the 1965 war with India and the cessation of US assistance, for example, a conscious strategy was adopted to direct more of the available resources into 'directly productive sectors' that could provide output in the shortest possible time, and to defer some of the investment in projects (unfortunately, these included several in the social sectors) that had long gestation periods. One may or may not agree with the choice of sectors, but a clear set of priorities was laid out. In planning for an increasingly complex economy in a more uncertain international environment, the Planning Commission will have to be more discriminating about the relative weight of different objectives.

The Commission is responsible for planning and monitoring the public sector investment program, and it must commit to this all the resources that are necessary to do a good job. It must at the same time recognize that the largest and the more dynamic, parts of the economy lie in the private sector, and that its share is rapidly increasing. There is absolutely no chance that the Planning Commission will be able to accurately forecast trends in private sector investment, output, employment, and other key variables across the board. It must therefore prioritize. The Commission must be very clear what industries and activities are vital to Pakistan's economic well-being and which, while perhaps still important, are not that crucial.

Thus, for example, it may decide that agriculture, together with activities that provide the greatest opportunities for employment and the biggest impetus to exports are the key tasks and that other pursuits are secondary. The Planning Commission would then focus the bulk of its attention on these activities. It would find out as much as it could about the issues in these areas (working, of course, with the relevant ministry or other agency); it would ascertain how similar issues have been tackled in countries with institutional and administrative setups similar to those of Pakistan (India and Bangladesh offer obvious examples, especially for agriculture); and it would look to the experience of successful countries in the neighborhood to see what lessons Pakistan could learn from them—the policies and the institutional structures for export promotion used by Korea, Malaysia, Singapore, Hong Kong, Thailand, and now even Vietnam could provide salutary examples. Again, the organization of the IT industry in India may be something to look at. The Planning Commission could also assist the work of the National Finance Commission by studying how other federated countries allocate their revenues to the federating units. India and Malaysia offer ready examples in the neighborhood; however, the experience of other countries, such as Brazil or Canada, could also serve to stimulate some constructive ideas. Moreover, in analyzing economic issues, the Planning Commission should get support from other institutions—provided they are not perceived to be leaning towards any political party—which could help it strengthen its analysis; an example would be the Pakistan Institute of Development Economics in Islamabad.

This selectivity should apply with even greater force to long-term planning, as exemplified by the Perspective Plan. It is obvious that if mixed-economy planning for periods of even one year or five years has become very much more difficult in the new economic environment, then planning for a period of 15 or 20 years verges on the impossible. This does not mean that the authorities do not need to take a long-term look in a number of sectors. However, realism demands that the motto be 'perspective thinking' rather than 'perspective planning.'

There are sectors, such as water or electricity, in which mathematical techniques for forecasting long-term demand and supply relationships are well-developed and have proved their reliability; these sectors can be modeled in a relatively rigorous manner. However, there are several other areas, especially in social policies, in which such techniques have generally yielded very unsatisfactory results—for example, detailed projections of manpower demand and supply have almost uniformly turned out to be a disaster. In these latter sectors, it would be more realistic to provide a qualitative discussion of the main issues, and spell out some of the key policies that the government would implement in order to produce the desired outcomes.

5. A very important area in which the Planning Commission can take the lead is that of inequality of incomes between regions (especially the provinces)

Analyses of economic development in Pakistan have traditionally followed a 'top-down' approach. The studies look at the behavior of macroeconomic indicators for the country as a whole, and refer only in a general manner to the trajectories of each province and even more cursorily to the policy issues, constraints, and opportunities that confront the different regions. This mindset—that it is the federation as a whole rather than the federating units that matter—is so ingrained that even after 60 years of Pakistan's existence the authorities do not produce official statistics of provincial GDPs, investment, and saving.

It is necessary to strengthen studies at the provincial level, because policies to address questions of employment, poverty, feelings of deprivation, and to improve the delivery of key services are more effective if the perspective is as close to the ground as possible. The validity of this approach is recognized by the burgeoning number of regional or state studies in India and in other parts of the world, both developed and developing (such as the United States, Canada, Australia, Malaysia, Vietnam, Thailand, Indonesia, Brazil, and Argentina) where the individual provinces or states can exercise a significant degree of autonomy over many economic decisions. Moreover, disparities in the endowment of physical and human resources and divergences in the strength of institutions mandate different policies to realize the development potential of each jurisdiction—one size of policy will not fit all. Economic policy will thus be most effective if the usual country-wide macroeconomic analysis is supplemented by a detailed 'bottom up' approach, based on a comprehensive examination of the challenges and opportunities specific to each province.

