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Economics Department

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Central Budget : 1971-72

The budget indicates the Government's desire to maintain the tempo of growth at all costs. It aims at undertaking development programme costing 550 crores of rupees as against a spending of Rs. 535 crores last year. In pursuance of the Government's policy of eliminating inter-wing disparity East Pakistan gets the major share of the development expenditure. The inter-wing breakup of the expenditure is as follows :—

	Total allocation.	Relief or depreciation	Net dev. exp.
East Pak.	Rs. 279 crores.	Rs. 40 crores for relief work and flood control.	Rs. 239 crores.
West Pak.	Rs. 271 crores.	Rs. 70 crores for Indus basin programme.	Rs. 201 crores.

The financing plan for the development expenditure of Rs. 550 crores is as follows :—

Foreign Aid	=	261 crores.
Expected Operational shortfall.	=	33 crores.
Provinces' share of finance.	=	33 crores.
Internal resources on the basis of present level of taxation.	=	133.5 crores.
Additional Resources.		
(*i*) Recovery of taxes	=	12 crores.
(*ii*) New taxes	=	46 crores.
(*iii*) Deficit financing	=	36 crores.
Sub-total	=	94 crores.
Total		550 crores.

In financing the programme the Government has taken care in reducing the share of foreign aid to 47% of the total expenditure. Similarly the share of deficit financing has been reduced to Rs. 36 crores as against Rs. 155 crores last year. This has been done as an anti-inflationary measure.

A fast growing belief is taking hold in Pakistan that foreign aid is not a total blessing. The reason for this lies in the high cost of aid and its use as an instrument of political leverage. The frailty of our economy was greatly exposed when after the September, 1965 War the World Bank Consortium greatly instigated by political considerations suspended aid, thereby retarding our economic progress. Since then the basic policy of the Government has been to register a dynamic increase in the domestic savings, eliminating the negative export-import balance by a dynamic rise in national exports and reduction in imports of foodgrains and capital goods. The present budget again symbolises our national effort of boosting up domestic savings and thereby attaining a degree of self-reliance in development plans.

The task is uphill and may call for additional sacrifices by the private sector. The new taxes have been levied so as to ensure :—

(1) equity

(2) diversion of resources towards productive channels, and

(3) maximisation of public revenue.

Of the new taxes Rs. 46 crores are to be collected as direct taxes. The revised personal and corporate tax rates are likely to transfer additional resources from the private to the public coffers. These taxes are designed to reduce expenditure and achieve least cost combination by firms.

Efforts have been made to find new avenues of public revenue and also to increase the yield from the old ones. In the latter case, measures have been announced to recover unpaid taxes by changes in the tax administration. Measures have also been suggested to reorganise public investment in such organisations as Water & Power Development Authority, and Pakistan Industrial Development Corporation in order to increase the yield from such investment. Some new sources of revenue include tax on guests above a certain number in social gatherings, compulsory savings for Government servants by transfer of their annual increments to the purchase of saving certificates, etc.

Budget has also proposed specific measures to increase exports by providing special facilities to the exporters.

The present budget has given greater importance to education and in this respect some new measures like allocatian of money for research, creation of book-banks and award of talent scholarships have been proposed. Apart from this the creation of funds for giving financial aid to technicians undertaking small business would go a long way in reducing distress amongst the educated class. These measures go a long way in promoting social justice in the country.

Agricultural sector has been brought in the *ambit* of income taxation. There is a common belief in Pakistan that agricultural income in this country is not an earned income as industrial, commercial or professional income is. Taking away additional revenue by progressive taxation out of such "earned" or "semi earned" income of this leisured class is in conformity with the principles of distributive justice.

Budget has aimed at self-reliance through greater mobilization of domestic resources. Of course, the goal of complete self-reliance is quite far off and will still require greater efforts. Dependence on direct taxation is a welcome departure from the previous practice of raising revenue through indirect taxes and deficit financing.

The present budget is also a common man's budget for deficit financing has been curtailed to counter rising prices and the taxes have been imposed in such a way as the incidence does not pass on to the common denominator of the society.

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Role of the State Bank of Pakistan during the Five Year Plans*

WASEEM M. SANA

The main responsibility of the State Bank of Pakistan as laid down in the State Bank of Pakistan Order 1948 was to regulate the issue of Bank notes and the keeping of reserves, with a view "to securing monetary stability in Pakistan and generally to operate the currency and credit system of the country to its advantage."

The Bank was confronted with serious administrative and organizational problems in the early year following its inception. Apart from having to render normal central banking services, it had to accomplish the difficult task of replacing the Indian currency within a short period. The responsibilities assigned to the Bank originally were confined mostly to the traditional functions of central banking, *e.g.* note issue, banker to the Government including management of public debt, banker to banks, regulation of credit etc. but, thereafter, owing to the urgency of economic development the functions of the Bank have been steadily augmented to enable it to sponsor and promote developmental activity. Thus the sphere of the Bank's current activity is wide and comprehensive and represents combination of the orthodox central banking functions alongwith the manifold operations connected with a variety of developmental and promotional programmes.

The State Bank of Pakistan Act 1956 forms the basis of its operations today. The 1956 Act requires the Bank to "regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country's productive resources." This explicit recognition of the developmental role is the central goal for rapid economic growth. The State Bank thus combines the orthodox central banking functions with a well-recognised developmental role. The basic objective underlying its working is two-fold, namely the maintenance of economic stability, and the promotion of economic growth. It is also the ultimate reservoir of liquidity for the banking system.

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*Based on author's dissertation accepted by the Universty of the Punjab in partial fulfilment of M.A degree.

Assessment of State Bank of Pakistan's Role during First Five Year Plan

Immediately after Independence, the country faced a serious banking crisis due to the wholesale migration of the banking staff to India. The immediate task of the Government was to establish a Central Bank and to rehabilitate commercial banking which had been seriously disrupted. Soon after its inception, the State Bank of Pakistan successfully accomplished this task within four years. In 1955, the number of offices of the Pakistani banks were 163 as compared to 40 in 1948. The Pakistani banks now had command on 50% of total deposits and played a major role in the movement of cash crops and the provision of short term credit for new industries. Their growth had been greatly stimulated by the action of the State Bank in confining the opening of new branch offices by foreign banks to ports and other main commercial cities. While the credit demand remained rather inactive, bank deposits continued to rise. The general practice of banks was to use their resources for investment in Government securities. They were able to meet the demand for bank credit from their own resources and their dependence on the State Bank was only marginal. However, as new problems emerged, it became necessary to enlarge the operations of the State Bank. The State Bank had to be given more extensive powers for performing its functions as the central banking authority.

The period 1955-60 witnessed a considerable expansion of banking in the country under the guidance and control of the State Bank. The relevant details of the progress achieved in the field of commercial banking are given below :-

Progress of Banking/Number of Banking Offices

End of June	Pakistani Banks	Foreign Banks	Total
1955	163	88	251
1956	177	84	261
1957	197	78	275
1958	232	75	307
1959	296	73	369
1960	358	72	430

Source :—Pakistan Marches on Road to Prosperity—By Dr. Anwar Iqbal Qureshi.

Bank credit increased and changed radically due to the introduction of the comprehensive programme of stabilization and economic reform undertaken after 1958 when the new Government took over, shifting the emphasis in favour of private enterprise. This is shown in the following table :-

Bank Credit

(Rs. in crores)

End of June	Advances	Bills purchased and discounted	Total Bank Credit
1955	74.69	13.72	88.41
1956	80.35	11.21	91.56
1957	102.81	10.46	113.27
1958	111.62	10.93	122.55
1959	113.80	10.40	130.20
1960	146.56	15.18	161.74

Source :—Money and Banking in Pakistan—By S. A. Meenai

This table provides an eloquent proof that upto 1958 bank credit increased only at a negligible rate, mainly due to direct controls of the State Bank. Liberal economic policies and the removal of price and distribution controls by the State Bank resulted in an increase of Rs. 31.54 crores during year 1959-60 as compared to an increase of Rs. 7.75 crores during the year 1958-59. As in 1957, there was some evidence of bank finance being employed for speculative purposes, the State Bank imposed selective credit controls. *Directives were issued to the banks in June, 1957 to limit their advances against imported manufactured goods, bullion, food-grains and oil-seeds to a maximum of 60% and to restrict unsecured advances to the maximum of Rs. 50,000 to any individual party. These measures had the desired effect : they brought about a sharp decline in the restricted category of advances. The restrictions were withdrawn in November, 1958 to relieve the strain on account of stalemate in trade following the precipitate fall in consumer goods prices consequent upon on the declaration of Martial Law in the country.

* Report on Currency and Finance : 1956-57—1957-58

The Bank rate was raised from 3 per cent to 4 per cent in 1959. The rise in the bank rate was followed by a rise in the advance rate of commercial banks and certain other credit institutions, though the deposit rate failed to rise appreciably.

Bank Deposits (Rs. in crores)

End of June	Demand Deposit	Time Deposits	Total Deposits
1955	127.02	51.94	178 96
1956	143.12	56.38	199.50
1957	149.01	56.86	205.87
1958	168.92	70.02	238.94
1959	186.96	75.34	262.30
1960	199.71	94.60	294.31

Source :—Money and Banking—By S. A. Meenai

From the foregoing table it is apparent that the trend in favour of time deposits in recent years has been strengthened by a number of factors, *e.g.* in the year 1959 after the declaration of the Tax Amnesty Scheme, there took place substanial conversion of hoarded money into time deposits. As mentioned earlier, the rise in the Bank rate from 3% to 4% by the State Bank did not result in the deposit rates to rise appreciably.

It is significant to mention that from 1953 onwards, there began a period of continuous increase in Government expenditure unaccompanied by a corresponding rise in public resources and non-inflationary borrowing; thus there occurred a substantial increase in the money supply. The devaluation in August, 1955 temporarily improved the balance of payments but strain set in once again, on account of large overseas Government disbursements partly necessitated by food imports and a continuing deterioration in the terms of trade.

Money Supply (Rs. in millions)

Period (End December)	Currency in Circulation	Demand Deposit General	Other Deposits with SBP	Money Supply
1955	2,989.5	1,326.5	53.5	4,369.3
1956	3,464.1	1,429.7	28.9	4,920.7

1957	3,583.1	1,562.1	88.5	5,233.7
1958	3,742.1	1,708.6	51.4	5,502.1
1959	3,844.3	1,871.3	46.2	5,761.9
1960	4,179.3	1,932.8	47.01	6,159.1

Source :—Deficit Financing and Capital Formation—By Pervez Hassan

Inflationary pressures continued to build up during the early years of the First Plan. The monetary situation was reviewed by the State Bank and it led to the conclusion that since incomes were being generated by Government financial operations, a generally restrictive monetary policy would not be of much help and might even harm productive activity. Under the impact of the stabilisation measures adopted by Government, the rate of monetary expansion slowed down considerably in 1958-59. Bank credit to the private sector recorded a net decline over the year and the price situation improved. The rate of monetary expansion, however, tended to accelerate in 1959-60 when, despite the contractionary influence of the Government sector, money supply rose by Rs. 387. 2 millions. This rise was mainly due to the monetisation of the balance of payments surplus and use of bank credit to the private sector.* In the closing months of 1959, unhealthy trends developed in the share market and there was a large scale subscription to share of newly floated companies, largely with borrowed funds. In order to prevent such speculative expansion, the State Bank imposed selective credit controls in Jaunary, 1960, limiting advances to 60 per cent against shares of established companies and 50 per cent against shares of newly floated companies. To ensure that the liberalisation of imports and other dis-inflationary measures taken by Government excercised their full impact on the price situation, the State Bank decided to restrict credit against the stocks of imported goods. In March, 1960, a directive was issued requiring banks to limit their advances against imported manufactured goods (except industrial machinery, and iron and steel) and cotton yarn (except for export) to the extent of 60 per cent of the value of such goods. These restrictions taken by the State Bank removed the unhealthy trends and the situation was much relieved.

* State Bank of Pakistan (Chief Accountant's Department)

In a way, we can say that since the creation of Pakistan, it was in 1955 that the indispensibility of national plan for development based on the fullest possible utilization of the country's productive resources was felt. Planning in the present stage of our society means the formulation of programme and policies designed to lead it by a consciously directed and accelerated movement from a largely technologically backward and feudalistic stage into the modern era of advanced technology. Economic development is a part of this general process of social change, and planning signifies our intention to influence, regulate and adapt it along the lines desired by us. The utilization of the country's productive resources is of special mention since it also forms the preamble of the State Bank of Pakistan Act 1956. It is worth observing that since the inception of the State Bank, it has taken on its slender shoulders the onerous responsibility of not only performing its normal functions as the Central Bank, but also the restoration and rehabilitation of banking in the country. Nevertheless, it was to play a much more active role in the years to come.

Second Five Year (1960-65)

It is generally said that a return to stability after a protracted period of inflation will be followed by a certain slackening in economic activity until the business community adopts itself to the cessation of increase in general prices. However, experience shows that these transitional difficulties give way before long to a period of enterprise and sustained growth, especially when fostered by suitable measures towards that purpose. It has always been the considered policy of the State Bank to create conditions of monetary stability in order to provide a healthy environment for economic growth. Towards this, Jacobson says, "those countries who have maintained relatively stable monetary conditions have derived distinct advantage."

