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Inaugural Address

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Mr. Chairman, Distinguished Guests, Ladies and Gentlemen,

It gives me great pleasure to inaugurate the First Annual General Meeting of the Pakistan Society of Development Economists.

Based in the Pakistan Institute of Development Economics, the Society is intended to play a key role in disseminating information on pressing economic problems and in providing a permanent forum for a free and dispassionate exchange of ideas among professional economists and policy-makers. I am confident that the Society will set in motion a process of interplay between the ideas produced by the economists and the pragmatic application of these ideas by the policy-makers in the world of reality, thereby engendering efficiently functioning models of growth and development. Economics is a living and practical science which must draw its inspiration from and determine the parameters of its theories on the basis of actual organisation of economic life around us and the nature of economic problems faced at a particular stage of development. Theories and models, in turn, must stand the test of practical application in the market-place. A dialogue between the economists and the policy-makers, if they have to be at all placed into separate categories as a part of product discrimination, would represent the most desirable synthesis of professional energy, and for such a dialogue this Society, I am sure, will provide an ideal forum.

The Society of Development Economists is an offspring of the P.I.D.E. and represents the logical next phase in the reconstruction and regeneration of this premier national research institution that began in the early Seventies. Since then, interesting and purposive research work relating to Pakistan's economy has been undertaken within the framework of a balanced and comprehensive research programme. A comprehensive research programme has enabled the P.I.D.E. to combine intellectual excellence with a well-defined social purpose and during the last five

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years it has, as a result, been able to carve for itself a distinctive place as an autonomous research institution of international standing. It has not only encouraged personal initiative but has successfully channelized the work of its researchers for the achievement of pre-assigned national objectives. The research work coming out of this Institute at regular intervals has that bitter-sweet taste which characterizes all scholarly work: it can't be swallowed hurriedly and in 'one go' but has to be chewed cautiously and digested slowly, with occasional need, perhaps, for the addition of a little seasoning, for the reason that the P.I.D.E. appears to believe and largely engages itself in iconoclastic activity. An outstanding example of solid scholarship is the *P.I.D.E. Macro-econometric Model of Pakistan's Economy* (1983), which has been regarded as a landmark by internationally well-known econometricians.

As a major user of the end-product of economic research, I, availing myself of this very first meeting of the Society, would like to place before you my own views on certain aspects of research and what I expect of the Society. The quintessence of your research should be to help foresee economic problems and to throw up likely solutions for the anticipated difficulties. Economics as a science and economists as a professional group have, however, concentrated on perfecting the tools which help in an analysis of the past and at times in explaining and providing a rationale for current events. Forecasting and providing an insight into the future have not been a particularly strong part of the economists' work-tool kit. Even in the industrialized countries, where highly sophisticated forecasting models have been developed, the track record of those who have sought to provide foresight for economic policy-making does not inspire much confidence.

The forecasts regarding the OPEC balance-of-payments surpluses, based on the initial oil price increase in 1974, were proved wrong within a few years of their formulation, embarrassing perfectly respectable international institutions. Currently, we witness a continuing weakening of oil prices in the world against projections of a steady increase in real oil prices, with virtually no ceiling.

Effective solutions of economic problems have often defied human ingenuity for long periods of time. The Thirties of this century witnessed a great economic depression with tremendous accompanying human misery and loss of production for which the economists could not find a solution until the second World War changed the entire economic scenario itself. The Keynesian economics which emerged on the horizon as a 'revolution' in the realm of ideas with the publication of the *General Theory of Employment, Interest and Money* in 1936 has continued to influence economic policy, even under a basically inflationary world economic situation. The new phenomenon of stagflation, symbolizing an unhappy coexistence of stagnation and inflation, continues to baffle economists. It has, by and large, defied a full-scale explanation, what to say of an adequate corrective policy. The rise of monetarism, combined with the refinements of supply-side economics, is the

result of the alleged failure of the Keynesian fiscal-monetary policy package in a world where the risks of recession and unemployment are at least as great as those of inflation. While the emergence of the monetarist cult is not exactly a counter-revolution, it has certainly forced the Keynesians to have a closer look at the micro-foundations of macroeconomic policy, especially with respect to demand management. In this connection it is interesting to quote from Keynes's *General Theory of Employment, Interest and Money:* "Unemployment develops, that is to say, because people want the moon; men cannot be employed when the object of desire (i.e. money) is something which cannot be produced and the demand for which cannot be readily choked off."

