

Inaugural Address

MAHBUB UL HAQ*

Prof. Naqvi, Dr Sarfraz Qureshi, Ladies and Gentlemen!

It is certainly a great privilege for me to inaugurate the Second Annual General Meeting of the Pakistan Society of Development Economists. Even though these days I have a 'small' exercise going on for the forthcoming budget, I thought it was more important that I should come here and associate myself with fellow professionals also. I am delighted to learn from Dr Qureshi that there are 400 members of this Society. It is good to know that there are so many development economists around to lend us a helping hand. I hope that this tribe will grow.

We just had the great pleasure of listening to Prof. Naqvi's Presidential Address about three categories of economists: the development policy-makers, the development economists and the defunct economists. I am sure that the Address gave you both as much pleasure and as many uncomfortable thoughts as it gave me because it made us do some soul-searching to find out which category we belonged to. I made the unpleasant discovery, as I reviewed myself, that I probably belong in part to all the three categories.

Since I do not have any structured thoughts and have nothing very scholarly to offer to you, I feel that I should better spend my time on talking about the role of what Prof. Naqvi called 'development policy-makers' and 'development economists'. It is somewhat disturbing to note that in our country there is somehow a polarization between the official economists and the independent economists, and that there is an uncomfortable gap between their respective perceptions about the problems facing the country and about the probable solutions to those problems. While it is inevitable that some such difference of opinion should exist, now is the time when, through maturity of analysis, we should come together to review

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the development issues and, particularly, the development strategies. It is in this spirit of reconciliation that I take up a few key issues, on which I believe the perceptions have often differed quite sharply.

First is the issue of the quantity of growth versus the quality of growth. I think the official economists are very fond of projecting that this country has exhibited a certain amount of macro dynamism in that it has sustained, over a long period, high rates of GNP or GDP growth of 5 to 6 percent per annum, and that even in per capita terms the country has taken major strides. They, I mean the official economists, stretch these thoughts further and compare Pakistan's economic performance favourably with the performance of other developing countries. They are at the same time conscious, although they may not say it openly, that the macro dynamism that our economy has shown hides a number of micro weaknesses in our growth pattern. When we talk about good agricultural growth we must not forget that its micro base has remained somewhat shaky, as the last two years reminded us once again. While we can justifiably claim that fertilizer consumption has gone up year after year by 8 to 10 percent, that plant protection has increased, and that agricultural research has got better organized, the fact remains that there are serious micro weaknesses in the agricultural sector. Fertilizer consumption is still one-third of the requirement; only 10 percent of the cultivated area is covered by plant protection; the irrigation water is about 40 percent short of our optimum requirements; and the credit extension and agricultural research services, although developed and expanded over the years, still remain limited in scope and coverage. Same is the story with our industrial growth. On the one hand, we can take credit for the fact that over the last 38 years there has been a very diversified industrial pattern which has come to be established in this country. We can probably also take some comfort from the growth rates of 7 to 9 percent in industrial sector, which have been sustained over a fairly long period now. True, it takes some doing to achieve such growth rates; and, yet, as we come down from the macro magnitudes to the micro level, it does not give us much comfort to discover serious problems that our industrial sector suffers from. We know that industrialization in Pakistan has been mostly of the import-substitution kind and has taken place behind very high walls of protection. It has been accompanied by low-grade technology, low skill-formation and low capital-formation in the private sector. Even worse, industrial growth has created less and less employment potential as we have progressed. The employment contribution of the manufacturing industries, in 1970, to the national economy was over 17 percent of the total employment. It is now 12.5 percent and declining. As such, we must worry about the structural weaknesses which plague our industrial structure. Then there is the impressive growth of our services sector. Independent economists point out, justifiably I think, the inherent instability of a situation in which a very high growth rate of the services sector is accompanied by a lower

growth rate of the commodity-producing sectors. The expansion of the services sector from 45 percent in 1970 to 54 percent now means that those who are directly engaged in production, agriculture and industry produce and contribute less than before to the economy, and also than those who are living off the produce of others.

These are structural weaknesses in our economy and yet I find a great divide here between the official economists and the non-official economists. You may say that both are right, because the half-filled glass of our economy could be seen as both half full and half empty! If we are honest to ourselves, as economists must be, and if we think about our national problems not in an atmosphere of polarization but with maturity, we should be able to put the debate on this issue in its proper perspective.

Take another important issue which relates to the manner in which growth has been financed in this country. In this case, at last, there is a greater meeting of minds between the so-called official economists and the independent economists. In the past, our high growth rates have been financed by very low investment rates. As economists, we have to ask ourselves: Are we so smart as to defy the laws of economics and produce more growth with less investment and low, often declining, savings? Or is it that we have been mortgaging our future growth? Clearly, this is not an economically viable proposition. In the short run you may manage such a situation, but over time it cannot be sustained. We cannot sustain high growth rates in the long run by running down our capital stock.