It is in this context that we can sum up the role of the State Bank and its effect on the economy during the Second Five Year Plan. During the year 1960-65, the banking system was under considerable pressure. On the average, bank credit rose by Rs. 68.42 crores per annum during 1960-63; this compares unfavourably with the average annual increase of Rs. 13 crore only in the preceding three years. This expansion was far in excess of Rs. 40 crores stipulated in the revised Second Five Year Plan. Bank credit increased by Rs. 112.13 crores and Rs. 159.64 crores during 1963-64 and 1964-65 respectively. This brought the aggregate expansion in bank credit during the Second Plan period to Rs. 477.03 crores which was more than six times the increase of Rs. 73.33 crores during the First Five Year Plan. It was in January, 1965 that the State Bank took a series of credit control measures following which the rate of increase in bank credit slowed down perceptibly. The year to year movement of bank credit during 1960-65 is set out in the following table.

Bank Credit (Rs. in crores)

End June	Advance	Bills purchased & discounted.	Total Bank Credit
1960	146.56	15.18	161.74
1961	203.01	17.27	220.28
1962	263.35	22.80	286.15
1963	337.22	29.78	367.00
1964	443.95	35.18	479.13
1965	597.95	40.82	638.77

Bank Deposits (General)

Period End June	Demand Deposits (1)	Time Deposits (2)	Total Deposits (1+2)
1960	199.71	94.60	294.31
1961	199.07	122.75	321.82
1962	219.01	150.71	369.72
1963	277.98	193.52	471.50
1964	327.40	343.21	570.61
1965	365.51	322.77	688.28

Source :—Money & Banking By S.A. Meenai.

The expansion in bank deposits failed to keep pace with the growth of bank credit. The foregoing table amply displays that total deposits of scheduled banks registered a record increase of Rs. 101.78 crores to Rs. 471.50 crores in 1963 than the preceding year and roughly four times that recorded in 1960-61. This is attributable to the fact that in the year 1961-62, the State Bank persuaded the banks to increase the rate of interest on saving bank account from 2 per cent to 2½ per cent to attract more deposits. Bank deposits increased by Rs. 99.11 crores in the year 1963-64 and reached the level of Rs. 688.28 in the year 1964-65. The main contributary factors were the enlarged deficit in the Government financial transactions and rapid increase in the number of bank branches which went up by 293 to 1,591 over the year. This was also due to the penal rates of interest levied by the State Bank on the scheduled banks which compelled the banks to make efforts to attract more deposits in order to avoid borrowings from the State Bank. Despite a higher rise in bank credit, money supply rose only nominally during 1960-61 as compared to the rise during 1959-60 as shown in the following table :-

Money Supply

(Rs. in Lacs)

CURRENCY					DEPOSITS		
Last Period	Out-standing	Held by State Bank of Pakistan	In Tills of scheduled banks	In cir-culation	Demand Liabi-lities	Other Deposits with SBP	Money Supply
Dec. 1960	433,01	9,88	8,25	414,88	193,28	4,70	612,68
Dec. 1961	428,61	15,05	11,15	402,51	210,41	5,12	617,53
Dec. 1962	431,08	9,08	14,30	407,70	235,86	5,02	648,58
Dec. 1963	473,66	12,08	13,68	447,90	288,15	5,08	741,13
Dec. 1964	528,58	6,75	16,35	502,48	362,18	5,52	870,18
Dec. 1965	607,19	28,65	30,77	547,76	392,45	9,36	949,57

Excluding IMF Account No. 1, Special Commodity Aid Accounts, IBRD Indus Account, U. S. Disbursing Officer's Account, Deposit Accounts of U. S. Development Loan, Deutsche Bundes Bank Frankfurt/M Special Account. Deposit Accounts of German Loans excluded from March, 1963.

Source—State Bank of Pakistan Bulletin, January, 1967.

This was mainly due to the decline in the foreign exchange reserves of the country and a substantial shift towards time deposits. The State Bank, therefore, did not feel it necessary to impose any credit control measures; on the contrary, certain restrictions imposed in March, 1960 were withdrawn in the case of East Pakistan. The State Bank impressed upon the commercial banks the need for restraint in their lending activities and exhorted them to intensify their efforts towards mobilization of deposit resources with a view to reducing the dependance of the banking system on central bank finance. The borrowing limits allowed by the State Bank to the commercial banks were scaled down.

As compared to the modest increase in 1960-61, money supply rose at a considerably faster rate in 1961-62 as shown in the foregoing table. Both the private sector credit expansion and fiscal operations of the Government exercised expansionary influence on the money supply. The State Bank prevented the flow of bank credit to inessential sectors and speculative uses. As prices remained stable during 1961-62, general restrictions in the credit field were not called for. However, certain selective credit controls were considered necessary in order to restrain future monetary expansion. In January, 1962, the 40 per cent margin requirements which operated previously against imported manufactured goods was extended to cover advances against imported iron and steel (excepting industrial licence). While operating these measures, the State Bank ensured that the credit expansion for genuine commercial and industrial requirements is not restricted and in this context lent substantial amounts to State-sponsored corporations to help continued growth in the agricultural and industrial sectors of the economy.

The rate of monetary expansion accelerated considerably during 1962-63. Though prices remained stable during the earlier part of the year, demand pressures intensified towards the close of the year and monetary demand seemed to be outstripping availabilities. The State Bank introduced several credit control measures in the beginning of 1963-64.

They were as follows :—

*1. Introduction of a quota system under which ceilings were fixed on the amounts that each scheduled bank was entitled to borrow at the Bank rate.

2. Simultaneously, accommodation to each individual bank under the Bill Rediscounting Scheme was limited to the maximum amount drawn under the scheme during 1962-63.

3. Moreover, reserve requirements which had hitherto been 5 per cent of demand liabilities and

*Pakistan's Development—Papanek.

2 per cent of the time liabilities were raised to a uniform 5 per cent of the aggregate of demand and time liabilities.

The most significant measure introduced by the State Bank was the Quota System for its lending to commercial banks. Under this system, ceilings were fixed on the amounts each scheduled bank could borrow at the bank rate. The Quota System, though seemingly more complex technique of credit control, had all the advantages which accrued from a higher bank rate and, in fact, it had certain additional advantages. It placed a distinct premium on deposit mobilisation by linking the quota of a bank to its deposit resources, thereby according a more favourable treatment in respect of assistance from the State Bank to such banks as made greater efforts for increasing their deposit resources. This effect was highly appropriate in a situation where the primary objective was not to freeze the bank at a given level but to encourage the banks to finance it from their own resources rather than by recourse to central bank borrowings. A higher bank rate could not offer this incentive as it would have meted out the same treatment to all banks regardless of their performance in the field of deposit mobilization. The Quota System also provided a powerful stimulus to the extension of credit to the small man in so far as small loans upto Rs. 25,000 were exempted from the purview of the Quota System and the banks were allowed to borrow from the State Bank upto the full amount of such loans at the minimum rate prescribed under the Quota System. Finally, the Quota System permitted the extension of central bank credit for specific purposes such as agricultural finance, industrial finance, and export finance as at the existing level of interest rates.

The foregoing credit control measures, however, failed to correct the monetary situation. On top of an increase of Rs. 187.52 crores in money supply during the two years ended at June, 1964, the rate of monetary expansion accelerated further after June 1964. This exercised a pronounced upward pressure on the price level. With effect from 18th January, 1965, the Quota System was amended so that all types of borrowings of banks from the State Bank of Pakistan could be covered by it, including borrowings by banks to cover up their lending to Central and Provincial Governments for their procurement schemes. These steps had contractionary influence on the money supply. Another contributary factor was the rise in the cash reserve requirments of scheduled banks from 5 per cent to 7½ per cent. Late in June, 1965 bank rate was raised from 4 per cent to 5 per cent.

Third Five Year Plan (1965-70)

The year 1965-66 marked the beginning of the Third Five Year Plan with hopes that its successful implementation will take the economy a step nearer to stage of self-sustained growth. The conflict with India in September, 1965 necessitated modifications of monetary policy, so that economic development, particularly in the private sector, was not impeded.

Pakistan's Third Five Year Plan was approved by the National Economic Council in May, 1965, which involved a total expenditure of *Rs. 5,200 crores ; Rs. 3,000 in the Public Sector and Rs. 2,200 crores in the Private. Rs. 2,700 crores were earmarked for East Pakistan and Rs. 2,500 crores for West Pakistan. The fulfilment of the Third Plan called for much greater effort on the part of the nation. The success of economic policy would in the main be judged by the extent to which it can keep up the momentum of development without giving rise to unfavourable side effects. While opportunities for further improvement in economic performance should not be under-estimated, prudence demands that the success of the past should not make us complacent about the problems which now confront us. In 1966, the country was seeking to reduce its dependence on foreign aid in a shorter span than originally stipulated. This required a much greater mobilization of national resources. In reorientating our development strategy, the usefulness of foreign aid cannot be denied but its continuity or even flow is not always easy to ensure. The basic object of development effort is to raise the standard of living of the people. The effort is meaningless from the national point of view if the process leads to the creation of a few small pockets of extreme affluence

*Economic Survey 1965-66 prepared by the Economic Adviser, Ministry of Finance.

while the rest of the people continue to be steeped in abject poverty. Such a situation is not only undesirable from the point of view of creating harmonious society but is also inimical to long term economic growth. One fundamental objective of these Plans is to lift the nation from the quagmire of poverty. It was in this context that the Third Five Year Plan was launched in 1965. I assign the success of the Third Plan to be audited by an unbiased economist of future, since this does not lie within my domain. Nevertheless the predominant role of the State Bank in augmenting national resources and ensuring monetary stability will remain to be the pivotal point of my exercise and will receive primary attention in the succeeding pages.

It is imperative that every under-developed country should do its utmost to develop its economy to make it attain the take-off and, still more, the self-perpetuating stage in the shortest possible span of time. The goal before such a country is to reach that stage of economic growth where it can dispense with all foreign aid, and show a favourable balance of trade, where it can provide employment to all and where a tendency towards equalization of incomes is evident. This is supposed to be the age of the common man, and it is fashionable to champion the cause of the underdog. There is a clamour for more equitable distribution of wealth. There can be no two opinions about the desirability of a more widespread distribution of wealth. The State Bank of Pakistan as the apex of the monetary structure has an important task to perform in the execution of these plans.

In what follows, I will be summing up the role of the State Bank during these five years, *i.e.* 1965-70.

Total bank credit registered an increase of *Rs. 3,215 million (or 50%) to Rs. 9,603 million during first four years of the Plan. In 1965-66, bank credit increased at a modest rate of 2.9%. The slackening in the rate of credit expansion occurred despite the significant relaxations in the credit policies of the State Bank. It may

* The Fourth Five Year Plan 1970-75, pp. 52. Planning Commission, Government of Pakistan.

be recalled that the Quota System was withdrawn with effect from 16th August, 1965, while at the same time the cash reserve requirements of the scheduled banks were reduced from 7½ per cent to 6¼ per cent. The cash reserve requirements were further reduced to 5 per cent on 17th September, 1965. A number of relaxations were also made in the selective credit controls. The only factor which might had exercised a contractionary influence was that the bank rate was raised from 4% to 5% in June, 1965. The lower level of credit expansion in the private sector reflected the running down of inventories following a stricter import licensing policy, and the temporary reduction in business activity due to Indian aggression. Bank credit increased by 25. 2 per cent in 1966-67 and 12.8 per cent and 3.4 per cent respectively in the following two years. The first half of the year 1966-67 witnessed expansionary trends in the bank credit. The State Bank adopted a number of selective credit control measures in January, 1967.

The cash reserve requirements of scheduled banks were raised from 5 per cent to 6¼ per cent with effect from 16th June, 1967. Besides, borrowing limits allowed to the banks against government securities were suitably curtailed. These measures had some effect and the second half of the year witnessed a slowing down in the rate of credit expansion. The main reason for the smaller increase in bank credit to the private sector during the year 1967-68 is to be found in the lower demand for bank loans and conscious efforts made by banks, in line with the State Bank's credit control policy, to reduce the flow of bank credit to less essential sectors of the economy.

With reduced demand for the bank funds in general and reduction in the flow of credit for less essential purposes, a deceleration in the overall rate of credit expansion was natural. The credit creating capacity of the banking system is significantly determined by the borrowing facilities available to banks from the central bank of the country. In order to ensure adequacy of credit facilities, the State Bank sanctioned for the commercial banks a higher limit of *Rs. 377.29 crores in 1967-68 as against Rs. 306.68 crores in the preceding year. The State Bank introduced a system of annual credit budgeting for the commercial banks in 1967-68 to ensure adequate

* Speech of Governor, State Bank of Pakistan, Lahore 14th Sept. 1968.

credit flow to the essential and priority sectors of the economy, especially the requirements connected with the movement of the country's two major cash crops,namely jute and cotton. The result was that banks considerably stepped up their efforts to provide adequate finance for these purposes.