The world economy in more recent times, moving at a fast pace, has thrown up new problems of economic management, at a rate faster than the ability of the economic profession to find answers to them. Most of them seem to be analysing the past and addressing the problems of yesterday rather than preparing to find answers to the issues of tomorrow.

In developing countries, the limitations of standard economic analysis, particularly that deriving from Keynesian economics, have become even more obvious. The lack of adequate and timely data is a well-known phenomenon in these countries. There is then the difficulty of applying the traditional tools of analysis evolved in developed market economies to the less perfect markets operating in less developed countries. The perspective gets even more blurred by the additional injection of views and opinions from non-experts who, quite naturally, insist on projecting their biases and prejudices and the pseudo-technical analysis based on them as scientific truths! Economics has been a happy hunting-ground for the non-expert and a tempting field for trespass because of the seemingly familiar nature of the problems. I invite you to fill the vacuum with scientific studies, crowding out the prejudicial views of the pseudo-experts and keeping the territory safe from encroachments of the charlatans and quacks.

Let me add that despite these difficulties and limitations the economic profession in Pakistan has made a remarkable contribution to the understanding of national economic problems. A large body of literature has developed which provides considerable insight into the functioning of the economy. This has helped to raise the level of policy-formulation and decision-making, thus influencing the pace of economic development in the country.

Pakistan's economic progress since its Independence in August 1947 has been a remarkable success story in the Third World's overall struggle for economic independence during this period. The nation has a right to be proud of its record of achievements in the past, without, of course, being complacent about the future.

Economists and policy-makers of the country can justifiably share this pride, as they had a direct role in building the economy on sound lines during this entire period.

The economy of Pakistan witnessed an average growth rate of 5.2 percent per annum – if we take the entire period of 34 years from 1949-50, when the first national accounts were prepared in Pakistan, to 1982-83. With an average annual growth of population of 2.9 percent during this period, per capita income has been rising at a steady rate of 2.3 percent for a sustained period of three-and-a-half decades. There are a number of experts who believe that the growth in the GDP has been considerably underestimated in Pakistan over a number of years, especially during the latter part of the Seventies and the early Eighties, mainly owing to an inadequate estimation of the contribution of the informal sector. I leave such controversies to be resolved through further research by economists and statisticians.

Pakistan's growth record, even without any adjustment for the suspected underestimation, is in many ways a unique performance. True, it is not uncommon to find countries that have registered such high growth rates for short periods of time in their history, associated with certain favourable factors; but there are only a few countries which can claim such long-term sustained high growth as Pakistan has managed to maintain. According to the *World Economic Report 1983*, out of about 120 countries in the world for which comparable data are available, only 40 were able to maintain an average growth rate of 5 percent or more during the 1960–80 period. In this list, there are six countries whose income is derived to a large extent from the production and export of oil. Among others, 10 countries relied heavily on commercial borrowing and the majority of them have since been overtaken by serious debt crisis. By comparison, Pakistan's steady long-term growth performance stands out. It belongs to a highly select group of developing countries in the post-war period, particularly among the countries with a large population. It may be noted that as many as 19 countries recording growth rates in excess of 5 percent during the 1960–81 period belonged to the category of those nations whose population is below 10 million.