The importance of examining the differential growth of provinces can hardly be exaggerated—a main reason for the breakup of Pakistan in 1971 was the issue of income disparity between West and East Pakistan. The official estimate of per capita incomes in East Pakistan as being only 25 percent lower than in West Pakistan carried little credibility.[28] No more believable were many of the reasons on which the central government's resource allocation between East and West Pakistan was based. Military expenditure was excluded from the calculation because, it was said, the defense of the country was 'indivisible'—an attack on East Pakistan would prompt a response from West. The events of 1971 show just how hollow was this premise. Investment in the Indus Basin works was kept out of the reckoning, because these works were said to be replacement rather than net additions. The expenditures on constructing the brand-new capital city of Islamabad were eliminated from the computation, because the capital was supposed to represent both wings of the country. And so on. The authorities chose to ignore the fact that all these expenditures occurred in the geographical entity of West Pakistan, added to incomes in this region, and generated multiplier effects within this jurisdiction. No serious analytical work—in research institutions, in academia, in the Planning Commission[29]—was undertaken of the extent or the causes of the disparity in incomes, or of measures to reduce it. The result of this ostrich-like attitude was the breakup of the country.

The country cannot afford an encore. The development of the provinces has to be studied, and measures to accelerate the growth of lagging regions identified and implemented. This is an area in which the Planning Commission must work with provincial planning agencies and the Federal Bureau of Statistics (which must prepare reliable estimates of provincial GDPs).

It is sometimes argued that the official publication (and thereby acknowledgment) of such income disparities would heighten tensions between the provinces. This position is untenable. Even absent an official series of provincial GDPs, East Pakistan felt a sense of deprivation strong enough to move towards seceding from the federation. Similarly, the lack of official GDP figures for Balochistan, the NWFP, and Sindh has not in the least reassured the inhabitants of those provinces that they are as well off as other parts of Pakistan. Closing one's eyes will not make the problem go away. The only viable solution is to recognize the existence of these disparities, to try to estimate them as accurately as possible, and to devise measures that would narrow the gap. This is a major strategic enterprise, and the Planning Commission, of course working with the provincial planning departments, is the body best positioned to take the lead on this vital issue.

6. The Planning Commission must undertake or supervise and keep updated a study of the 'gray' economy

The Planning Commission must obtain a much better understanding of the informal or 'gray' economy. The gray economy is likely to be a very substantial proportion of the total economy—IMF and other studies put Latin American and Middle Eastern estimates at one-third to 70 percent of the measured economy.

The absence of reliable information on the informal economy leaves policymakers without the wherewithal to answer questions about the actual level of employment in the province, the size of incomes, and the extent of poverty. It also leaves open two other questions that are very important for policy action.

First, does the informal part of the economy move pro- or counter-cyclically with the formal economy? A tentative answer from a study by the Social Policy and Development Centre[30] is that the gray economy largely moves in the same direction as the formal economy. This means that if the latter faces difficulties, the authorities cannot assume that the informal part will pick up the slack and that the impact on incomes and employment will be cushioned. This is an important implication, and deserves more detailed research in order to validate or refute this finding.

Second, does the presence of the gray economy imply that the distribution of income is more or less equal than it would have been in its absence? Based on a very detailed study for India, Acharya[31] concluded that the distribution of actual household income from all sources was likely to be even more skewed in favor of the top decile than indicated by standard surveys. This would result (a) from the incentives for households with a higher proportion of gray income to understate their true incomes and to do so to a greater degree than households with little or no income from gray sources; and (b) from the greater opportunities for the 'haves' (such as industrialists, traders, real estate operators, politicians, bureaucrats, etc) to earn gray incomes than the 'have nots' (e.g., small farmers, peasants, rural and casual labor). These reasons would apply to Pakistan just as strongly as to India. However, an analysis of the specifics for each of the provinces of Pakistan should be undertaken.

It is not necessary that the Planning Commission do the study itself; it can be outsourced to, say, the Pakistan Institute of Development Economics. However, the Planning Commission must maintain overall quality control of the study and ensure that it is updated at regular intervals.

7. The Planning Commission must increasingly focus on formulating and advising on policies, and therefore must very substantially enlarge its capacity in this area

Since the economy is becoming more privatized and because the Planning Commission does not exercise direct control over the activities of the private sector, it will have to exert its influence indirectly through policies that provide an appropriate mix of incentives and disincentives. This means, first of all, that the Planning Commission must greatly expand its ability to formulate and analyze policies and to assess their impact.

It is not clear how deeply the Commission is involved in the critical policy issues of the day. Thus, for example, a major problem at present is the budget deficit, yet I have not seen a

[28] Especially when the foreign balance of each wing was converted into domestic prices using estimates of the scarcity price of foreign exchange.

[29] Although some (inconclusive) discussion did occur in the Planning Commission at the time of formulating the five-year plans (especially the Fourth Plan); see Government of Pakistan, Planning Commission, *Report of the Panel of Economists for the Fourth Five-Year Plan,* Islamabad: Planning Commission, 1970.

[30] Social Policy and Development Centre, *Social Development in Pakistan: Annual Review 2000,* Karachi: Oxford University Press, 2001.