The smaller net increase in total bank credit over the whole fiscal year 1968-69 conceals the substantially larger credit expansion in the busy season. Notwithstanding the slowdown in the rate of growth of the economy, bank credits in the busy season of 1968-69 expanded at a faster rate than in the corresponding period last year. Bank credit increased by Rs. 123.30 crores* in July, 1968-March, 1969 as compared to the increase of Rs. 81.36 crores in the corresponding period last year. It should be noted here that the net increase in bank credit in 1968-69 was smaller as compared to the preceding year in spite of a number of relaxations in the State Bank credit controls and pursuit of a more liberal monetary policy. No change was made either in the Bank rate or the cash reserve requirements of the scheduled banks. It is quite logical to conclude that the disturbed law and order situation inflicted a heavy blow on production and trade, thereby resulting in a smaller increase in bank credit.

Total bank credit excluding IDBP, ADBP and foreign currency loans increased by Rs. 111.19 crores to Rs. 1,071.50 crores during 1969-70 as compared to the rise of only Rs. 31.83 crores in 1968-69. A number of factors contributed to the sharp rise in bank credit during the year. The reversal of unusual factors that had led to a sharp decline in bank credit to the private sector, and restoration of normal conditions combined with the relaxations and the realistic policy of the State Bank led to recovery and expansion in bank credit in the private sector.

Bank Credit

(Rs. in crores)

Year/ Month (Last Friday)	Advances	Bills purchased and discounted	Total	Per cent change
1965 March	587.35	45.08	632.43	—

1966	621.27	41.38	662.65	—1.6
1967	777.92	54.81	832.73	+3.4
1968	849.92	54.39	904.31	+3.9
1969	987.26	64.52	1051.78	+3.3
1970	958.43	65.59	1024.02	—2.4

Source :—Pakistan Economic Survey 1969-70 pp. 64.

The year 1965-66 saw a slowing down in the rate of increase in deposit resources. This may largely be attributed to a lower rate of credit creation and shift from deposits to currency in the wake of war with India. But an important step, taken during 1965, was to attract more deposits. Coincident with the rise in bank rate in June,1965, the State Bank of Pakistan in August, 1965 advised the banks to adopt a rational structure of interest rates on deposits with a view to encouraging a greater volume of deposit business. Consequently, the State Bank announced new rates on 16th August, 1965. Upward revision of the rates of interest paid by scheduled banks was intended to promote more savings. It was also significant from the point of view of the long-term development of an efficient banking system and its ability to meet the needs of the developing economy. The new policy by encouraging a higher volume of deposits, placed a premium on self reliance by the banks. Total deposits stood at Rs. 747.79 crores at the end of March, 1966.

The year 1966-67 witnessed a sharp increase in bank deposits. The net increase during the year amounted to Rs. 174.46 crores. Total deposits at the end of March, 1967 stood at Rs. 922.25 crores. The increase in deposits was due to the enhanced rates of interest announced by the State Bank on 16th August, 1965.

The results accruing from the upward revision of the rates of interest were encouraging. Accumulation of deposits helps in the long run in the development of an efficient and sound banking system and in meeting the credit requirements for building a strong infra-structure.

During the year 1967-68, net increase in bank deposits amounted to Rs. 121.04 crores as compared to the net increase of Rs 174.46 crores during the year 1966-67. The slow-down in the increase of deposits showed that interest rates seemed to have lost attraction because of new avenues of investment available to the savers in the ever-expanding economy. Efforts were made during the year to step up deposit mobilization by banks. This was sought to be achieved not only through a vigorous expansion policy of bank branches, but also by an increase in deposit rates. On 16th October, 1967, scheduled banks were directed by the State Bank to raise the interest rates on their deposits, the increase ranging from ¼ per cent to ½ per cent on different categories of saving and time deposits. It is relevant to recall that the increase in deposits in the year 1966-67 was due to the enhanced rates of interests announced on 16th August, 1965 by the State Bank of Pakistan.

The pace of deposit mobilization which had slowed down considerably during 1967-68, picked up during 1968-69. At the end of March, 1969, total deposits stood at Rs. 1169.11 crores, showing a net increase of Rs. 125.82 crores. The State Bank of Pakistan's efforts to increase bank deposits continued unabated. Banks in general are not fully equipped to engage in large-scale long-term financing which, in the ultimate analysis, is a resource allocative function. The structure of bank deposits show a relative preponderance of shorter time deposits which limits the scope for long term lending. With this aspect in purview, the State Bank has invariably increased deposit rates to provide impetus to deposit resources. The faster growth of time deposits during 1968-69 may be attributed to the increase in deposit rates. The State Bank of Pakistan raised the deposit rate structure of the scheduled banks in August, 1968 by prescribing the higher rates of various categories of deposits which were ½ to 2% above those prevailing prior to August, 1968. The rate of increase of deposit resources of the scheduled banks was lower during 1969-70. At the end of March 1970, total deposits stood at Rs. 1,254.06 crores, showing a net increase of Rs. 84.95 crores. Total banks deposits which stood at Rs. 681.49 crores at the end of the March, 1965, increased to Rs. 1,254.06 at the end of March, 1970, thereby displaying a net increase of Rs. 572:57 crores over these five years which were often punctuated by increases in deposit rate structure by the State Bank. The year 1968-69 witnessed a sharper

NOTE.—Economic Survey—(1965-66) pp. 133-134.

increase in bank deposits as compared to the increase in 1969-70. The imposition of the Martial Law in the country in March, 196 led to the declaration of hidden funds, which contributed tremendously in the pick up seen in the year 1968-69.

Growth of Bank Deposits

(Rs. in crores)

Period	Time Deposits	Demand Deposits	Total
March, 1965	308.77	372.72	681.49
1966	368.94	378.85	747.79
1967	476.43	445.82	422.25
1968	576.62	466.67	1043.29
1969	648.71	520.40	1169.11
1970	681.86	572.20	1254.06

Source :—Pakistan Economic Survey, 1965-66, 1966-67, 1967-68, 1968-69, 1969-70.

The economic scene during 1965-66 was visibly affected and was clinging to the consequences of the Indo-Pakistan War. The rate of monetary expansion which had slowed down in 1964-65, accelerated considerably in 1965-66. Money supply stood at Rs. 984.15 crores at the end of June, 1967, reflecting a net increase of Rs. 122.01 crores over the year. The rate of monetary expansion during 1965-66 amounted to 14% as compared to 9 per cent during the Second Plan period. While the consequences flowing from the higher rate of monetary expansion cannot be ignored, the enlarged deficit in the Government sector during 1965-66 must be reviewed in the context of increased defence outlays on account of the Emergency. This expansion in money supply was also the result of relaxations of credit restrictions by the State Bank.

With a view to moderating the expansionary trends in the economy and also to redirect bank credit to more essential purposes, the State Bank adopted a number of selective credit control measures in January, 1967. One of the many 'curbs' was the increase in the cash reserve requirements of scheduled banks which were raised from 5 per cent to 6¼%, though with effect from a latter date, *i.e.* 16th June, 1967. As a result, the rate of monetary expansion slowed down from 14.2 per cent in 1965-66 to 5.5 per cent in 1966-67. During 1966-67, money supply rose by Rs. 54.07 crores to Rs.

1,038.36 crores. The rise in money supply during the year would have been larger but for the measures taken by the State Bank during the latter part of the year with a view to restraining credit expansion in the private sector. Money supply registered a rise of Rs. 37.46 crores to Rs. 1,075.82 crores during 1967-68 as compared to the expansion of Rs. 54.07 crores in the preceding year and of Rs. 122.15 crores in 1965-66. Necessary adjustments were made by the State Bank in the light of the changing situation. To this end, beside other relaxations which are discussed in detail in the foregoing pages, the most important was the reduction in the cash reserve requirements of the banks from 6¼ per cent to 5 per cent w.e.f. 9th January, 1968. The rise in bank credit in 1966-67 was, however, inordinate, necessitating a number of credit control measures. Notwithstanding the decline in the rate of monetary expansion in 1967-68, the average annual rise in money supply during the first three years of the Third Plan was 7.8 per cent. According to the Governor of the State Bank, *"If allowance is made for the rapid growth of near money assets and the operations of non-bank financial intermediaries, the monetary expansion in 1967-68 cannot be regarded to have been unduly low."

Money Supply

(Rs. in Crores)

Period	Currency in Circulation	Demand Liabilities (General)	Other deposits with the State Bank (excluding IMF a/c no. 1, Counterpart Funds, etc.	Money Supply
June				
1965	490.21	365.51	7.42	863.14
1966	580.20	394.94	9.15	984.29
1967	556.17	468.96	13.23	1038.39
1968	578.26	489.92	7.54	1075.82

Source :—Annual Report S.B.P. 1966-67 and 1967-68.

*Speech of the Governor, State Bank of Pakistan-14th September, 1968, pp. 8.

Notwithstanding the lower rate of monetary expansion in 1967-68, it incrcased at a faster rate during the year 1968-69. Monetary assets increased by Rs. 167.82 crores to Rs.1908.59 crores during 1968-69. This is in contrast to the rise of Rs. 115.12 crores in the preceding year and of Rs. 165.15 crores in 1966-67. The increase in monetary assets during 1968-69 was mainly attributable to the fact that no credit curbs was imposed by the State

Bank. The relaxation made including the reduction in cash reserve requirements of the banks from 6¼ per cent to 5 per cent in January, 1961, had its desired impact during the year 1968-69. Monetary assets expanded by Rs. 203.74 crores or 10.7 per cent during 1969-70 as compared to the increase of Rs. 168.52 crores or 9.7 per cent in the preceding year. One of the main factors for the increase in prices has been a sharp rise in monetary demand in relation to the availability of goods and services during the last several years. In the Third Plan period monetary assets increased by about 68 per cent as against the growth in GNP of about 32 per cent. Even if some allowance is made for the process of monetisation, this rate of expansion in monetary assets was excessive. Such a high rate of monetary expansion over a sustained period of time exerted cumulative effect on prices. The relaxation of the State Bank in credit controls exerted an infla tionary tendency during the last part of the Third Plan.

Money Assets

(Rs. in crores)

Period	Currency in circulation	Scheduled Banks: Demand Liabilities (excluding Inter-Bank Items).	Scheduled Banks: Time Liabilities (excluding inter-Bank Items).	Other Deposits with SBP excluding IMF/a/c no. 1 Counterpart Fund and other loan accounts.	Post Office Saving Bank Deposits	Monetary Assets
June						
1968	588.54	489.92	593.30	7.64	61.37	1740.70
1969	678.34	525.42	620.07	22.06	63.40	1902.29
1970	709.50	603.21	711.48	20.88	67.96	2113.03

Source :—Annual Report S.B.P. 1969-70, pp. 14.

Loans and Overdrafts Sanctioned by the S.B.P. to Co-opratives and A.D.B.P.

(Rs. in crores)

Year	Co-operatives	ADBP	Total
1965-66	17.93	22.55	40.48
1966-67	20.13	29.85	49.98

1967-68	16.51	33.31	49.82
1968-69	18.15	33.61	51.76
1969-70	—	—	54.88

Source :—Economic Survey, 1968-69, pp. 69. Annual Report S.B.P. 1969-70, pp. 42-43.

From the foregoing table it is quite apparent that the State Bank of Pakistan has been continuously augmenting the resources in the agricultural sector. The State Bank of Pakistan has also initiated schemes for providing loans to small borrowers and to those dealing in agricultural imports. Nevertheless, the State Bank has to play a much more vital role in providing impetus to the agricultural sector of the economy. The agricultural sector is passing through a revolutionary stage of change and growth. This aspect highlights the problems of rural credit. It is an established fact that the supply of rural credit through institutional agencies are insufficient, and the State Bank must compensate for this inadequacy. The scheme sponsored by the State Bank for meeting the credit requirements of the small farmer during the Third Plan has to be reorientated, so that rural credit also reaches the peasant of the far flung areas.

Deficit - Financing and the State Bank

One of the most striking facts about the development of fiscal policy in the past decade is that while it grew out of monetary policy and was designed to supplement and strengthen it, fiscal policy has ended up by threatening to supplant monetary policy altogether.

The emphasis on central bank control was carried to great heights in the late twenties and early thirties. Failures to achieve control were ascribed to the shortcomings of the central bankers rather than to any weaknesses inherent in the method of control. But as the situation accentuated despite the fact that the easy money policy was carried to lengths unprecedented, the conviction grew that whatever might have been the defects of central bank policy, the main trouble lay in the inadequacy of this method to regulate investment and the level of output and employment. Fiscal policy was designed to supplement monetary policy accordingly. If an easy money policy would not sufficiently induce investment, this object could be achieved by creating new community income through budgetary deficits. The analysis of income creating expenditures has been the chief pre-occupation of fiscal theory. In the pump-priming version of the theory the emphasis was laid on the powers of the deficit financing to stimulate private investment. In the later version it was placed on the need for compensating by means of public expenditure the chronic tendencies towards over-saving and under-investment. For the policy-makers, the emphasis should focus on checking major savings in income rather than aiming at every minor fluctuations. If we try to achieve more than reasonable stability of national money income with monetary-fiscal policy pending better diagnoses and acquaintance with our tools, we are likely to be using a hammer when only a scalpel will do.