The per capita income of Pakistan at $350 in 1981, according to the *World Bank Atlas*, was 25 percent higher than the average for low-income countries. This is no small achievement for a country born under the shadows of dire predictions regarding the non-viability of its economy and unremitting compulsion for it to carry a disproportionately large burden of defence expenditure.

The overall growth performance is equally clearly reflected in other sectoral indicators of the economy. The industrial sector was conspicuous by its virtual absence in 1947. Largely based on cotton ginning and wheat- and rice-milling, apart from an odd sugar and textile mill in one or the other province, the value added by the large-scale manufacturing sector contributed hardly 2 percent of the GDP in 1949-50. In 1982-83, the share of large-scale manufacturing, which covers almost

the entire spectrum of industries from textiles to the manufacture of basic steel, fertilizers, machinery, electronics and chemicals, is estimated at 12.7 percent of the GDP. By comparison, the contribution of agriculture as a proportion of GDP has declined from 53.2 percent in 1949-50 to 29.7 percent in 1982-83. Having gone through the vicissitudes of fortune, agriculture has of late re-emerged as a vibrant sector, producing exportable surpluses in all major and some minor crops ahead of the export possibilities.

In the field of energy, the average per capita consumption of electricity was 4 kWh per annum in 1947-48. It went up to 223 kWh per capita in 1982-83, despite the attempts to suppress the demand to the level of actual availability through load-shedding and brown-outs. According to the 1980 Census, 71 percent of the urban houses already have access to electricity. Similarly one-third of the 45,000 villages had received electricity by the end of the Fifth Plan.

The rate of economic progress in recent years has been even higher than the average long-run growth rate. During the five years from 1977-78 to 1982-83, the average growth rate of GDP has been 6.2 percent per annum. After allowing for the high population increase of about 3 percent, per capita income has grown at a rate of over 3 percent per annum from 1978 to 1983. The cumulative growth in per capita income by 24 percent during these five years was more than twice the growth in the preceding five years. Agricultural growth rate at 4.2 percent per annum for this recent period represents a record for the country and can compare favourably with that of any rapidly developing economy in the world. In fact the cumulative growth in agriculture during the past five years has made a qualitative difference to the national agricultural scene. Subsistence agriculture is being transformed into a market-oriented agriculture. Agricultural deficits have been gradually replaced by surpluses which can, and by and large do, absorb the impact of climatic variations on output.

The growth in the manufacturing sector (large and small) at around 9 percent per annum has cumulatively added 68 percent to the size of the industrial sector of the economy and has been the main element inducing long-run structural change in Pakistan's economy. The share of industrial sector (which includes, in addition to manufacturing activity, mining, gas, electricity and construction sub-sectors) in relation to the GDP went up to 26 percent in 1982-83. This compares with 17 percent as the average for low-income, developing countries other than China and India. The share of the industrial sector in the upper-middle-income countries is 35 percent.

Pakistan's export performance during this period has been a specially bright feature. Exports have increased at a trend rate of 10 percent per annum in volume terms and of 15 percent in dollar value over the past six years. In cumulative terms, the increase has been 132 percent. Diversification of exports has reduced both the commodity and country concentrations of exports. The share of manufactured exports in total exports has increased to 57 percent and the share of non-traditional exports (other than 10 major items) to 41 percent. The rate of growth in non-traditional exports has been 20 percent per annum for the last six years.

Workers' remittances from abroad have increased even faster than physical exports, recording an average growth of 31 percent per annum for six years. By 1982-83, the foreign-exchange earnings from workers' remittances virtually equalled those from exports.

Reflecting the impact of the second 'oil shock', imports virtually doubled between 1976-77 and 1980-81. Thereafter, imports have remained unchanged at around \$5.5 billion on account of the impact of strong import-substitution measures in wheat, sugar, fertilizer, cement, steel, and agricultural machinery, and as a result of an equally firm demand-management policies. On a trend basis, imports have increased by only 4.5 percent per annum in volume terms over the last six years, well below the rate of growth of exports and the GDP.