Then there is the central issue about our physical infrastructure, which has been crumbling. Whether it is transport or communication or the energy shortages that we confront today, the fault lies with the insufficient investment effort that the society has made so far. Not only that; the society has also not done enough for creating human infrastructure. I need not repeat the sad story. The literacy rate of 26 percent reported for Pakistan is somewhat illusory because it is based on a very generous definition of literacy, according to which a literate person is one who can write his name, which is not a big deal. If one takes the more realistic UNESCO definition that a person to be literate should be able to read and write, then the literacy rate in this country will probably be below 10 percent. We put 56 percent of our children in primary schools, which is bad enough, but by the time they reach matriculation there are only 2 percent of them left, and by the time of professional degrees there are a paltry 0.2 percent of them. A nation built on such an inadequate foundation of human capital cannot sustain its growth rate over the long run. Structural changes are needed to put the society on a sounder footing.

There is yet another, and a more divisive, issue which relates to the foreign financing of economic growth in Pakistan. It does not help to keep repeating that external debts impose a net burden on the society; for that happens only if the external money is improperly utilized. The fact of the matter is that Pakistan is

not heavily indebted with only about 13-14 percent of export earnings devoted to debt servicing, and with external credits being often available for about an average time period of 36 years, on an average interest rate of less than 3 percent, and with long grace periods. Also with most of the debt being official government-to-government, and commercial debt being less than 5 percent of the total debt, we cannot beat our breasts in the international fora and say that this country is heavily indebted. Somehow the misconception about our indebtedness is widespread in this country and we economists have contributed precious little to clarify this issue. It distresses me because I often feel that probably the difference of opinion on this question is not an economic one but only political in nature. We borrow more domestically than we do abroad; and we borrow at much higher rates domestically, at an average rate of 12 to 14 percent, and for periods which are very short because in many of the savings schemes money can be withdrawn or encashed at any time. What economists must clarify is that economic progress depends ultimately on the ability of the people of this country to pay for economic growth and for a higher level of services.

I take another issue which has divided us and at which Prof. Naqvi also hinted, rather rightly, in his Presidential Address. It relates to the market forces or the magic of the market-place. I would put it a little more sharply as an issue between freedom and regulation, between taking an open road to development and a closed road to development. My own feeling on this issue is that somehow in many developing countries we have been so mesmerized by the role of the public sector as to equate the public sector with public good. We have never really questioned the public sector, or its controllers. It puzzles me from time to time that while the people are very distrustful of the public sector when it affects their personal lives, they get enamoured of it when they talk generally, and philosophically, about the role of the public sector in the economy.

When I first came to this country, some journalists greatly pressed me to tell them if I was bringing Reaganomics or World Bank Economics into this country. One of them kept asking me this question repeatedly. I asked him: "Would you like the public sector to issue press advisory service; would you like them to exercise stiffer censorship; and would you like them to control newsprint and advertisement?" I said that the media in this country were organized basically against the long arm of the government; and yet somehow they, the journalists, had a fascination for the public sector — of course, except when they find it in their own territory. I have asked the institutes and the universities as to how many controls they would like us to impose on them, and how many "no objection" certificates we should demand from them before they travel abroad, even for a professional conference. And they said, "Please take them away."

I make a distinction between unnecessary regulation and social policy control. I think a government must do what many of the independent economists keep

reminding us. Government must deliver good education. It must deliver good public services, whether it be electricity or transport or roads or health services. If the government has done all this and still has unused resources — administrative, managerial, and the rest — to manufacture, say, ghee and sell cotton, then I will give more power to the controllers; but not if they are doing such things instead of doing what in fact is the real role of the government. The first lesson that economists learn is that there is a choice between the limited means and the unlimited demand on them. I think when we talk about regulation and deregulation we must make a very clear distinction between our objectives and our (limited) means for achieving those objectives. We should not get so mesmerized by the means as to forget the objectives. If public sector only enriches the controllers and not the consumer, and if it does not contribute to capital formation, is it then something that must be condoned? Let me state it quite explicitly that I do not believe in the magic of the market-place being an absolute good. Markets are often best for allocative efficiency, while governments should not start getting into markets to produce things because they might make a hash of it, as they often have made. And the markets should not assume the arrogance of the power to distribute the final products equitably. That is where fiscal policy comes in.