In the face of great difficulties in obtaining resources as well as the urgent need for the stepping up of the rate of capital formation, deficit finance or money creation, as an instrument for mobilizing real resources for development offers a temptation which is almost too great to resist. It is not surprising therefore, that notwithstanding an awareness of the dangers inherent in inflationary financing of development, resort to credit creation for meeting budget deficit has been quite common in Pakistan. Almost invariably the payment difficulties have tended to frustrate the objectives of the development programmes.

For the purpose of this study, deficit financing has been defined as net creation of credit in government sector. This definition is narrower than the one usually employed in discussion relating to developed economies where deficit financing generally refers to the size of the overall budget deficits. The deficit financing, as defined, here measures only that part of the budget deficit which has a direct monetary impact. What makes deficit financing a key variable in under-developed countries and a major guide to the financial position of the government is the fact that most of the public debts in these countries are held by the banking system and the possibilites of borrowing from the non-banking sector are often limited. The creation of money by the Government is thus very closely related to the size of the overall budget deficits. Our definition of deficit financing includes

Government borrowings from the State Bank of Pakistan (including decline in Government cash balances) as well as from the commercial banks. An implicit assumption here is that borrowings, both from the commercial banks and the State Bank, have net money creating effects in the economy. In other words, the supply of credit by the commercial banks to the Government is assumed not to involve a curtailment of their credit to the private sector. This seems to be a particularly realistic assumption in a situation where the Government is adding reserves to commercial banks, either by drawing down its cash balances or by borrowing from the State Bank. The commercial banks can in such a situation extend increasing amount of credit to the Government without curtailing credit availability to the private sector since they are utilizing the reserves created by the Government in the first place. In another sense, in our country where the State Bank often stands ready to extend accommodation to commercial banks against Government securities, the level of private credit is determined largely by the demand for funds.

Hence two concepts of deficit financing are used in the present study. The first definition is the net borrowing of the Government from the banking system. The second definition is the net borrowing of the Government from the State Bank alone.

The annual rate of deficit financing during the period 1951-60 was about 350 million rupees by the first definition and 260 million rupees by the second definition. By either measure, deficit financing, on the average, was higher for the pre-plan period (1951-52 to 1954-55) than for the plan period (1955-56) onwards, a fact generally not realised. The conditions for deficit financing were not unfavourable in the earlier years of Pakistan's development effort, though this coincidence of expansionary policies with requisite conditions was probably a matter of accident rather than design.

The deficit financing operations after 1955-56 were definetely inflationary. The net result of the growing inflationary pressures and accompanying foreign exchange difficulties was to frustrate the effort of the Government to obtain additional real resources for capital formation through created money.

Deficit financing during the Second Plan period was estimated to the amount of Rs. 1,500 million, but the projections amounted to *Rs. 2,500 million. Hence, Rs. 1,000 million was the additional deficit financing. Original estimates in the Plan indicated the level of deficit financing to be Rs. 1,000 million. This implied that the deficit financing under the Second Five Year Plan of 1,000 million rupees would not have been inflationary.

For the Third Plan period, a sum of Rs. 1,500 million was tentatively suggested to be mobilized for the public sector through deficit financing. This was a deliberately conservative estimate to provide fullest room for adjusting short-term monetary policy to the economic situation which would actually had prevailed from year to year. On an average annual basis, this amounted to reducing the rate of deficit financing to roughly half that in the last three years of the Plan.

According to the Third Plan, the deficit financing suggested in the Plan is fully consistent with the estimated increase in the demand for the money and the expansion of credit for the private sector. It has been estimated that if allowance is made for growth of the monetised sector as compared to G.N.P., the ratio of money supply to resource flows in the monetized sector increased from 24.6 per cent to 26.2 per cent over the Second Plan period. Even to keep this ratio virtually constant over the Third Plan period, money supply may have to rise by Rs. 4,000 million. An increase of Rs. 5,000 million would imply only an increase in the ratio of money supply to resource flows in the monetized sector in line with the Second Plan experience.

Apparently this called for the effort of the State Bank so that monetary expansion should be of the order of Rs. 4,000 million to Rs. 5,000 million, which indicated a reduction in the rate of monetary expansion as compared to the later part of the Second Plan. Deficit financing of Rs. 1,500 million was supposed to leave ample scope for necessary expansion of bank credit in the private sector. In fact, deficit financing of this order was deemed by the Government as imperative to generate sufficient primary reserves in the banking system on which credit expansion for the private sector was based. It may be pointed out that the banks are required by law

* Fourth Five Year Plan (1970-75) Govt. of Pakistan.

to maintain a liquidity ratio of 20 per cent (consisting of cash, balances with the State Bank and unencumbered Government securities). The banking system has generally maintained a higher ratio to allow for seasonal fluctuations. Allowing for the required increase in balances with the State Bank, the banks were expected to invest 15 to 20 per cent of the net increase in their deposit in Government securities. On this basis, roughly *Rs. 750 to 1,000 million of resources were to be obtained through sale of marketable loans to banks leaving the balance to be obtained by borrowing from the State Bank of Pakistan. This implied that the State Bank of Pakistan was to provide resources amounting between Rs. 500 to 700 millions. In case the monetary situation so warranted, a shift of bank credit from the private to the public sector could have been affected by raising the liquidity ratio of the banks, reducing reliance on the State Bank.

It is the nature of any projection of safe limits of deficit financing that the figure adopted can only be a tentative estimate, depending, as it does, on many uncertain elements of future economic developments. A statement from the Third Plan is worth observing since it displays that no safe limits are set for deficit financing by our planners while carving out these Five Year Plans. It reads as follows :

> "The Third Plan estimate of deficit financing is neither a target to be achieved nor a rigid limit that cannot be overstepped."

It is a fact that manipulation of monetary policy in line with changing economic situation is essentially a short-term phenomenon; nevertheless, excess of deficit financing is pregnant with serious consequences which Pakistan today is incapable to shoulder. As mentioned earlier, monetary expansion of the order of Rs.4,000 to Rs.5,000 million was considered within safe range for the Third Plan on the assumptions that 6.5 per cent growth rate in G.N.P. would be realised and an increasing flow of foreign assistance would be available to finance the Plan. It now appears that the increase in money supply during the Plan is around *Rs. 4,000 million. Since, the growth in G.N.P. was less than planned and there was

* Third Five Year Plan, pp. 74, 1965-70, Government of Pakistan.

a decline in the ratio of aid inflow to G.N.P; the availabilities did not increase in line with earlier projections, giving rise to inflationary pressures in the first two years of the Plan and subsequent need for stringent monetary restraint by the State Bank of Pakistan. This led to wide fluctuations in the availability of credit to the private sector.

Deficit financing during the Third Plan adds up roughly to Rs. 4,000 million (including the provision for deficit financing in the budget in 1969-70). This includes the Government borrowing on account of wheat procurement against sugar stocks, and for other state trading operations. Deficit financing for the development programme was only *Rs. 2,600 million. Roughly 40 per cent of the total deficit financing was undertaken during the first year of the Third Plan due to sudden and unavoidable pressures arising from war and the stoppage of foreign assistance. Actual deficit financing during the Plan which adds up to Rs. 4,000 million is more than double the provision of Rs. 1,500 million provided in the Plan. This excess in deficit financing led to increased borrowing by the Government from the State Bank.

The major goal of development policy in Pakistan has been the stepping up of the rate of capital formation and this can be assumed to have been the main force behind the policy of deficit financing. In a sense, therefore, the success of the programme of deficit financed development depended on the extent to which it enabled the diversion of larger total real resources towards investment. The experience in these years throw useful light on the broad issue as to whether inflationary financing, distinct from creation of money as such, can be successful in mobilizing real resources for development in Pakistan which is almost entirely dependent on capital goods' imports for its investment programme. It is indicated that much hinges on the strength of the balance of payments. If internal monetary imbalance impinges on an inherently weak payments situation, resulting, for instance, from secularly declining, terms of trade it would become a major bottleneck. The scarcity of foreign exchange resources would in turn tend to put an indirect brake on investment. The crucial

*Fourth Five Year Plan (1970-75), Government of Pakistan.

point is that where import co-efficient of investment programme is high, tend, *ceteris paribus* balance of payments difficulties to frustrate investment decisions more than consumption demand.

No doubt the State Bank can, and does, supplement the use of the instrument of monetary expansion with the help of quantitative restrictions and exchange control, for equilibrating the balance of payments and for bringing about the desired allocation of foreign exchange resources for investment. But the relevant question is, can the effectiveness of the exchange control tools under excess demand conditions be taken for granted ?

In Pakistan, excess demand forces, operating on the balance of payments, made a larger leakage to consumption despite stringent exchange control measures adopted by the State Bank. Several factors combined to limit the efficacy of import restriction as a policy instrument. The rapid growth of industrial capacity and resulting large-scale import substitution tended to lower the long run equilibrium level of imports and exports and thus reduced the resources, subject to the administration of the exchange control authority, *i.e.* the State Bank. The diversified production structure also made exports more sensitive to domestic inflationary pressures. Furthermore, the existence of a large subsistence sector, which was so to speak, outside the range of monetary forces acted against an increase in marketable surplus of food-grains that was needed to feed the newly-employed workers. This aggravated the food shortage and resulted in additional claims on foreign exchange resources.

In the final analysis, the failure of deficit financing policies in Pakistan to raise the level of real capital formation appreciably must be attributed to structural factors. It may be argued that the raising of investment in the public sector was itself a policy goal. It is, however, difficult to accept that the change in the structure of investment resulting from deficit financing operations was desirable. The preponderance of the public sector outlays led to an undue emphasis on investment in the public utilities which has particularly long gestation periods. Within the private sector, residential constructions, particularly luxury housing, was probably unduly stimulated due to the general shortage of capital goods' imports and speculative dealings. This distortion of investment structure was already hampering the growth of production

The discussion of inflationary financing cannot be divorced from the general problem of a suitable fiscal policy. It is a serious phenomenon that over the years the reliance on deficit financing as an instrument for financing development outlay was not reduced. In fact, the Government budget deficits tended to grow more rapidly than the rise in public sector development outlay. The taxation system failed to bring back to the Government an increasing share of the inflated income and the average ratio of tax receipts to money national income showed little improvements over the years.

The taxation potential in Pakistan was not being fully exploited and the Government taxation policies were neither sufficiently flexible nor sufficiently aggressive to meet the special revenue problems created by the changing circumstances. On the one hand, no substantial part of the agricultural incomes could be siphoned away in taxes due to an inadequate system of agricultural taxation, and on the other, new sources of revenue were not tapped fully to meet the deficiency caused by the relative shrinkage of taxes on foreign trade. Meanwhile, the rise in non-development outlay, notably expenditure on administrative services and welfare departments, was tending to outstrip the increase in revenue. The subsidy on sale of foodstuffs, in part necessitated by concern with rising living costs in urban areas, also involved a heavy drain on the Government resources.

The State Bank has been in constant touch with the Government on the development of monetary situation. During the years when the Government's fiscal operations constituted the principal inflationary force, the Bank constantly urged for the need for fiscal discipline, and for the paramount need for striking a balance between claims and resources. The threat of inflation traceable to the size and tempo of the Government operations was emphasised and steps to control the expenditures in the public sectors were urged upon the Government. As a result of the efforts made by the State Bank, the National Economic Council, the highest economic body of the country, agreed that the monetary situation had become serious enough to warrant a complete avoidance of deficit financing and required early and effective remedial measures. But unfortunately this agreement was only a temporary phenomenon.

The State Bank position on the subject of deficit financing and the overall rate of monetary expansion has been far from doctrinaire. During the period of inflationary strain, the Bank pointed out that the inflationary consequences of deficit financing in conditions of an economy like that of Pakistan depended greatly on the adequacy of the supply of foodgrains and other items of mass consumption. It emphasized that lack of sufficient attention to agricultural development in the face of rapid monetary expansion had resulted in a shortfall in supplies and shrinkage in the marketable surplus.