[31] S. Acharya, *Aspects of the Black Economy in India,* New Delhi: National Institute of Applied Economic Research, 1985; S. Acharya, "India's Fiscal Policy," in R. Lucas and G. Papanek (eds), *The Indian Economy,* Boulder, Colorado: Westview, 1988.

thorough analysis of subsidies and other government nondevelopment expenditures, or of revenue-raising measures, such as extending the income tax net to incomes from agriculture and the services sector. Has there been an enquiry into how other countries—such as Brazil, India, Malaysia, Canada, and others with a pronounced federal structure—handle the problem of allocating tax revenues between the federating units; in other words, has fiscal federalism been studied? Pakistan also does not have an effective export policy, even though the deficit on the current account of the balance of payments has been ballooning for some time. Has the Planning Commission examined the measures that Korea, Taiwan, Malaysia, Thailand, and Vietnam (to mention only countries in Pakistan's neighborhood) have taken to boost their exports so spectacularly?

Of course the government's rules of business might require the initiative in these matters to come from the Ministry of Finance, the Ministry of Commerce, or wherever. However, if the Planning Commission is to serve as the centerpiece of the government's economic team, it must be heavily involved in these studies and should be vigorously prodding the relevant ministries and agencies if they are pursuing the task with insufficient urgency.

In the past, the Planning Commission was involved in the formulation of tremendously critical economic policies that did not fall under the rubric of 'planning.' A key example is provided by the discussions leading to the separation of the external debt between Pakistan and the newly-created Bangladesh.

This is not the place to rehearse the history of that period in any detail; suffice it to say that the donors regarded the present-day Pakistan as the successor state to the former Pakistan, and thus held it responsible for servicing the debt of the united country. After prolonged negotiations (largely conducted by a team from the Planning Commission), the donors agreed that they could apportion the project part of the debt between the two countries, but that it would be impossible to allocate the debt arising from program assistance. Pakistan, therefore, was held liable for servicing the total program assistance debt, and the consequences of not paying would be a denial of further aid to the country. Pakistan's political leaders, on the other hand, felt strongly that as the donors had recognized Bangladesh as a separate country, they should collect the former East Pakistan's share of the total debt from Bangladesh.

The Planning Commission took the lead in working out a formula that would maintain the appearance of servicing the debt but would not impose a real burden on the country. The Commission's proposal essentially involved a rescheduling of an amount of debt on terms such that the grant element on the rescheduled debt plus that on fresh assistance to Pakistan would equal the present value of the Bangladesh liabilities that Pakistan would discharge.[32] This formula was accepted by the donors; the debt problem between Pakistan and Bangladesh was resolved, and Pakistan continued to receive the external assistance that it badly needed.

The foregoing was not a 'planning' issue. It was, however, an absolutely crucial issue of policy analysis and economic negotiation. The government turned to the Planning Commission because it was regarded as the main repository of such skills. This reinforces the point that only if the Planning Commission can add value to the analysis of economic policies over a wide range of issues—even if the formal task manager for initiating such policies is some other body—will the Commission be acknowledged as the leading strategist in the government on economic matters.

This means that the Planning Commission will have to substantially enlarge its roster of economic and technical staff and develop ways of harnessing additional talent, such as by hiring consultants and using the resources of universities and think tanks. Another important manner of expanding its policy knowledge is by learning from the experience of successful countries. This is described in the next section.

8. Pakistani planners and policymakers must learn from the experience of neighboring countries

Instead of trying to reinvent the wheel, Pakistan's planners and policymakers should learn first-hand from counterparts in successful neighboring countries 'what they did and how they did it.' A method of encouraging reforms in policies and institutions that has been used with excellent results by the World Bank (especially its East Asia region) was to get together policymakers from countries wishing to acquire the knowledge—I dealt with the cases of China and Vietnam—with policymakers from successful reforming countries in their immediate neighborhoods. Let me sketch out my experience of how these meetings were organized and the results obtained, and this could give an indication of what Pakistani policymakers might expect from such a meeting.

The first of these meetings was held in Bangkok and brought together reform champions from China with policymakers from Korea, at a time when these two countries did not even have formal diplomatic relations. Because of the absence of such bilateral relations, the meeting was dressed up as an international conference and two other countries, India and Thailand, were also invited. The representation from all four countries was at a very high level. The Chinese delegation was led by the Minister for Reconstruction; that of Korea by the Deputy Prime Minister and included two others of Cabinet rank; the Indian delegation was headed by the Deputy Chairman of the Planning Commission (who is currently the Prime Minister of India); and the Thai delegation was led by the Minister of Finance and included the Governor of the Central Bank.

The second meeting was held in Kuala Lumpur and enabled policymakers from Vietnam get advice on the experience of policy reform from their counterparts in Korea, Malaysia, and Indonesia. The representation was again at a very high level: the Malaysian delegation was headed by the Prime Minister; the Korean by the Deputy Prime Minister for economic affairs; the Indonesian by the Coordinating Minister (in effect, Deputy Prime Minister, but not called that because Indonesia does not have a Prime Minister); and the Vietnamese delegation by the Deputy Prime Minister (who a year or so later became the Prime Minister).