The current account balance-of-payments deficit, which stood at \$435 million in 1982-83, has brought down dependence on foreign assistance to a net level of 1.2 percent of the GNP. Even with the setback in cotton, the balance-of-payments deficit is expected to be around 2 percent of the GNP in 1983-84.

Let me hasten to add, however, that what has been achieved so far was the easier part of the task before the nation. The more difficult and complex problems will confront us (as in fact they have started doing already) as we enter the next stage of development. We have utilized a considerable part of the potential for growth which exists on the surface and can easily be harnessed with strong, imaginative management policies and discipline. At higher levels of production, a fast growth rate is not as easy to come by. Further, progress towards a more mature economy would depend upon how we face the new problems of adulthood.

This Annual General Meeting of the Society is in a sense being held at a very propitious time in Pakistan's economic history. It is not only that we have just moved from the successful completion of the Fifth Plan to the implementation of an even more demanding Sixth Plan. We are indeed in the process of entering a phase of development which calls for in-depth studies of some fundamental issues with a view to bringing about some basic structural changes in the economy.

The problems and issues to which I refer can be identified in each sector. I have no intention, however, of placing before you a comprehensive list of such issues covering the entire economy. I will simply illustrate their nature with a few examples.

Let us take up, firstly, the *quality* of growth in the productive sectors. Despite this year's setback, agricultural growth has been highly encouraging. But it is still based precariously on the incentives and support provided by the Government in the form of assured support prices for the output which, in some cases at least, had to be

fixed above international prices for products of comparable quality. At the same time, the prices of a number of key inputs still reflect substantial subsidy. This system was essential during the period of import substitution as initial inefficiencies in the use of modern inputs had to be tolerated. The system also worked well so long as the major problem was to increase production in order to eliminate domestic deficits. As we start accumulating surpluses and seek export outlets, the question must be answered whether it is desirable to continue expanding production at this cost to the consumer and the tax-payer. Even if we do so, how will the resulting surpluses be disposed of? The importers abroad cannot be expected to pay more than the prevailing world prices and would demand higher quality standards than have traditionally prevailed in the country.

We need to study ways of improving the efficiency of use and productivity of various inputs in order to obtain higher yields per acre and thereby reduce the cost per unit of agricultural output. In short, we would need a highly competitive and efficient agriculture with flexibility of response to the changing market patterns. This makes it absolutely essential to develop sound supporting institutions for agriculture which would also serve to cushion the impact of adverse weather. The nature of support provided to the farmer would also have to be different in this phase. In addition to just providing protection on the prices of inputs and outputs, we have to build his competitive strength through more purposive research, reinforced by an effective extension network, and an adequate availability of essential inputs at the right prices. These changes are not easy, but would have to be managed in order to maintain the growth momentum in agriculture for domestic consumption and exports.

Similarly, the expansion of the industrial base, though highly gratifying, has required until recently a high level of protection. The textile industry, which heralded the industrialization process in the country, has developed behind the walls of a total ban on imports. In a completely sheltered market, not much attention has been paid, generally speaking, to the quality of output and an effective use of cost-reducing techniques. Although the latter-day industries did not develop exactly in the same hothouse atmosphere, they too have enjoyed a high degree of protection, which is quite high even though its average incidence has tended to decline with the passage of time. The need of the country to restrict imports to conserve foreign-exchange resources and the fiscal imperative to use tariff as a major source of revenue have provided an overall level of protection which is, in many cases, in excess of what would have been justified as the minimum necessary for the development and efficient working of the domestic industry. In the circumstances, it is not surprising to come across industries whose contribution to national welfare cannot be fully established at this stage. Indeed, some studies show that in the case of a number of important industries, the value added in them, when evaluated at international prices, is negative. In other words, the national resources consumed by such industries are larger than the 'true' value of their output. One can only hope that over a period these industries will attain, with only reasonable levels of protection, an optimum economic size and gain sufficiently high standards of efficiency to make a positive contribution to the value added. A gradual process of exposing such industries to an acceptable level of foreign competition, therefore, seems to be an essential requirement for achieving an efficient growth of the large-scale manufacturing sector. Also, to induce a desirable change within the industrial sector the government intends to shift its support from the consumer goods to capital goods, chemicals and high-technology industries.