The State Bank of Pakistan has constantly emphasised the need for a realistic resource estimation, and has held that an unrealistic appraisal of resource availability may endanger economic growth as it would result in inflation and create various distortions in the economy. It made clear that the policy of resistance to inflation which the State Bank advocated was intended not to slow down economic development but to stimulate it. The State Bank has all along been in favour of the largest development programme that is consistent with the availability of resources and has urged their maximum diversion from non-development uses. It has held that, over the long term, the maximum rate of growth can be achieved only by ensuring that the short term programmes do not overstrain the economy by inflicting on it the mounting tension of sharply rising price levels and of recurrent foreign exchange crises. The Bank has been convinced that overestimation of the resources leads to a false sense of complacency about the size and intensity of the effort required for putting through the programme. In fact, in such a situation the Government may be inveigled into undertaking commitments which may turn out to be insupportable by real resources, and try to cover up the shortfall by resorting to created money in an attempt to keep up a predetermined rate of spending. Without taking a rigid or orthodox stand to deficit financing, the State Bank has constantly stressed that it is vitally important to keep in view the supply responses in various sectors at a time when expansionary policies are being pursued. In its view, the efficacy of deficit financing in bringing about a rise in real income depends primarily upon the ability of the economy to supply the required consumer goods in line with changes in the level and composition of aggregate demand. Moreover, in view of the fact that consumption expenditure is heavily weighed in favour of food, insufficient expansion of the agricultural sector is the main handicap in an extended use of deficit financing. As borne out by Pakistan's experience, lack of attention to this aspect of the problem led to serious food shortages, involving heavy imports and pressure on the balance of payments. While extensive dependence on commodity aid conflicts with the national objective of food self-sufficiency, expenditure of scarce foreign exchange resources on food imports necessitates cuts in the imports of consumer goods and industrial requirements, both of which impinge further on the supply situation. In this connection, the Bank has emphasised that the sectoral composition of the Plans must be in full consonance with the technical inter-dependencies between the various parts and has argued that the growth in the industrial sector is conditioned largely by the growth of the agricultural sector. The preceding analysis of deficit financing yields certain suggestions with respect to policy in the present stage of our development.

The method of further Government borrowing as a partial means of financing the development programme, has some justification as a means of lightening, for the time being at least, the burden of the programme upon the lower income groups. But as full employment is approached and the danger of an inflationary rise of prices becomes real, every precaution should be taken to prevent the further purchase of Government securities by the banks, or by individuals with funds borrowed from the banks.

(*a*) In Pakistan, we cannot afford to wait for the full employment level and then initiate our precautionary measures. The situation is already grave and will further accentuate. Therefore, we must start picking up threads now and avoid deficit financing altogether. Emphasis should be laid on increasing production by making full use of the existing plants. Efforts should be made to derive maximum results from these plants without inflationary financing.

(*b*) As the public debt increases, tax rates should also be increased, and as full employment is approached, the revenue from taxes should assume a much larger proportion of the cost of the development outlays. In a stage such as being witnessed in Pakistan, there is much to be said for a tax system that is highly progressive. For, as Pigou has said, "there is a general feeling that, in a pre-eminent national emergency, the call for each should be for his utmost rather than for his share". But full consideration must also be given to the necessity of obtaining the maximum revenue without checking the increase of the national income, and without adversely affecting the marginal efficiency of capital.

(c) If the national development programme comes to involve as large an annual expenditure as it is now, measures may be taken, in addition to the increase of tax rates, to restrict the expansion of bank credit in connection with the purchase of the Government securies. Existing instruments of credit control should, of course, be used by the State Bank to prevent an excessive expansion of credit. But if the familiar instruments prove inadequate or if the use of some of these measures is made difficult because of the political consequences that might follow upon a decline of Government security prices, then resort should be made for rigorous rationing of credit by the State Bank. Notwith standing the criticism, the State Bank should play its role effectively and in a determined manner. Resort can also be made to control private investment market, and, if necessary, direct regulation of the prices of key commodities, wage rates, and even the rationing of consumer goods.

Epilogue

In a western State, a railway bridge had been destroyed by fire and it was necessary to replace it. Two days later came the superintendent of the division. Alighting from his private car, he encountered the foreman of the bridge builders, "Bill," said the superintendent and the words quivered with energy. "I want this job rushed. Every hour's delay costs the company money. Have you the engineer's plans for the new bridge?" "I don't know" said the bridge builder, "whether the engineer has his picture drawn yet, or not, but the bridge is up and the trains are passing over it".

The Government of Pakistan is in a similar position where foremen had to rush through an emergency bridge without plans except that it has had to build many emergency bridges. No doubt some of the bridges which it has built should not have trains running over them at all. It is a matter to be appreciated at once that we are gambling with big stakes. The planners of monetary and fiscal policy must be careful and cautious. The risk of less speed must be weighed against those of more haste. The State Bank of Pakistan as the apex of the monetary structure must get across the crevasses before it is too dark.

With manifold sets, government and central banks in developed economies are now fairly well-equipped to fight the battles for full-employment, price stabilization and growth.

But I do wonder why certain policies being pursued by the State Bank are irrelevant to Pakistan. Whatever it is that causes short run fluctuations in Pakistan's national output or prices, the three traditional tools of monetary policy are powerless to reverse it. Let us look at each.

1. A rise in the bank rate when the scheduled banks are heavily indebted to the State Bank, as they are now, should force up at least the "nearby" rates of interest in the economy. By "nearby" I mean time deposit rates since this source of funds in a close alternative to the State Bank borrowing and the interest rates on seasonal advances and bills. Two further effects are supposed to occur ; firstly, less nearby interest rates are also pushed up, and secondly, the higher complex of interest rates discourages some potential borrowers from taking advances. In fact, following Pakistan's experience of a raised bank rate, time deposit rates failed to increase at all and it took nearly a year, before advance rates managed an equivalent rise.* In an economy where many bank borrowers regularly receive advances at rates below both the bank rate and the short-term Government security rate, market forces are clearly not the sole determinants of the quantity and price of advances Finally, where borrowers are earning (as is estimated by many) 15-30% on their capital, rise in the bank rate from 4% to 5% does not reduce demand for advances to any great extent.**

2. The sale of Government securities by the State Bank to the scheduled banks is supposed to boost up Government security rates and hence induce banks to hold more securities and to raise the rates at which they make advances. That the State Bank can achieve a change in Government security rates is indubitable. The

* After the bank rates rose from 3% to 4% on January 15, 1959 and from 4% to 5% in June, 1965, over a year passed before advance rates rose by the same amount (Government of Pakistan Budget 1961-62, 1966-67).

** In fact the volume of advances rose from 122 crores to 140 crores over the year following bank rate rise (i.e. from December 31, 1959 to December 31, 1960).

problem is that the effect may be too great. The supposed "Market" in Government securities is almost non-existent; I think the perfect hell for a fervent stock exchange speculator would be to insist that he should deal only in Pakistan Government securities. If the State Bank were to actively try to sell a few lacs of Government securities it might easily cause a doubling of market interest rates even if none of the likely indirect effects (from speculation, fear, etc.) added their influences. But would such a rate movement really induce banks to hold more Government securities? Almost certainly not, for the reason that Pakistan's banks seem quite determined to maintain a constant (busy-season) liquidity-ratio regardless of interest rate.* Thus the State Bank's efforts to sell securities would probably produce little more than an undetermining of public confidence.

3. An increase in the required ratio of the bank deposits in the State Bank to their total deposits would probably induce the banks to merely offer to sell Government securities to the State Bank. By this means, the banks could maintain their liquidity ratios, satisfy their higher reserve needs, and not alter their advances policy at all. If the State Bank refused to buy (something it has not yet dared to do), the banks could borrow from the State Bank with these securities as collateral, again keeping an unchanged advance policy. Perhaps, if all the stock did not throw financial markets into turmoil, a combination of increased reserve ratios, lowered Government securities' prices and a raised bank rate would have some effect, on advances.

But what if the State Bank could cut the amount (and raise the price of advances)? Would this stop an inflationary surge? Inflation in Pakistan is caused by two things, serious food shortages or excessive Government deficits.** A reduction in bank advances cannot stop these forces. The most the State Bank can achieve is a disruption of the commercial channels through which goods flow from producer to consumer. For example, a general refusal of loans to the jute trade

* Government securities comprise the major portion of liquidity reserves which are defined by the State Bank as gold, silver, notes, currency, State Bank balances and unencumbered approved securities. The liquidity ratio is the reserve divided by all deposits plus inter-bank borrowings (excluding State Bank borrowings).

** And the two together can cause very large price rises as in 1955-56, 1956-57, 1965-66, and 1969-70.

could lower jute producer's incomes, hence reduce their demand for rice in a year of rice shortage, thereby reducing the threatened inflation. But no responsible government would dream of initiating such a sequence of events.

A rational monetary policy considers selective credit controls of mainly two types, legally enforced and by moral suasion. These are less devious and can be asserted without so many unpalatable side effects, and for this reason they have been more acceptable as policy tools of the State Bank over the past decade. Nevertheless what I have been saying applies also to selective controls for the same reasons. Though they may serve other purposes, they can influence too small a portion of the economy to be of basic value in counteracting inflationary pressure. In years of food shortage or of excessive Government budget deficits there is little, if anything that the State Bank can do to halt or even retard rises in the price level.

The utilization of credit control techniques of the conventional types assume among other things, the existence of a well-developed short term money market. To introduce such provision into the charter of the State Bank is to disregard the realities of the money market conditions as they exist in Pakistan today.

A system of flexible reserve requirements maintained by the State Bank whereby the commercial banks are required to keep 3 per cent of their demand liabilities and 2 per cent of their time liabilities is ineffective. By raising reserve requirements the State Bank can eliminate the excess reserves than to make an expansion possible but by lowering them it cannot force the commercial banks to lend liberally.

The relevance of the money supply in any given year is usually how large an expansion or contraction the Government has chosen to exert through its budget deficit or surplus. The State Bank, nominally the controller of the money supply, is almost completely unable to increase the money supply. It would lower the bank rate to encourage bank indebtness or it could raise its purchase price on government securities to induce the banks to sell them. While either would have some possibility of success, each would involve the State Bank in a lowering of the interest rate structure in Pakistan, and as it is apparent it is not a lowering but a raising of the interest rate structure that Pakistan needs. The problem of planning the appropriate expansion of the money supply is a fairly recent one in commercial history. Monetary expansion has an important place in assisting the long run development of the economy. There are many ways in which Pakistan's policies concerning money and credit will greatly affect the course of its economic development.

Unequal distribution of credit in Pakistan today poses a formidable challenge to the State Bank. There is no mechanism to ensure that those who could create the socially most desirable capital will actually get the funds to do it. In the money (*i.e.* short-term debt) market the inventories and working capital of certain groups are financed by the banks at absurdly low interest rates. Naturally, at these low rates these groups use up, through bank advances, far more of the economy's saving than is desirable from the point of view of Pakistan's development. It is a small wonder that the banks are finding it difficult to meet the demand for new advances, when to many they are practically giving them away. Meanwhile for other segments of the economy, chiefly small or new businesses, there is not surprisingly little left and what they can get is only available at very high interest rates. As a result of an inefficient distribution of working capital funds, certain sectors of the economy will expand at the cost of others. In Pakistan today there is a strong likelihood that the private sector, if left completely alone would over-invest in working capital (relative to fixed capital) simply because of the characteristics of its money and capital markets.

I feel strongly that the use of rigidity would be very inappropriate in Pakistan today. It would be inconsistent at a time when industrial and commercial controls are being rapidly reduced over the financial sector of the economy. The real course is that financial controls are the easiest to circumvent as they surely had been circumvented—and that the process of circumvention is both wasteful and may lead to even greater inefficiency of credit allocation.

From these negative observations, a positive approach to the policies of the State Bank emerges. The most important is the raising of the interest rate structure to prevent the over-use of working capital by those businesses who are privileged to get cheap advances from the banks. The interest structure should respond readily to a refusal by the State Bank to sanction collusive deposit rate agreements. The use of moral suasion must provide the basis for the State Bank policies. The Bank will do well to take the commercial banks into its confidence and to provide them with leadership. The Bank's aim should be to secure co-operation rather than to use coercion. The State Bank of Pakistan plays a special role in the agricultural and industrial sectors of the economy by virtue of it being the banker's bank and the lender of the last resort. Financing of agriculture presents formidable difficulties which acquire special significance in the case of an under-developed economy. Agricultural operation are fraught with hazards which may not ordinarily be foreseen and often beyond human control. Apart from the vagaries of nature, the organization of agriculture in Pakistan is in small units spread over a wide area. This renders the task of liaison and contact almost impossible. In addition, Pakistan has to content with such additional factors as the absence of commercialisation, the conservatism of the farmer and the problems of land ownership.

No advocacy of even the soundest industrial development as an answer to the problems of Pakistan can be made honestly without admitting that industrialization alone is often over-rated as means to achieve economic progress. The fact that, to many poverty-stricken countries, economic development means only industrial development merely illustrates the lack of economic analysis which often underlies investment decisions. Industrial development has a necessary, and ultimately a large role to play in almost any sound development programme. However, its part, particularly in the very early stage of a country's economic growth is likely to be relatively small in the total programme (if decisions are made on the basis of thorough study of the economic costs and benefits involved).

Occasionally, general development will grow out of one spectacular non-agricultural activity—the exploitation of great oil discoveries for example. This one activity then pays for both agricultural and industrial development. An under-developed country, lacking the legacy which an unusual resource represents is more likely to be in a position where it must build what it wants. Virtually in every industrial country, industry in its early stages was built on the backs of the farmers. In almost every case agriculture has been the one big paying activity from which industrialization could be financed; as well as the one large consuming section of the economy which could provide a market for the new industrial goods. The lesson of history should not be over-looked by those seeking to hasten economic development. The State Bank of Pakistan while channelizing resources must strike a balance so that a policy can be directed towards balanced development to increase production in agriculture as well as in industry. The State Bank will have to provide increasing amount of resources and institutional credit in the years to come. It must enlarge its lending operations and ascertain that the credit it extends is utilized for the particular purpose. The role of State Bank in this regard is worth emulation, but it has still to go a long way to provide a fuller economic life to the people of Pakistan.