The format for both meetings was to keep the groups very small, with a background paper prepared by the World Bank, a short statement by the country transferring the experience on how it had managed the implementation of a particular reform or the introduction of some policy; what had helped to make the policy a success; what had gone wrong; and whether in hindsight the country would have better handled the issue differently. This was followed by a substantial period in which the Vietnamese/Chinese officials posed numerous questions and asked for clarifications of many details. Each conference lasted about 3 days—it included working lunches and dinners—and was pronounced a great success by all the participants.

An interesting result was that we were able to bring together senior officials from China and Korea, even though these countries did not have diplomatic relations with each other at that time. We did this by including officials from Thailand and India, which thus made the meeting appear to be international rather than bilateral. The interactive dynamics worked so well that on the second day the Chinese officials were referring to their 'Korean colleagues' and their 'Korean friends,' and asking for various papers and documents to be sent to them from Korea (via Hong Kong, because at that time Korea and China did not have a direct postal link).

These meetings paved the way for further contacts, and also opened people's minds in some unforeseen ways. The Chinese invited the three senior-most members[33] of the Korean delegation to visit China, despite the lack of diplomatic relations between the countries, so that the dialogue could be continued. The Koreans visited China as 'international experts;' apparently this enabled the Chinese to finesse the nationality question.

[32] The total principal payments falling due over the next six years were rescheduled on terms that gave rise to a grant element of 62 percent (when the stream of repayments was discounted at 10 percent), and the annual external assistance provided to (the now divided) Pakistan was maintained at the level given to the formerly united Pakistan at a similar grant element. As Chief of the International Economics Section, I was deeply immersed in these negotiations. I suggested the formula mentioned in the text, and was able to convince the Deputy Chairman (Qamar ul Islam) that this represented the simplest way to square the circle. He took this proposal to Cabinet and, after a rather acrimonious discussion in that body, was able to persuade the Ministers to approve it.

The Vietnamese asked the World Bank to analyze further in its economic reports for that country many of the issues raised during these meetings. These discussions also appeared to encourage the Vietnamese to become much more open about their move towards a market-based economy. The Foreign Minister, Nguyen Co Tack, told me he had Professor Paul Samuelson's well-known economics textbook translated into Vietnamese to show officials and students the kind of economic analysis that would be relevant to the new economic environment. I asked him to provide an assurance from the Cabinet that the Vietnamese translations of the World Bank's economic reports would be freely available in bookshops in the major cities. I argued that if Samuelson's book provided the analytical framework for a market economy, then the Bank's economic reports showed the results of applying that analytical apparatus to the Vietnamese case; the Bank's reports could be seen as textbooks of applied economics. The availability of these analyses would make it easier for officials and civil society to see what the country would have to do to obtain the benefits of going down the market-economy path, and what it would have to do to avoid some of the problems that the move would inevitably bring in its train. After the next week's meeting of the Cabinet, he gave me this assurance. When the first of the Vietnamese language translations was issued, I checked some of the bigger bookshops in Hanoi, Hué, Danang, and Ho Chi Minh City; the report was indeed available.

The meetings both for China and for Vietnam point to a number of ingredients that are essential for success.

- The participation should be at a high level—I have already given a flavor of the level of the participants. Both meetings were chaired by the Regional Vice President of the World Bank.
- The officials concerned should be knowledgeable and should be known to be able to speak frankly. The officials whom we invited were carefully chosen to fulfill this condition. In general, they combined high technical ability—several of them had published extensively on the economic policies of their countries—with senior policymaking positions. All these countries had the advantage of having their main economic ministries headed by technocrats. This is not really the case in Pakistan. It would therefore seem that if similar meetings are arranged for Pakistan, one would be advised to weight the delegation with high-level technocrats (in addition to their political masters).
- It is essential to have a common basis on which to start the discussion, to preserve an informal atmosphere, and to keep the meetings small. In each case, a short but focused paper was prepared by the World Bank. In both meetings we confined participation to four countries, including the host and the target country. The staff responsible for the paper (two or three persons), plus the Country Director, the Country Division Chief, and the Regional Vice President were the only Bank members in the conference chamber. The restricted number of persons in the room added to the intimacy of the occasion and contributed immensely to the openness of the discussion.

The discussions at the two meetings pursued very different themes, and reflected the dissimilar anxieties of China and Vietnam at the commencement of their reform process. The Chinese were interested primarily in how the Koreans had achieved their growth and export 'miracle.' They focused on technical and institutional questions. How had the Koreans gone about 'picking winners,' i.e., selecting which industries to back? Had they equally consciously identified 'losers' and gone about eliminating them? What support did they have to give in order to stimulate higher investment by the industrial groups? What had they done to prevent wage costs from rising too fast? What institutions were needed to propel exports? What barriers had they encountered in the main export markets? How had they obtained the appropriate technology? How had they handled the financing of the technological transfer? How had private companies been encouraged/made to advance national goals? And so on.

[33] Dr Mahn-Je Kim (the Deputy Prime Minister), Dr Nyum Jin (Minister of Energy and later Deputy Prime Minister), and Dr Sang-Mok Suh (Head of the ruling party's economic committee in the National Assembly).