If we cannot run an economy on decent lines — where each sector can play its proper role, where our fiscal policies are adequate to do distributive justice, where our private sector is not just a caricature of what it should be because there is over-protection and no technological progress — then we should blame only ourselves for not devising the right policies. There are many societies all over the world which started with a lot of strangulating controls — e.g. China and many socialist countries like Tanzania — and which have discovered that if you replace the proper price signals then you also replace the allocative function of the market and get into a mess, out of which it is difficult to emerge. And yet we cannot abandon the economy to the mercy of the market — and allow Reaganomics a free hand. Deregulation must be within a framework of social responsibility. In fact, the more you deregulate, the more you have to bring in social controls and an aggressive fiscal policy. Economic growth must be combined with efficiency, and efficiency may often involve dismantling unnecessary controls. It may also involve correcting structural weaknesses that I have referred to. Economic growth must be combined with social justice; but social justice can be delivered neither by the market-place nor by the government without a corrective fiscal policy. Economic growth must also be combined with more national self-reliance, but that does not necessarily mean that we should start throwing stones at foreign debts, without making the necessary domestic effort, or by shying away from taking key and tough decisions at home. Self-reliance is a more comprehensive concept than just turning our backs to the international world. It means self-reliance in technology, human resource development, and the world of ideas. Self-reliance is a philosophy of life.

I now come to the ultimate question of what the role of economists — whether they be development policy-makers, development economists or defunct economists — is in the milieu that I have been talking about. I believe that we economists are a very threatened species. We are threatened because, unlike the nuclear physicists, we cannot make our trade mysterious enough so that only we, the economists, can find solutions to economic problems. We are invaded by non-experts because, as folk wisdom would have it, it takes only a broad common sense and an understanding of the society to enter this field. I believe that economists can protect themselves and protect this nation not by joining the ranks of the generalists — I do not mean the journalists — but by applying rigorously the tools of their profession to put these issues in their proper perspective and to lend a certain maturity to the economic debate. Only then should the economist hope to be respected as economist in this country and not be confused with the non-expert who keeps on attacking our discipline all the time. We should not try to find simplistic solutions to the difficult problems that we face.

And that, I believe, is the purpose and the role and the function of this Society — to give our economists a platform, to give them a new respect, to give them a set of objectives and the means to achieve those objectives. We need to institutionalize some of our debates and some of our contacts between development policy-makers and the development economists. I have three concrete proposals for you, proposals that I intend to take action on. Firstly, I have decided to set up a Council of Economic Advisers. This will be a council limited to five eminent Pakistani economists, whether they are inside the country or outside. They will belong to the ranks of the independent economists. They will have access to a good deal of our thinking and material, and they will be able to interact with policy-makers on the critical choices that we have to make every day. They do not have to be permanent members of the government hierarchy so that they can retain their professional independence. This forum will provide, I believe, from time to time — say, every three months or every four months — an opportunity for a fruitful interaction between the development policy-makers and the development economists.

Secondly, I have felt for some time that the training of our professional economists is extremely important and the government must support it. I have been distressed to see that these training programmes have not been functioning for a long time. There are some small training programmes at the moment but no national programme. Over the last few months I have discussed this issue. We have now put together a scheme of training each year 30 economists, both official and non-official, in the top universities outside. They will be fully supported by Government scholarships. Since we are starting this scheme rather late in the day, we may be able to place only 5 to 10 economists this year at the universities; but next year, *insha Allah*, we will like to go up to the full complement of 30 economists for which we have provided funds.

Thirdly, I have felt for some time that professional organizations, whether they be in economics or in any other discipline, must have some government financial backing. As such, we should have some money earmarked for intellectual investment besides what we do for the universities, institutes and so on for the growth of professional bodies. I shall earmark 2.5 million rupees this year for providing support to various professional bodies. This is a modest amount, which I hope will grow with the passage of time.

Let me say at the end that I believe in the power of ideas and I do believe in the power of intellect. In life there is nothing else which is so valuable. I also believe in optimism, not to give false hopes to the society, but as a philosophy of life. I believe in optimism because, as I have often said, pessimism is a luxury which we simply cannot afford, if only because it paralyses our initiative for purposeful action. When the day's work is done, when we have tried to cope with all our problems, even though unsuccessfully, and when the night falls, we have to be optimistic about the future, about the possibilities of this society, in order to engineer social change. While economics is regarded as a dismal science and economists are often dubbed as prophets of doom, I personally believe that we need a little dose of optimism to do what needs to be done for the man and the society. I shall leave you with the lines which are often attributed to Robert Kennedy, because he used to quote them so often, but which in fact come from George Bernard Shaw:

Others see things and ask, "Why?"

I dream of the stars and ask, "Why not?"

Thank you very much.