The question that planners ask in Pakistan is not "How can the national income be increased the most at least cost?" Instead they begin from a whole series of different premises and build up on them They argue that wealth comes from industrialization, so they create uneconomic industries and bolster them with protection. They accept that national safety requires a high degree of autarchy, so they build up defence industries and automobile industries which run expensively because their production is too small. They consider that the handicraftsman represents certain social values and it is important to preserve them; so they keep him in existence by subsidies. They worry about their balance of payments, so they lend money to shipping companies at uneconomically low rates, or talk of synthetic petrol plants. They have the political pressures of their Ministers to consider, so they spread schemes evenly over the country and give special attention to backward area....The list of errors into which the ignoring of profit leads is long. Separately, they can all be justified by some non-economic considerations, from defence to human charity. Together they are keeping the people of Pakistan in poverty and squalor and ignorance for longer than is necessary. The State Bank is not included in the National Economic Council which approves the Development Plan. Perhaps by virtue of its own traditions of maintaining regular contacts with the Government the need for laying down a formal procedure in this regard has not so far been felt. Similarly, the relationships between the State Bank and the Planning Commission is less direct than in many developing countries. Exchange of viewpoints and consultation usually starts after the preparation of the draft. This relative isolation has a redeeming feature in by not associating too closely in the preparation of the that Plan itself the Bank is able to perform more effectively its role in the realistic formulation of the development programmes. Misguided monetary policy and unguided institutioned evolution have placed us in a foolish quandary. A monetary policy plan, therefore, should be worked out by the State Bank of Pakistan on broad assumptions in regard to government financing, private sector credit requirements, the likely behaviour of the foreign sector, the expected trend in GNP and the anticipated flow of foreign assistance, and this should be undertaken each year before the preparation of the annual development programme.

If Pakistani elite have behaved as "robber barons" in order to accomplish the miracle of capitalist development we could hardly expect otherwise. How else could an economy develop without accepting the "social utility of greed" reminds one of the Harvard economist who had a major role in planning Pakistan's economic development. What these economists overlook is that in the United States the practice of greed by the captains of industry may not affect the members of their own class very much, but for the poor people of this country as well as large masses in the Third World, the greed of the capitalist profiteers cuts into the bare minimum of subsistence which keeps people alive. Pakistan's elite who still have their palms extended in the direction of the capitalist countries, particularly the United States, in the name of their less fortunate compatriots are surely not so naive as to completely ignore the struggles of the oppressed minorities within these affluent countries. They also know that the capitalist prescription of development based on the so-called "free trade and aid" has not produced a single case in the Third World countries where general levels of literacy, health, housing, nutrition and employment were raised to meet even the minimum standards of human life and dignity. We must develop a programme and philosophy of development which should be predominantly a programme of self-reliance, a reinvolvement of people in the control of development, requiring a total break from the present vicious circle of class interest, class alienation and class exploitation. The State Bank is not only the nerve-centre of its monetary and financial system, but it also symbolizes the monetary sovereignity of the nation. Before concluding, may I hope that the State Bank will serve the nation with renewed vigour and dedication and I wager the only shirt I have that we will definitely succeed in making a beginning towards rationalisation of relations between the "haves" and the "have nots" of our country.

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Aid and Trade in Bakarwana

By AL HAMZA*

The story of the economic struggle of an under-developed country on the Planet Mars in the words of a native of that country.

(*A Fragment*)

From books of history I learn that my native country Bakarwana was conquered by the foreigner in the past. The foreigner did not want to live in my country. He wanted to make use of my people for the strength and prosperity of his homeland. He devised a process for doing so which he called 'trade'.

For a century the foreigner promoted trade. Today he is well off and I am not. Trade was a good word for him; for me it has not been so good. So today when I am invited to promote trade, I know I cannot share the foreigner's enthusiasm for trade. The way he uses it is not the way I look at it.

So I am worried about trade. The foreigner says he will help me to understand trade. He will give me his wonderful book. He will take me to his university. He will teach me about trade in his economics. From all this I learn that trade is good ; it brings civilization, freedom, prosperity, strength. "Look at me", says the foreigner, "I have all these things".

But I look at myself, too. After a century of trade I am hungry, shabby, bare-foot and tired. It occurs to me that his knowledge is not my knowledge. I must know for myself. So I close the foreign book and look independently at trade.

I am a small peasant of Bakarwana. Myself and my family raised four goats on our hill-side. We grazed them in fair weather and foul, tended them and penned them in the dark for four years. Then we sold their skins for four shillings (Martian) to the foreigner. These four shillings earned by my family after living a brute life for four years was "foreign exchange".

"You can buy the blessings of modern civilization with this four shillings foreign exchange", the foreigner told me, "and raise your standard of living". "Wonderful", said I, "Let me have a car". "Ah but that costs twenty-thousand shillings. You need a lot of foreign

* Prof. Ashfaq Ali Khan, Member Civil Services Appellate Tribunal, Punjab.

exchange for that. But take courage. You have a lot of manpower. Let five thousand families, all fine manpower, rear four goats each for four years and earn twenty thousand shillings foreign exchange. And take my advice ; buy a truck instead of a car. It will help to take out the twenty-thousand goat skins. Before you do that, however, let two thousand men build a road. You will need tools but you can buy them by earning more foreign exchange. To run the truck you will need petrol, spare parts. All you have to do is to earn foreign exchange to get these. The road and the transport will bring you more trade and civilization. It is a glorious step in development. I shall organize it for you. You can buy my expert know-how at a hundred shillings a day. Naturally you will earn foreign exchange to pay me".

We took the foreigner's missionary advice. We built the road, we bought the truck and kept it running. Now a hundred thousand families are rearing four goats each every four years to earn foreign exchange to pay for the truck, to pay for the maintenance of the road, to pay the foreign expert for his know-how. They are worse fed. They live in the same primitive huts. Their bare feet are scorched by hot stones and pricked by thorns. The foreigner tells them ; "Look how far you have come ! You have a road and you have transport. Civilization follows the road. Your trade is increasing. What a difference. Your natural wealth is the wonderful raw material, the goat-skins you produce. If you earn a little more foreign exchange, I shall have this pamphlet called the 'Golden Goat', printed for you. A little publicity boost will do no harm. It will promote trade".

Still our poverty spoke for itself. "I can see that you are poor", said our foreign expert. "It is sad. It distresses me. You must cure it yourself". Some of our men felt we were lazy and did not have character. So we decided to run harder on thorns and stones and not to swear at the goats.

Being backward and lacking know-how we approached our foreign expert and asked for his advice. He was optimistic and encouraging. "I can see you are in rags and are underfed", he said, "but you are making wonderful progress. Look at your road and your transport. You have a considerable trade. You can expand it. You need to improve communications. Why not lay out a telephone line between one goat village and another ? All you need to do for it is to earn foreign exchange. It is sure to help trade. And I do not see why you should stop there. As trade increases you will have more visitors like me. Why not build some fine hotel and make progress".

I said, "A people living in mud huts and having little to eat should not spend money on fine hotels". "But you will earn foreign exchange from the hotels", said the expert. "With the foreign exchange earned you might air-condition the hotels and really make them confortable—really 20th century. It will help your trade. I can tell you that' .

So we pressed more and more families into goat rearing and laid out new goat-rearing colonies. We earned more foreign exchange and laid out telephones, extended our roads, bought and maintained more trucks, built fine hotels, increased our volume of trade. But for all this we ourselves remained as poor as ever. In fact as time passed, the prices of truck spares, petrol, telephone wire, road building tools, rose higher in shillings and scarcities gripped the land.

It was clear that all the foreign exchange we could earn would not suffice to keep the transport and communication running and scarcity gripped us. It began to appear that the whole business of goat-rearing might end.

Our foreign friend was alarmed. He went to his homeland and soon came back with good news. The Goatlaw Foundation in his country had prepared a new scheme to help us. The whole business of goat-rearing was to be reorganized. Before the rise in price of trucks four thousand families could rear enough goat skins in four years to earn foreign exchange for buying a truck for twenty thousand shillings. Now a truck cost 40 thousand shillings and ten thousand families had to work for four years to earn foreign exchange for buying a truck. Sometimes it happened that the truck broke down before it could transport all the skins which were required to pay for it. In a spirit of generosity, our foreign friend promised us Aid which was to be given to us in foreign exchange. Our jubilation was great for again only five thousand families would have to work merely for four years to buy a truck for carrying away goat-skins. For every truck we bought we were to pay merely twenty thousand shillings in goat-skins while twenty thousand shillings would be contributed as Aid. We were overwhelmed by the fantastic generosity of Goatlaw Foundation.

Not only that but our foreign friend brought us a vast programme of assistance from the Bumbozlo Plan Organization. It offered us a scheme for modernization of goat-rearing. A statistical survey by the Bumbozlo experts showed that five million goat-skins were necessary to be reared for earning foreign exchange to transport the valuable skin production of the land. It was found that there were only four bleatographs in the country. The number was to be raised to twenty. Each bleatograph was made of steel and weighed two hundred pounds. It was priced at a hundred thousand shillings. For each bleatograph Goatland could pay merely two hundred pounds weight in skins of which the foreign exchange value was a mere 199 shillings. The remaining ninety-nine thousand, eight hundred and one shillings could be contributed by Bumbozlo Generosity Bank. Of course Bakarwana Government would provide the 30,000 labourers who would dig enough earth to make a mound on which the bleatograph was to be set up.

For centuries Bakarwana had been rearing goats but goatology was still in its infancy there. The Bumbozlo Plan Organization offered 500 scholarships to Bakarwanis for studies in advanced goatology at the famed seats of foreign learning. There they saw a goat bred in a test-tube, fed on synthetic hobble hoost, gyrated at ten thousand revolutions on farm-gyrators in order to improve its balance on precipices. The best young graduates of Bakarwana were selected for this promising venture leaving second-rates to carry on the less important work at home. When they came back they failed to apply this knowledge to conditions in Bakarwana because of lack of aptitude and congenital sloth.

The Bumbozlo Plan provided also for a zoological survey. For this purpose foreign exchange was to be provided at a free gift for clips of fountain pens used in the survey work. The Government of Bakarawna was to provide 1,00,000 scribes, pay for a million miles of travel, earn foreign exchange for the purphase of twenty million printed forms from approved foreign dealers.

The Foreign experts assured us that this was the only way towards the paradise of TAKE-OFF also sometimes known as the BREAK-THROUGH. We were told that one fine morning we would take off and break through into a golden age of prosperity and freedom. All that was needed was export, earn foreign exchange, dig earth with bare hand and run harder and harder bare-foot after the goats. When we looked at ourselves, we could not understand how this would come about. The prices were rising. Secondary foods like milk, sugar, tea, meat were bocoming scarce. We were poorer than ever. But the foreign experts assured us that we were too backward to be able to understand TAKE-OFF and BREAK-THROUGH. We needed to study their economics. It was a perfect system based on a free, democratic, and religious view of human destiny. Nature had decreed that foreign countries should make steel, trucks, planes, ships and guns while Bakarwana should rear goats. If we stopped rearing goats and started making our own steel or motor trucks, God would be displeased and diseases like perdition, subversion, infiltration and regimentation would overtake us.

On one occasion news was received from a remote corner of Bakarwana that TAKE-OFF and BREAK-THROUGH had started in a small village but it turned out to be a premature rumour. What had really happened was that a man called Bonga Botal was so affected by the national need for promoting foreign trade, boosting export and earning foreign exchange that he almost went mad. Bonga Botal was seriously alarmed by the neighbouring rival country of Untouchabola making planes, tanks and cars and wanted Bakarwana to do likewise. He wanted to read but all he could lay hold of was foreign propaganda. He went to the town library and found that the only books on development were those given as Free Aid Gifts by the Foreign Truth Disseminating Foundation. He went to the College and the professor there was a scholar who had obtained a foreign Ph. D. degree by writing a thesis on Goats and Glory with special reference to Bakarwana. All these sources said the same thing. There was no salvation but through goats. Bonga Botal being a straightforward peasant saw little connection between a goat and an aeroplane. It seemed to him that if Bakarwana needed motor-trucks she should go ahead and make them. A neighbour who had been to Untouchabola said that they did just that and succeeded. Bonga Botal has asked the man about the prevalence of diseases like subversion, infiltration and regimentation in Untouchabola but the man had said that he found no epidemic there. Rather every one looked a little better because of a 5 per cent rise in per capita income.