The essence of an industrial society is the attainment of high levels of technological advancement. An industrial sector without making adequate arrangements for research and continuous transfer, assimilation and adaptation of latest technology will never be able to transform itself into a dynamic self-perpetuating force for economic progress. No doubt, we have a sizeable industrial apparatus in the country, producing a very large and diversified volume of goods, but most of this is based on processes and technology transplanted bodily from abroad, without making the necessary adaptation to make them suitable to our resource endowment. The task ahead lies in strengthening the technological foundations of our industrial sector.

At a different level, the issue which continues to affect the entire spectrum of developmental activity is the persistently low level of saving and investment in the economy. Perhaps, as is believed by some experts, the data on saving and investment understate their real magnitudes because of the inadequacy of the estimation techniques employed to measure the contribution to the value added in the formal agricultural sector and in the small-scale industrial enterprises. Irrespective of the degree of underestimation, however, the fact remains that the saving and investment rates in the economy are well below the desirable level. Domestic capital formation (i.e. physical investment other than the accumulation of stocks) was estimated at 16.2 percent in 1982-83 and the gross domestic investment (including accumulation of stocks) at 18.8 percent. This compares with the average of 21 percent for low-income countries and a level of 25 percent for India and China. Pakistan would, in fact, require a higher investment rate to support its relatively high growth rate of GDP and to generate adequate employment for its labour force, which has expanded at around 3 percent per annum. Unemployment pressures have been averted for a number of years, thanks to a large out-migration of labour: almost 10 percent of Pakistan's labour force is working outside the country. With the possible return-flow of workers from some of the countries or at least with the stoppage of net migration abroad, employment problems are likely to acquire a serious significance for the domestic management of the economy.

Increasing the saving rate to support higher levels of private- and public-sector investments would require substantial structural reform in fiscal and monetary policies. An inelastic tax system, based largely on taxing the external-trade sector, has required all the effort towards additional tax measures undertaken year after year to avoid a fall in the tax-GNP ratio even below the current level of 13 percent. Income tax is collected from a narrow base of roughly one million taxpayers in the country. The revenue-generating possibilities of corporate taxation have been greatly compromised by a host of exemptions and concessions given by the government, year after year, for private investment. Excise duties are levied only upon a small list of items. No consumption-point tax has so far been attempted. As a result, the tax base does not grow automatically with the growth in domestic production, income and expenditure, and the government is forced to push up the tax rates and increase tax coverage, at every stage, to ensure that the tax-GNP ratio is at least maintained over time. A more broad-based system of taxation would be an essential prerequisite for mobilizing adequate public savings.

Inflation has been a perennial issue in developing countries. We face the problem of inflation in Pakistan as a result of not only our own sins of omission and commission; it is also imported, which is an unavoidable cost of our relationship with an inflation-ridden world economy. We need anti-inflationary policies which would not only avoid generating domestic inflationary pressures, but would also help minimize the impact of inflationary pressures imported from abroad. What policy package would accomplish this is the question that you must direct your attention to.

Unfortunately, even though a large literature has been produced in recent years analysing inflation and its causes and remedies as also the effect of inflation on real wages and incomes, it has tended to produce more heat than light as far as practical policy making is concerned. In a sense, the rate of change in inflation is at least as important as its cumulative effects on income distribution and the relative positions of various groups in the society. Such distributional issues transcend narrow economic analysis as they affect the balance of forces which determine the societal advance towards national goals.

During the Eighties, we would need to give much more attention to these aspects for maintaining growth with stability.