The Vietnamese were primarily concerned with the question of control. In essence, they wanted to know that if the economy was increasingly run by the market, then if things started to go bad, how could the government control matters? What tools or institutions, short of reversing the entire process and taking direct charge, would be needed to control the economy? How could Vietnam ensure that the market worked along socially-desirable lines? How much autonomy would the private sector have to be given? How much direct control should particular ministries exercise over private sector activity in their areas; for example, should the Ministry of Industry set investment ceilings for the major sectors and issue licences until these ceilings were reached, or should it just set rather loose barriers to entry and let competition take its course? What should be the role of labor organizations vis-à-vis the private enterprises? Should the government be worried about private enterprises becoming too large and being able to pressure the government? [This question related particularly to the role of the chaebols in Korea]. What role should a stock market play, and what should the government do if the market started to fall?

Pakistan's concerns lie closer to those of China than of Vietnam. The latter was at a stage when it had to make some fundamental decisions about the philosophy governing its economy—whether and how rapidly it should move from a command to a market-based economy. Pakistan does not have to grapple with this question; its concerns align much closer to the technical and institutional issues (such as those dealing with accelerating exports, increasing domestic savings, acquiring suitable technology, raising productivity, etc) that interested China. Section 9 (below) points to some critical areas on which Pakistan can learn very lessons from some of the East Asian countries.

It is also possible to arrange productive visits outside the structure of a formal conference. In 1998, while I was director of the World Bank's Egypt department, I took Gamal Mubarak (the Egyptian president's son) and Dr Atef Ebeid (Minister of Public Enterprises and a year later Prime Minister) to Malaysia. They were given presentations by Malaysian policymakers and officials on the country's economic performance and its experience with different social and commercial policies (this lasted about a day). They then spent another three days meeting exporters and commercial organizations in the private sector. Both Gamal Mubarak and Dr Ebeid repeatedly said how much they had learnt from this visit, and a number of the lessons found their way into Egypt's medium-term export policies.

In Pakistan's case, one does not know what level of policymakers would be interested in such meetings. In the examples that I have described above, most of the ministers and other leading policymakers involved were technocrats with a sound background in economics. The present group of Pakistani economic ministers is drawn much more from political circles. However, it seems to me that some among them, for example, the Deputy Chairman of the Planning Commission and perhaps the Ministers of Finance and Commerce would benefit from attending such meetings.

Moreover, it should also be possible to arrange such gatherings for Pakistani officials at a technocratic level; obviously, these would not be attended by ministers from the other countries, but by senior civil servants and technocrats. There are several technical matters—in particular those relating to export promotion, project implementation, education planning, and planning involving the private sector—and institutional issues, such as the use by government ministries of research bodies, that the Pakistani team could learn from their counterparts, especially those from the East Asian countries. The World Bank has excellent relations with countries whose experience would be most relevant to Pakistani planners, and therefore it would be best placed to organize these meetings.

9. The East Asian experience in several key development areas is particularly relevant for Pakistan

There are several areas in which Pakistan can benefit from the experience of East Asian countries, especially Korea, Thailand, and Malaysia. Of the other rapidly-growing East Asian countries, Japan started its growth trajectory too long ago, and Singapore and Hong Kong are probably too small to offer many insights relevant to Pakistan. The experience of Taiwan (very high export growth, hardly any external debt, industrial development based on medium rather than large enterprises, little reliance on heavy industry, widespread education) should in fact be extremely useful but, in the context of Pakistan's relations with China, direct contact must be ruled out. However, it should do no harm to get, say, an American or British expert on Taiwan's experience over to Pakistan to explain to policymakers the details of how Taiwan tackled its development problems—two particularly important areas would be (a) export policies, and (b) rapid GDP growth with a high level of income equity.

The fields in which the foregoing countries have shown a spectacularly better performance than most other developing countries are:

- balancing incentives with guidance in planning for the private sector (especially in encouraging it to increase investment);
- raising national savings;
- boosting exports;
- improving plan implementation;
- increasing the productivity of labor and capital;
- increasing compliance with taxes;
- devising and funding a policy of universal literacy.

Korea offers the most dramatic performance in each of the foregoing headings; moreover, it (together with Taiwan) has perhaps the best record among developing countries for combining rapid GDP growth with an equitable distribution of income. Thailand also would provide very useful lessons in most of the areas noted above, because it is quite a substantial country and less advanced (i.e., closer to Pakistan's condition) than Korea. Malaysia would also offer applicable lessons, but it is the smallest of these three countries and also has the advantage of being richly endowed with natural resources. I should think that Korea and Thailand offer the most relevant exemplars for Pakistan.

I imagine that donors interested in strengthening Pakistan's capacity for economic policymaking could be found to fund these meetings. The travel and hotel costs for participants at the two World Bank meetings were paid for by the Bank; those for Gamal Mubarak and Dr Atef Ebeid's visit were financed by the UNDP. A visit of a group from Pakistan to Korea/Malaysia/Thailand should not bankrupt the World Bank/Asian Development Bank/DFID/USAID/UNDP or a combination of these agencies, and the institutional returns are likely to be very substantial.