Bonga Botal became obsessed with TAKE-OFF and BREAK-THROUGH. He is said to have done strange things. He tried to devise a method for making goats grow up in four months instead of four years. He was always on the look out for boosting exports and earning foreign exchange. Coming to know that at some foreign nightclubs, dancers used shining ivory bits for decorating their dainty-shoes, he thought he would dig up graves and export deadmen's teeth. He stopped growing food crops on his little farm and grew goat-fodder. His starving wife and children protested but he roared at them. "We want foreign exchange. Boost exports, promote trade. Spend foreign exchange on railways, roads, telephones, hotels and small industries. You will then need more foreign exchange. So earn more and more and more and again spend it the same way. You will need still more and more foreign exchange, your railways will stop, your roads will crumble, your small industries vanish over-night, your trucks break down, your telephones stop working. So export, earn foreign exchange, sell skins, sell dead men's teeth, sell tea.

(Message incomplete. The Martian who told this story was whisked away by a flying saucer. However, signals monitored from outer space indicate that Bonga Botal's obsession left him when he discovered that the way out of poverty led through heavy industry such as steel machine-tools and motors. This ulimately resulted in the Bakarwanis becoming prosperous by making their own motors, planes and ships and exporting manufactured goods instead of exporting goat-skins. This "take-off" and "break-through" did come about in Bakarwana).

Foreign Aid to Agriculture

(A case study of Pakistan)

by

TARIQ AMJAD

Rationale of Aid to Agriculture

Agriculture, as the President of IBRD has pointed out, has long been the step-child of development. Although at least 2/3 of population of the developing world earns a living from the soil, the proportion of total aid allotted to agriculture is under 10%. The price paid for this neglect of a key sector of development is high. The failure of agriculture in the developing countries is one of the main factors contributing to the widening of the gap between the richer and the poorer countries. Food production in the developing countries since 1960 has barely kept pace with the increase in population. Consequently the increased effective demand has not met a corresponding supply, resulting in almost doubling of the gross value of imports between 1955 and 1965, and is now over $ 5,000 million a year; though of this total, over $ 1,000 million are on concessional terms. It is abundantly clear that if this trend were to continue, the developing countries could not possibly find foreign exchange even if a substantial proportion were provided on concessional terms[1]. Moreover, it would be unwise to assume that the developed countries would either be able or willing to shoulder indefinitely the responsibility for providing such vast quantities of agricultural products on these terms.

In addition, the increased demand for domestic supplies has meant that food crops for exports, or import substitution commodities have tended to be channelised into domestic consumption.

To make matters worse, there has been heavy pressure on the balance of payments of developing countries.

1. F.A.O. Publication No. 23

Export of agricultural raw materials on which the LDCs have traditionally relied to a great extent for their resources of foreign exchange, have remained static in terms of constant prices and have not kept pace with the population explosion, nor with the changing trend of the world trade. The stagnation of the LDCs and the declining national income threatens to create further complications. "In view of these trends with reduced capacity of the developed countries to provide capital for development purposes, the need for aid is becoming more and more urgent, especially aid to agriculture where the proportion of assistance is entirely out of line with its importance as a factor in the development process"[2].

The recognition of agriculture as a means of overcoming the major hurdles in the path of progress has been termed as the "Rediscovery of Agriculture" by Professor Micksell.[3] It is true that agriculture has been rather a cindrella in the approach to planning by social scientist and government officials alike. Food shortages, the poverty of rural masses and the recognition that the materialisation of the dream of development lies in agriculture led to the emergence of international assistance for the hitherto neglected agrarian sector. However, an acceptance of the need and feasibility of agricultural development does not necessarily establish a case for aid. Again one must be dogmatic by indicating the acceptance of the three related propositions without any arguments[4]. The first is that forms of aid are implicit in the new technology on which adequate agricultural expansion is dependent. The second is that resources and capital in the LDCs require external supplement. The third partially inherent in the two is that agricultural expansion will not automatically flow fast enough, if at all, to developing countries from the high rates of technological advance and growth in G.N.P. from advanced countries.

The acceptance of the twin fact, *i.e.* there operates a vicious circle of poverty in the LDC and the fact that agriculture can facilitate growth and transform the economic fabric of the society provides us with the

2. F.A.O. Publication No. 23
3. Professor Micksell Economics of Foreign Aid, Oxford 1968.
4. Sir John Crawford Role of Int. Assistance in Agricultural Development ASIS Seminar Organi zation.

explicit recognition of the role which can be played by aid. Thus the objective basis for aid is the lack of resources and the primitive state of agriculture. Ideally aid should be allocated where it will have the maximum catalytic effect of mobilising additional national efforts or preventing a fall in national effort. Agriculture in LDCs offers such an avenue. Direct increases in income may be possible in some other channels ; however this is less important than increase in investment opportunities provided by aid injection in agriculture and this is the rationale for aid[5].

Strategic Role of Agriculture in Pakistan

Agriculture is perhaps the only sector preventing a complete collapse of the feeble economic structure in the LDCs. Agriculture retains a vital place in their economies and it is rightly remarked that the "battle for long term economic development in Asia will be won or lost in this sector only." This might be going too far but the prime significance of agriculture in any LDC including Pakistan is hard to deny. The vast size of agricultural sector and the relative smallness of the industrial sector with its limited absorptive capacity add new dimensions to the significance of agriculture.

A strategic sector can be defined as the sector where the exploitation of possibilities for innovations or for developing newly profitable or hitherto unexplored resources yields ramified creative results driving the economy as a whole forward. The striking possibility of improvement in agriculture in this country, and the strong linkage effects makes it an all important sector in Pakistan.

The prosperity and stability of agriculture is the foundation of the prosperity and stability of our entire economy. Agriculture and allied occupation provide opportunities to 75% of our civilian labour to eke out a living. About 90% of the people living in rural areas are directly or indirectly dependant on this occupation. Its share of G.N.P. amounts to 50% of the total. Our foreign exchange needs, besides foreign aid are satisfied exclusively by agriculture. Light manufactures do contribute to our exchange earnings, but they have started lately.

5. Gustav Papanek Pakistan's Development, Karachi, 1968.

Another strategic function of agriculture in Pakistan is the saving potential it offers for developmental purposes. At the same time it provides us with market for our industries. It is said that "To a very large extent the problem of the under-developed countries of the world is the poverty of their farm population". Pakistan like other LDCs with 80% of the population in rural areas suffers from this handicap also. The lack of effective demand makes investment a risky job in the industrial field. "Paradoxically for the rate of growth, the very backwardness of agriculture is favourable for initiating and employing a wide variety of techniques."

The breadth and depth of domestic market, therefore, depends upon the purchasing power of the rural masses. However, their incomes being low, domestic market is not favourable for investment in the industrial field. At the same time opp rtunities for development are abundant in agriculture. Wisely expended packages of investment generate exceptionally good results. Agriculture can provide a big push to the economy, for improvement in this sector provides market for industries as well as contributes directly for the developmental plans.

Agricultural conditions in Pakistan are not very different as compared to the rest of the under-developed world. The best in Pakistan does not compare unfavourably with the best in the developed countries, but for the difference between the average and the best which is wider here. This difference measures the potential for improvement. The presence of opportunities for development in agriculture, the rural poverty and the need for a strong industrial base make a strong case for concerted effort to lift agriculture out of stagnation.

It has been estimated that agriculture's contribution in 1951-52 to our G.N.P. was 4,105 million rupees. It rose to 5,587 million rupees in 1964-65. This increase in output was attributed to extension of the irrigational facilities. The outlay was small and the result was almost startling. Agriculture is vital for our economy in so far as it helps in creating income, and provides ample savings for furtherance of our developmental designs.

Agriculture is burdened with three major responsibilities in Pakistan. Firstly, to provide food and fibre for an expanding population and secondly, to provide surplus for two purposes :

(i) expanding industrial use.

(ii) exports.

With the growth of industry raw materials have to be supplied amply for production purposes. The manufacturing industry which has to cater for the growing domestic as well as the few export markets needs a continuous supply of raw materials. Most of the raw material, however, is increasingly consumed at home now. At the same time, the need for foreign exchange has not diminished. Foreign exchange is vital for the growth of our economy. Without the essential exchange component, development is almost impossible. Agriculture supplied us with a major portion of exchange in the past years. However, with the acceleration of the pace of development, exchange needs have also soared up. Reliance on agriculture thus has increased instead of been decreasing during the transitional period. For all these reasons, agriculture assumes importance in our strategy for development. This sector, if properly developed, can send fresh winds blowing through the economy.

The third responsibility shouldered by agriculture is the provision of savings for capital formation. Unfortunately, agriculture has been in a dormant state with traditional opposition to innovations, barring the way for further improvement. For this reason, adequate satisfaction of this service has not been possible.

It is interesting to note that agriculture will remain a strategic industry for at least another three decades. A projection of figures in perspective has resulted in the following conclusion (figure in 000) :

Year	Total Labour Force	Agricultural Labour	% Share
1951	9507	6188	65.1 %
1961	12763	7570	59.3 %
1975	19236	9558	49.6 %
1985	25878	10673	41.2 %

It has been thus estimated that by 1985 agriculture will still be absorbing 41.2% of the total labour force. A significant majority pursuing agricultural occupations in the next 30 years, points out to the fact that agriculture is not going to suffer any appreciable fall from its position of importance.

Agriculture has a leading role to play in our future balances of internal as well external transactions. The efforts to lessen dependence on foreign aid and husbanding foreign exchange underlines the important part agriculture must play in future. Agriculture can contribute greatly in energising the take-off that the nation is so earnestly striving for. The struggle to achieve radical transformation in Pakistan is apt to be won or lost in the countryside. Agriculture is closely linked to our economy and efforts to achieve sustained growth demand a Green Revolution to precede an Industrial Revolution. In short, agriculture is destined to play a strategic role in the process of development in this country.

Statistical Picture of Aid to Agriculture :—

Foreign Capital has been utilized in agriculture both providing economic inputs or improving the effeciency of economic inputs and in providing social and economic overhead base to the agricultural sector. Underneath has been presented a detailed picture of the different sources and types of foreign aid procured for developing major segments of the agricultural sector.

AID TO AGRICULTURE DURING THE PRE PLAN PERIOD

CANADA

Project	Amout (in $ 000's)
Ganges-Kobadak Project	1,800
Warsak Multipurpose	18,400
Commonwealth Livestock Farm	200

AUSTRALIA

Project	Amout (in $ 000's)
Thal Project	2,060
Punjab tubewells and canal link project	14,104
Commonwealth Livestock Farm	43
Cold storage plants in both wings	448

NEW ZEALAND

Nari Bolan Project

1951-52 — 0.25 million New Zealand Pounds :

Commonwealth Livestock Farm — $ 33,000

Technical Aid : (Agriculture)

1951	4
1952	4
1953	—
1954	—
1955	3

U.N.

Training (Agriculture)

	F.A.O.	T.A.A.
1949	—	—
1950	—	2
1951	—	2
1952	16	3
1953	—	1
1954	5	—
1955	7	—

UNITED KINGDOM

Technical Aid

1951	—
1952	—
1953	7
1954	21
1955	—

* A credit worth $ 10 million was also provided in 1954. Part of this was utilized for agriculture.

U. S. A.

(Allocation in $ 000's

	Capital	Technica
Agriculture and Village Aid		
1952	2007	—
1953	210	75
1954	9	—
1955	380	23
Acquisition and Distribution of Fertilizer		
1952	900	—
1953	3699	—
1954	4000	—
1955	2000	—
East Pakistan Forest Research Laboratory		
1952	200	—
1953	15	—
1955	60	—
Chittagong Hill Tracts Timber Extraction Project		
1952	252	—
1953	83	—
1954	100	—
1955	16	179
Locust Control Project		
1953	59	—
Makhi Dhand Reclamation Project		
1953	387	100
Agricultural Research and Demonstration Project		
1953	74	—
1954	290	—
1955	298	83
Plant Protection		
1954	300	—
1955	250	—
Agricultural Organization		
1954	435	—
1955	120	—
Soil and Water Conservation		
1954	85	—
1955	30	—
Agriculural Workshop		
1954	500	—
1955	225	—

Soil and Water Conservation		
1954	130	—
Soil and Water Conservation (Sailaba)		
1954	55	—
Modern storage of Food Grains		
1951	—	95
1952	405	—
1953	720	265
1955	—	55
Soil Mechanics and Hydraulis Laboratory		
1953	96	—
1955	30	—
Bolan Dam Project		
1953	—	75
Ground Water Exploration & Test Tubewells		
1953	92	50
1954	15	35
Ganges Kobaadak Irrigation Project		
1954	1670	—
1955	430	—
Taunsa Barrage Project		
1953	—	114
1954	3279	210
1955	2458	42
West Pakistan Ground Water Survey		
1954	858	—
1955	630	150
Construction of Fertilizer Factory		
	Capital	Technical
1952	2810	1190
1953	3000	—
1954	3500	—
1955	1046	367

EXIM LOANS

Loan for meeting food shortage	
1952	$ 15 million
Loan for Assistance under Agricultural Trade Act	
1953	$ 28.9 million

IBRD LOANS

Punjab Agriculture Machinery	
1951-52	$ 3.25 million

AID TO AGRICULTURE DURING THE FIRST PLAN

		Amount (in $ millions)
CANADA		
Project		
Locust and other Pest Control		0.52
Tarnab Farm		0.002
*Warsak Multipurpose Project		16.39
Expert Services		
1956	8	
1957	9	
1958	12	
1959	2	
1960	—	
AUSTRALIA		
Expert Services		
1956	12	
1957	2	
1958	2	
1959	10	
1960	1	

*Aid for Warsak includes allocation for power project also; data for aid committed for irrigational purposes is not available as the aid provided was project aid.