In the field of balance of payments, despite recent improvements, the fact remains that Pakistan's exports earn only half of her total foreign-exchange earnings. The rest comes from workers' remittances from abroad. This is not desirable. We have before us examples of countries which had to make extremely difficult adjustments when recession in the host countries forced a return-flow of their labour. We must therefore aim at achieving sufficiently high export growth rates in the long run to make up for a possibly substantial fall in workers' remittances.

Export expansion has been remarkable in the recent past, as I mentioned earlier. However, it required considerable artificial support by way of export rebates, relief in taxation and cheap credit. Such support is possible in the initial stages when the export sector is relatively small. As it grows, it must learn to find its way without artificial crutches. Creating a genuinely dynamic export sector, which must in turn be based on an efficient production in agriculture and industry, to which I referred earlier, would thus be the real long-term challenge for the economy of Pakistan.

This is a formidable agenda for the Eighties for economists and policy-makers. Your research would have to provide the intellectual setting for devising the policy response to these and many others issues of such fundamental nature. I respect the freedom of choice in research. The researchers have a right to select their subjects on the basis of their own perception of what they can contribute best. However, it is equally important for research – particularly, research in social sciences – to be relevant to the issues facing a society. You can contribute a great deal as development economists by emphasizing the 'relevance' factor in making the choice of suitable areas of research. Economic progress of the nation will depend crucially on the results of your research efforts and the quality of the answers that you provide to the basic problems of economic management.

Finally, issues of economic management cannot be examined in a vacuum. They have to be studied in the context of a particular society, its values, laws, and institutions that govern economic relations amongst the individuals and economic entities. In turn, economic development must contribute to building a humane and just society. It should serve to consolidate the values which a society holds dear and should create national harmony and solidarity on the basis of shared values. The evolution of a societal pattern and its values are as much a concern of the economists as of experts from any other field.

In Pakistan, we have definitely and irrevocably committed ourselves to the creation of a truly Islamic society, based on the fundamental principles of *'Adl* and *Ihsan.* It is our intellectual and religious obligation to translate these Divine precepts into the crucible of real-life institutions.

Islam is a complete way of life and the Islamic economic system can only be appreciated as an integral part of this perfect system, governing all aspects of the lives of individuals as well as the overall societal relationships. Like the view through a prism, selected parts of the Islamic system may at times reflect colours which could be identified with those of some of the existing systems. However, this confusion of misplaced identity can easily be avoided by keeping the view focused on the "totality" and comprehensive view of Islam which gives its economic system its unique character.

We must clearly understand that the Islamic economic system, based on *'Adl* and *Ihsan,* is neither "Islamic Capitalism", nor "Islamic Socialism". I can think of no way by which you can Islamise capitalism and still call it capitalism of some sort. Even if the institution of interest, the sheet-anchor of the capitalist system, is replaced by the Islamic concept of profit- (loss-) sharing it will not cleanse it of its numerous other exploitative attributes to deserve being called Islamic.

I am not implying that interest (as *Riba*) has any place whatsoever in an Islamic economic system. Indeed, we have been making every possible effort to abolish interest in Pakistan. All that I am emphasizing is the inadequacy of an approach to Islamisation which features only the replacement of interest by profits in the modern banking system, for the simple reason that the modern concept of profits also bears an indelible capitalist mark. It follows that *so long as profits are also not Islamically legitimate, we may end up replacing capitalism with capitalism.*

For a complete societal transformation, such features of the capitalist system as set it apart from other social systems – e.g. choice of investment, pattern of production and consumption, spending behaviour of consumers, maximization of profits, the distribution of income and wealth and unbridled operation of the market mechanism – will have to be made to conform to the value system of Islam which places an obligation on the society to create an environment in which each individual can develop and realise his full potential. This, of course, will call for a fundamental reformation of the society and will, therefore, take time.