10. Effective plan implementation is more important than elegant plan formulation

The experience of developing countries uniformly validates the lesson that implementation of plans counts for far more than their formulation. The first Chairman of the Indian Planning Commission, Pandit Jawaharlal Nehru, commented ruefully that, 'The real question is not planning but implementing the Plan—I fear we are not quite so expert at implementation as at planning.'[34] An Egyptian Minister of Planning who had been associated with his country's planning from its very inception told me that, 'So many of our plans and those of our neighboring countries are merely hibr 'ala wara" [ink on paper]. And Albert Waterston in his Development Planning: Lessons of Experience quotes Napoleon's not altogether facetious remark, 'War is easy; it is waging it that is difficult.' The literature on planning bears out these insights.

Korea provides a telling example of the difference between drawing up plans and effectively implementing them. The Office of Planning was established in 1948, at the beginning of the Republic. The head of the office, however, did not have the level of a minister, and therefore lacked real power. The first five-year plan was prepared by the Office during the Korean War, and issued in a revised form in 1953. It was essentially a collection of individual projects recommended by various ministers and was never implemented. Another five-year plan was prepared in 1954 by Nathan Associates; this, too, was never implemented. In 1958, the Economic Development Council was established and in the following year it prepared a Three-Year Development Plan for the period 1960-1962. This plan was shelved by the government whose attention was focused on more immediate political issues.

After the Military Revolution of May 16, 1961, President Chung-Hee Park organized a powerful planning agency, the Economic Planning Board, which also absorbed the Bureau of Budget from the Ministry of Finance and the Bureau of Statistics from the Ministry of Home Affairs. The head of the Board was given the status of Deputy Prime Minister.

The Board prepared a Five-Year Plan for the period 1962-66; this was revised in 1964. However, the Plan was more or less ignored largely because of the government's preoccupation with stabilization, poor harvests, and a botched monetary reform. It was only from the Second Five-Year Economic Development Plan, covering the period 1967-71, that Korea seriously began implementing its plans. The Second and subsequent Five-Year Pans were all formulated with wide-ranging consultation between different Ministries, banking institutions, economic research institutes, scholars, journalists, and representatives of various business associations; at times, representatives from foreign-aid missions were also included. Korea's dramatic and continuous economic growth started during the Second Five-Year Plan and continued unremittingly through subsequent Plans.

Korea, therefore, had no shortage of plans; they were, however, only fitfully implemented. Moreover, assessment of the earlier plans focused more on targets of financial spending than on physical completion. It was only when the country set up an institutional structure that carried political and administrative clout and when it began to seriously implement the plans (judging implementation by physical achievement rather than financial expenditure) that it saw a palpable effect on the economy. As early as the Second Five-Year Plan the government recognized that:

'The value of a development plan lies not in the plan itself but in how much the plan contributes to the development of the economy by implementing the plan properly. It is preferable to have a poorly-designed plan implemented appropriately rather than a good plan implemented inappropriately if the poor plan so implemented contributes to the rapid economic development of the nation.'[35]

Jones and SaKong point to a change that occurred in the Third and Fourth Five-Year Plans, away from modeling and an emphasis on consistency and towards 'policy-planning.'[36] The chosen instrument (from 1967 onwards) was the Overall Resource Budget, which provided a framework for reviewing past performance, setting short-term targets and allocations, and formulating appropriate implementation policies. Pakistan's Annual Plans do not provide the same discipline, and the well-known lags and lacunae in the availability of the required statistics do nothing to help short-term planning.

Pakistan's planners should also learn how precise their forecasts of the main economic variables have been and why they have been off-target. It would also be salutary to see whether there is a systematic bias in the errors; are the forecasts systematically higher or lower than the actual outcomes? Planning for a mixed economy is inherently more difficult than planning for a command economy if for no other reason than that in the latter case the planner does not have too coordinate the decisions of numerous independent actors. A rigorous statistical examination

[34] Quoted in A. Waterston, "A Hard Look at Development Planning," in T. Morgan and G. Betz (eds), *Economic Development: Readings in Theory and Practice,* (Belmont, California: Irvin), 1975, 122–40.

of the precision of plan forecasts even in a country with a long history of mixed-economy planning, for example the Netherlands, bears this out.[37] The errors are likely to be even larger in developing countries where the availability of trained econometricians and timely relevant data will be in short supply. Annexure A to this paper provides measures of the precision of forecasts of some key variables for four Egyptian Five-Year Plans. Even though Egypt has had large and prestigious institutions of planning since 1957 and has continuously formulated five-year plans since 1960, the table highlights the imprecision of the forecasts of so many of the variables, particularly those relating to the private sector. These results reiterate the importance of focusing on policies rather than on the decimal points of projections.

11. For the longer run, the Planning Commission must institutionalize measures to continuously improve its expertise

The Pakistan economy is only going to become more complex, and hence devising policies will require increasingly sophisticated skills. It is therefore important that the Planning Commission put in place measures that will keep upgrading the professional quality of its staff.

A method that was successfully used in the 1960s and 1970s was to offer scholarships to its staff to go abroad to well-known universities and acquire advanced degrees, i.e., MA or Ph.D. These scholarships were generally financed by the Ford Foundation or USAID, and were awarded on the basis of a competitive interview. Depending on the degree to which the applicant was admitted into the university (obtaining admission to a major university was generally the applicant's responsibility), the scholarships covered a period of 2–4 years. The contract required that on returning to Pakistan the applicant should serve the organization for at least five years.

This policy provided the Planning Commission with a steady flow of well-trained economists. This program, and its extension to other parts of the government, produced in due course persons who held the offices of:

- Minister of Finance (Sartaj Aziz);
- Governor, State Bank of Pakistan (Muhammad Yaqub, Ishrat Husain);
- Deputy Chairman, Planning Commission (Shahid Amjad Chaudhry, Nadeem ul Haque);
- Chief Economist, Planning Commission (Sartaj Aziz, Jawaid Azfar, Mansur Hasan Khan, A. R. Kemal);
- Joint Chief Economist/Division Chiefs, Planning Commission (Meekal Ahmed, M.S. Jillani, Khalid Ikram, Javed Hamid, Aneesa Faruqi, Fahim Khan);
- Secretary, Ministry of Finance (Izhar ul Haque);
- Secretary, Planning Commission (Moinuddin Baqai, Akhtar Hasan Khan);
- Director, Pakistan Institute of Development Economics (Syed Nawab Haidar Naqvi, Sarfraz Khan Qureshi, A. R. Kemal, Nadeem ul Haque).

I am quoting the foregoing offices and names from memory; doubtless I have left out several others. In addition, the program produced a number of officials who reached similar ranks in non-economic ministries, in the provincial governments, and others who joined universities and major research centers in Karachi and Lahore.

I strongly suggest that a program on the same lines be restarted for the Planning Commission. Of course there will be a time-lag before the return flow starts; however, the Planning Commission must invest in its human resources if it is to improve and sustain the extent and quality of its work.

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[35] Quoted in Jones and SaKong, *op. cit.,* pp. 56-7.
[36] Jones and SaKong, *op. cit*., p. 57.
[37] J. Donders and H. Kranendonk, "The Accuracy of CPB Forecasts," *CPB Report 2*, Netherlands Centraal Planbureau, 1999; G. van Welzenis, "The Accuracy of International CPB Forecasts," *CPB Report 2*, The Hague, The Netherlands: Netherlands Centraal Planbureau, 1999.

Recent developments

The 10th Five-Year Plan seeks to develop a new strategy that concentrates more on strengthening institutions and providing incentives to increase productivity, than on setting targets for investment. It therefore implicitly recognizes the difficulty of setting credible investment and production targets in an economy increasingly dominated by the private sector and tries to boost investment by dissolving the impediments that confront the private investor. What does this imply for the structure and functioning of the Planning Commission?

First, it means that the Planning Commission is starting to recognize the difficulties of setting rather inflexible targets in an increasingly private-sector dominated economy, particularly when the tools of control (such as the Industrial Investment Schedule) that were formerly available no longer exist.

Second, it implies that the organization will have to undergo at least a partial restructuring so as to create new sections that would deal with innovative subjects, such as institutional development.

Third, it will have to hire staff with very different skills from those it presently has. It will not be easy to fill the slots. The discussion earlier in this paper should have brought out a clear message—the main problem with the Planning Commission in dealing with the issues it now faces is not its structure, but the capacity of its incumbents. As a result of abandoning the training programs of the past and losing the regular connection with external experts, the quality of the Planning Commission staff has noticeably weakened. Moreover, the very substantial brain drain from Pakistan, largely because of the security situation in the country, has made it difficult to recruit qualified replacements even when attractive salaries were offered. This difficulty has been felt by the Planning Commission in recruitment at all levels, including that of the Chief Economist.

Fourth, in order to formulate concrete plans that incorporate the new development strategy, the Planning Commission will have to conduct research in the areas from which it has been absent, including some for which data and clear-cut, universally agreed methods of estimation might not exist. Thus, for example, it would be desirable to have estimates on investment incentives of improvements in the working of the commercial judicial system, or the effects on economic growth of a particular subset of civil service reforms, or changes in zoning laws to permit greater commercialization of urban areas; working out such estimates would be likely, at least in the initial Plans in which this new strategy was incorporated, to require the making of rather heroic assumptions.

I do not mean to suggest that any of the foregoing difficulties is insurmountable. However, some of them, such as the paucity of qualified staff and the difficulty of recruiting it from outside the organization (at least until the security situation in the country improves), could seriously slow down the movement from the articulation of an innovative strategy to the formulation of an actionable Plan.