Islamic Socialism is equally meaningless, both as a concept and as a blueprint for social reform. Unlike Socialism, Islamic economic system does not seek to abolish private property. Nor does Islamic thinking regard State control of the means of production *per se* as an unmitigated good. In an economic dispensation based on *'Adl,* a proper balance is sought between the ownership of the means of production, the discharge of social obligations corresponding to this ownership, and regulation of the forces of production for the collective good of the society. In this framework, the concept of absolute ownership, be that of the State or of the individual, gets replaced by one of "trusteeship", for "only Allah is the absolute owner of every thing in the Universe". The primary importance in an Islamic system thus attaches not so much to who owns what but rather to what he does with what he owns and whether he does it according to the ethical norms of Islam and in an Islamically legitimate manner. Private initiative as the expression of the energies of the individual is both a national asset and a means for the fulfilment of the individual's obligation to the society. Such initiative has, therefore, to be constantly sharpened, encouraged and promoted. The system, however, places a responsibility on the Islamic State also to continue to guide and direct, if necessary, the private initiative towards a socially constructive role. There is a large area of reform where it will not appear feasible to leave decisions exclusively to the market which simply reflects the equation of economic power at any given time. The task of modifying this equation for maintaining and promoting a just society based on *'Adl* and *Ihsan* can to performed only by an Islamic State organized according to the true spirit of Islam.

Over the past several years, we have been patiently working, step by step, on building up the structure of an Islamic economy. Specific measures have progressively been devised to ensure, while preserving the continuity of economic life, a definite pace of social and institutional change in the desired direction. Through the introduction of *Zakat* and *Ushr* we have been able to create an effective social security net for the deserving poor and the deprived. Direct financial assistance is now being provided to the bottom 10 percent of all families in the country. Increasingly, an attempt is being made to use *Zakat* funds for the permanent rehabilitation of the *'mustahiqqeen'* and for the institutionalization of assistance to the deserving sections of the society. Personal charity is being replaced by a dignified and constructive support and rehabilitation of those living below the poverty line as a national responsibility.

Considerable progress has also been made towards establishing an alternative financial system free from *Riba.* Apart from the profit- and-loss-sharing counters in all the branches of Pakistani banks, new financial instruments based on Islamic principles have been successfully introduced to ensure that increasing proportions of bank transactions are conducted on a non-interest basis. Some of the major financial institutions have been fully converted into entities which work on profit- and-loss-sharing basis. A new financial structure has thus been evolved which has already become operational. For the present, the old and the new systems coexist, but a comprehensive programme is now being developed in consultation with the State Bank and commercial banks to eliminate, fairly soon, interest from all domestic banking transactions.

I have often said this before and it would bear repetition here that an Islamic dispensation based on *'Adl* and *Ihsan* implies a total restructuring of the entire spectrum of social and economic relations. What we have achieved so far in introducing the Islamic economic system is just a beginning. It has prepared the ground but our goal is still a long way off. The elimination of *Riba* from banking operation and the introduction of *Zakat* and *Ushr* will by themselves not suffice to convert the existing dispensation into an Islamic economic system. The changes would have to be much more basic and would have to penetrate the entire conceptual and institutional framework of the society.

The rhetorical declamation of enforcing Islam in a day may serve the purpose of rallying public support. There is, however, no substitute for solid, unremitting work to translate the Islamic ideal into practical measures in the form of functioning institutions. Our intellectuals, especially the economists, have a duty to advance this work. It has been disappointing that, barring a few honourable exceptions, the economic profession in Pakistan has neither involved itself in, nor identified itself whole-heartedly with the task of evolving and refining of the tools through which the Islamic economic system can be implemented. I urge upon the Society and, through the Society, upon the entire economic profession to devote their energies especially to this fundamental task, the importance of which overrides every other thing.

With these words, I have a great pleasure in inaugurating the First Annual General Meeting of the Society. I wish you all success in your deliberations and would be looking forward to receiving the results of your discussions.