Fifth, after the passage of the 18th amendment to the Constitution of Pakistan, several key sectors—such as agriculture, education, and health—have become the responsibility of the provinces. To deal with these responsibilities, the provincial shares in the total tax revenues collected by the federal government have been increased. Some key parts of the economy, therefore, are no longer under the direct control of the federal government—the planning and implementation of projects and policies in these key sectors fall under the purview of the provincial governments. This creates another set of challenges for the Planning Commission.

(a) The Planning Commission will have to interact much more intensively with the provincial planning departments on economic and sectoral plans and policies. The present interaction appears to be especially weak regarding economic policies. The Planning Commission will also have to work with the Federal Bureau of Statistics to help the provincial statistical departments develop the data—such as provincial GDP, investment (both public and private), savings, and so on—that are necessary for planning.

(b) If overall plans are to be realistic, provincial plans will have to be realistic. I have dwelt in some detail about weaknesses, especially staff weaknesses, in the Planning Commission. These weaknesses are multiplied many times in the provincial planning departments. This makes it difficult to formulate good plans in the provinces and to interact productively with the Planning Commission. And yet, if the country's Plan is to be successful, the provincial plans must be improved. Thus the challenge for the Planning Commission is to help the provinces strengthen their planning departments at the same time as it must strengthen itself, with both sets of government's trying to recruit similar expertise in several areas from a rather limited pool.

(c) For the country's Plan to be successful, the Planning Commission must ensure a meaningful interaction not only between itself and the provincial planning departments, but it must also ensure a substantial degree of coordination between the planning departments of the different provinces.

(d) The interaction and coordination could be made more difficult if the federal and political governments are formed by different political parties. The goals of these parties as well as the methods of attaining these ends could diverge substantially, and the Planning Commission may have to play a major role in helping broker politico-economic compromises if a coherent and consistent national Plan is to be successfully prepared.

None of the foregoing is impossible. However, nearly all of it will be challenging, first, because these will be largely new tasks, and second, because the quality of staff resources both at the federal and provincial levels is restricted.

Annexure A

The Precision of Egypt's Plan Forecasts

The accuracy of forecasts can be assessed using different indicators, such as the average error of the forecast, the mean absolute error of the forecast, and the root mean squared error (RMSE). . The method used in the Centraal Planbureau of the Netherlands employs a variant of Theil's 'U-statistic,' defined as the quotient of the RMSE of the forecast and the RMSE of the corresponding naïve forecast. The naïve forecast is taken to be equal to the estimated realization of the variable in the preceding year.

The U-statistic has a number of properties that make it attractive for assessing the precision of forecasts. The most important are that U = 0 if and only if the forecasts are all perfect (the projected outcome is equal to the realized outcome); and that U = 1 when the projection procedure leads to the same RMSE as the naïve projection. The U-statistic has no upper bound, which means that it is possible to do considerably worse than by extrapolating on a naïve, no-change basis. Thus, the higher the value of U, the less precise is the projection, and if U > 1, then the projections are on average worse than the naïve forecasts. Theil provides an interpretation of the U statistic—a value of, say, U = 1.25 means that the RMSE is 125 per cent of the RMSE that would have been observed if the forecaster had confined himself to a no-change extrapolation.

Table A-1 displays the value of U for the projected GDP growth rate, for public and private investment, and for employment in each of the Five-Year Plan periods from 1983-2002. It shows that the forecasts for the vast majority of these variables were less precise than a simple 'no-change' extrapolation; the exceptions were the GDP growth rate in the Third Plan, and employment in the Third and Fourth Plans. The performance of the employment forecast is not surprising: aggregate employment is much less volatile than GDP growth or investment. The level of employment in any year depends rather strongly on its level in the previous year, and this relationship can make it easier to predict this variable. As might be expected, the projections of private investment were the least satisfactory. Since the share of private investment in the total is expected to increase very substantially—the Fifth Plan (2003-2007) projects it at about two-thirds of total investment—the consequences of imprecision in estimating this variable are bound to become even more important.

Table A-1: The Precision of Egypt's Plan Forecasts, 1983-2002 (Theil's U-Statistics))

	First Plan (1983-87	Second Plan (1988-92)	Third Plan (1993-97)	Fourth Plan (1998-2002)
GDP growth rate	1.13	1.65	0.91	1.57
Public Investment	2.02	2.11	3.59	1.97
Private Investment	4.65	2.33	1.21	2.34
Employment	1.09	1.10	0.35	0.68

Source: Khalid Ikram, The Egyptian Economy, 1952-2000: Performance, policies, and issues, London and New York: Routledge, 2006, p. 311.

[38] The Root Mean Squared Error: $RMSE = \sqrt{\frac{\Sigma(P_i - A_i)^2}{N}}$, where P_i and A_i are, respectively, the projected and actual values, and N is the number of observations.

[39] See Donders and Kranendonk *op. cit;* van Welzenis *op. cit*.
[40] H. Theil, *Applied Economic Forecasting,* Amsterdam: North-Holland Publishing Co, 1966, pp. 26-7.

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