East Pakistan Power Pump Irrigation Scheme	0.125
Tractors for Grow More Food Scheme	0.433
NEW ZEALAND	
Assistance	
1956	2
1957	—
1958	1
1959	—
1960	—

Sources :

Foreign Economic Aid, Ministry of Finance 1962.

U.S.A. Economic Aid, to Pakistan, Ministry of Finance, 1957.

Canada's Economic Aid to Pakistan, Ministry of Finance, 1957.

U. K.

Credits	Amount Rs. in Lacs
Sukkur and Guddu Reclamation	33
Machinery Pool for Ghulam Mohammad Barrage	60
Colonisation of Barrage	119
Heavy Earth Moving Machinery for Reclamation of Land in West Pakistan	49.55
Thal Development Project	49.72
Pesticides Spraying Equipment	76.40
Cold Storage Plants	9.47
Mechanical Cultivation and Power Irrigation	67.99
Reorganization of Agriculture	1.04
East Pakistan Irrigation Project	£ 1 million
Training Facilities	
1956	14
1957	30
1958	8
1959	8
1960	8

EXIM. LOANS	(in $ millions)
Loans for assistance under agriculture trade development act.	28.95
Credit for Fertilizer Factory Fenchuganj.	24.55

U. S. A.

	Amount (in $ 000's)
Fertilizer Factory	2,572
Agricultural University	7,175
Agricultural Research & Demonstration	2,67
Agricultural Research & Production	2,07
Agricultural Extension	2,72
Forest and Range management	2,93
Agricultural Organization	1,746
Agricultural Workshop	3,01
Modern Storage of Food Grains.	7,010
Plant Protection	2,03
Improved seed Multiplication	6

Ganges-Kobadak Irrigation	4,167
Coastal Embankments in East Pakistan	6,702
Faridpur Drainage	6,89
Brahambaria flood control	3,15
Small Irrigation Schemes	1,051
Soil Mechanical & Hydraulics Laboratory	37
Makhi Dhand Reclamation	8,58
West Pakistan open canals	11,624
Soil & Water Conservation	3,24
Indus Basin Development Fund	442,181
Water Resources	1,34
Ground Water Survey	8,299
Kurram Garhi	1,159
Taunsa Barrage	18,543
Scarp projects	22,843

* Figures include Rupee grants also.

AID TO AGRICULTURE DURING SECOND FIVE YEAR PLAN CONSORTIUM SOURCES

CANADA

	Projcts	Amount (in $ millions)
1960-61	Forest Inventory Survey of Chittagong Hill Tracts.	0.50
	Acquisition and Distribution of Fertilizer	2.00
1961-62	Project	1.03
	Spraying Equipment and Pesticides	4.01
1962-63	Project	0.78
1963-64	Nil	
1964-65	Land use Study for Chittagong Hill Tracts	0.23

GERMANY

1960-61	NIL	
1961-62	Tubewells EPWAPDA	3.83
1962-63	Nil	
1963-64	Nil	
1964-65	Scarp Lower Thal	6.75
	Tubewells EPWADA	1.72

JAPAN

1960-61	Nil	
1961-62	Nil	
1962-63	Nil	
1963-64	Nil	
1964-65	Sulphation Plant for Pak American Fertilizer	1.45

UNITED KINGDOM

1960-61	W.P. Tubewell Project	2.80
1961-62	Nil	
1962-63	Nil	
1963-64	Tea Machinery and Irrigation Equipment	0.81
1964-65	Nil	

UNITED STATES OF AMERICA

1960-1961	Nil	
1961-62	Nil	
1962-63	Salinity Control and Water "Ehaj Doab"......Lodding	10.80
1963-64	Coastal Embankment	4.37
	Extraction of Timber in Chittagong Hill Tracts	2.25
1964-65	Nil	

IDA

1961-62	(i) Dacca-Demra Irrigation	1.00
	(ii) Salinity Control and Reclamation	18.00
1962-63	Chandpur Irrigation	5.25
1964-65	Development of Agriculture	27.00

ITALY

Nil

EXIM	Nil
FRANCE	Nil
HOLLAND	Nil

NON-CONSORTIUM SOURCES

YUGOSLAVIA

1960-64	Nil	
1964-65	Scarp III Lower Thal	2.15

AID TO AGRICULTURE DURING THIRD FIVE YEAR PLAN CONSORTIUM SOURCES

CANADA

Fiscal Year	Projects	Amount (in $ Million)
1965-66	Survey and Investigation For Develpment of Chittagong	0.050
	Beaver's......Hill Tracts	0.498
1966-67	Nil	
1967-68	Nil	
1968-69	Fertilizers WPADC	0.7
1969-70	Tubewell Irrigation EPADC	5.5

FRANCE

1965-66	Fertilizer Factory, Daudkhel	2.5
1966-67	Fertilizer Factory, Daudkhel	0.70
1967-68	Fertilizer Factory, Daudkhel	0.330
	Import of Fertilizer, WPADC	1.793
1968-69	Pesticides (A.D. Gowp)	0.101
	Fertilizers, EPADC	0.506
	Fertilizers, WPADC	1.726
	Project (V)	0.068
1969-70	Project (U)	0.059

BELGIUM

1965-66	Nil	
1966-67	Fertilizer	0.500
1967-68	Nil	

GERMANY

1965-66	Nil	
1966-67	Natural Gas Fertilizer Factory	1.945
1967-68	Nil	
1968-69	Nil	
1969-70	Triple Superphosphate Plant	2.732

ITALY

1965-66	Daudkhel Fertilizers	0 294
	Daudkhel Fertilizers	0.153
	440 Bulldozer for WPADC	6.161
1966-67	Nil	
1967-68	Nil	
1968-69	Tractors	7.609
	Fertilizers WPADC	2.985
1969-70	Nil	

JAPAN

1965-66	Natural Gas Fertilizer Ghorasal	1.601
1966-67	Natural Gas Fertilizer Ghorasal	3.236
1967-68	Natural Gas Fartilizer Ghorsal	7.800
	Ammonium Sulphate Plant	0.704
1968-69	Project (i)	7.509
1969-70	Project (i)	3.319

NETHERLAND Nil

UNITED KINGDOM Nil

SWEDEN

1965-66	Food Grain Storage (GOEP)	4.833
1966-67	Nil	
1967-68	Development of Agriculture	5.026
1968-69	Nil	
1969-70	Tubewells, EPADC	6.000

U.S.A.

1965-66	Nil	
1966-67	Salinity Control and Reclamation Project No. 2-B	14.100
1967-68	Fertilizers	25.000
1968-69	Seed Potato Multiplication (GOEP)	0.420
1969-70	Ground Water Survey (EPWAPDA)	1.500
	Fertilizer's	20.00
EXIM BANK	Nil	
IBRD		
1965-68	Nil	
1968-69	Dawood Hercules Fertilizer	32.00
1969-70	Nil	
IDA		
1965-66	Food Grain Storage (GOEP. FD)	19.20
1966-67	Nil	
1967-68	Develpment of Agriculture (ADBP)	10.00
1968-69	,, ,,	30.00
1969-70	Tubewells EPADC	14.00
	Dacca, South West Irrigation EPWAPDA	0.000
	Chandpur, Irrigation and Flood Control	13.00
	Karnaphuly Mohni and Little Feni Irrigation and Flood Control Engg.	2.40

NON CONSORTIUM SOURCES

U.S.S.R.

1965—66		
	260 Bulldozer for WPADC...Land Dev.	6.43
	EPWAPDA Equipment	0.73
	WPADC: Soan Valley Land Improvement	1.680
1966—67	NIL	
1967—68	Michanical Equiment for Small Dam's	0.284
	EPWAPDA	0.500
1968—69	Purchash of Tractor's and Spare Parts's	1.375
	EPWAPDA	0.131
1969—70	Tractor's	0.597

SWITZERLAND

1968—69	Import's of (Ciba Pesticides)	2,949
1969—70	EAPDC ,, ,,	0.984
1969—70	,, ,, ,,	1.967

IFC

1968—69	Dawood Hercules	3.919

YUGOSLAVIA

1965—66	NIL	
1966—67	Tubewell's (WPWAPDA)	3.002
1967—68	NIL	
1968—69	NIL	
1969—70	NIL	

JAPAN

1967—68	Nesser Hitachi Construction of Triple Superphosphate Fertilizer's Chittagong	8.089

KUWAIT

1969—70	Fertilizers	4.9

NORWAY

1969—70	Fertilizers	5.026

NATIONAL AND GRINDLAYS BANK

1969—70	Fertilizers and Pesticides (EPADS)	4.00

COMMODITY AID
CANADIAN ALLOCATIONS

1952—53 1953—54	Wheat	10 Million $
1955—56	,,	1.5 ,, ,,
1956—57	,,	—
1957—58	,,	6.0 Million $
1958—59	,,	6.50 ,, ,,
1959—60	,,	3.65 ,, ,,
1960—61	,,	3.65 ,, ,,
1961—62	,,	3.65 ,, ,,
1962—63	,,	0.75 ,, ,,
1963—64	,,	0.75 ,, ,,
1964—65	,,	3.69 ,, ,,
1965—66	,,	3.062 ,, ,,
1966—67	,,	12.851 ,, ,,
1967—68	,,	1.856 ,, ,,
1968—69	,,	4.625 ,, ,,
1960—70	,,	3.843 ,, ,,

AUSTRALIA

Wheat Worth 3.04 Million $ has been Received.

CHINA

6.862 Million $ were Provided for Import for Food Grains.

GERMANY

Sugar Worth 2.52 Million $ was Provided.

COMMITMENT AND DISBURSEMENT OF FORIEGN AID (GRANTS) FROM USA (LOCAL CURRENCY RELEASES) UNDER SECTION 402

(Rupees)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-Ist Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55					
Sub-Total :					
II. Ist Plan					
1955—56					
1956—57					
1957—58		4,35,97,548	4,35,97,548	4,35,97,548	
1958—59		1,06,72,215	1,06,72,215	1,06,72,215	
1959—60		7,00,000	7,00,000	7,00,000	
Sub-Total :		5,49,69,763	5,49,69,763	5,49,69,763	
III. 2nd Plan					
1960—61		6,19,000	6,19,000	6,19,000	
1961—62		1,91,60,000	1,91,60,000	1,91,60,000	
1962—63		—	—	—	
1963—64		9,48,688	9,48,688	9,48,688	
1964—65		12,00,750	12,00,750	12,00,750	
Sub-Total :		2,19,28,438	2,19,28,438	2,18,28,438	
IV. 3rd Plan					
1965—66		15,61,324	15,61,324	15,61,324	
1966—67		11,75,000	11,75,000	11,75,000	
1967—68		4,45,000	4,45,000	4,45,000	
1968—69		9,64,000	9,64,000	9,64,000	
1969—70		17,14,625,59	17,84,625,59	17,84,625,59	
Sub-Total :		59,29,949,59	59,29,949,59	59.29.949,59	

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANT) FROM U.S.A. (LOCAL CURRENCY RELEASES) UNDER PL-665/138

(Rupees)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-Ist Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55					
Sub-Total :					
II. Ist Plan					
1955—56					
1956—57		12,64,00,000	12,64,00,000	12,64,00,000	
1957—58		15,85,71,400	15,85,71,400	15,85,71,400	
1958—59		42,65,38,000	42,65,38,000	42,65,38,000	
1959—60		39,77,15,650	39,77,15,650	39,77,15,650	
Sub-Total :		110,92,25,150	110,92,25,150	110,92,25,050	
III. 2nd Plan					
1960—61		46,21,25,196	46,21,25,196	46,21,25,196	
1961—62		38,27,87,014	38,27,87,014	38,27,87,014	
1962—63		22,87,91,597	22,87,91,597	22,87,91,597	
1963—64		7,91,36,103	7,91,36,103	7,91,36,103	
Sub-Total :		115,28,39,910	115,28,39,910	115,28,39,910	
IV. 3rd Plan					
1965—66					
1966—67					
1967—68 (3/68)					
Sub-Total :					
Total :		226,20,64,960	226,20,64,960	226,20,64,960	

Source : Project Agreements between Government of Pakistan and U.S. Aid.

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANTS) FROM U.S.A. (LOCAL CURRENCY RELEASES) UNDER SECTION 104 (E) AND (F).

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-Ist Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55					
Sub-Total :					
II. Ist Plan					
1955—56					
1956—57					
1957—58					
1958—59					
1959—60		1,51,87,000	1,51,87,000	1,51,87,000	
Sub-Total :		1,51,87,000	1,51,87,000	1,51,87,000	
III. 2nd Plan					
1960—61		10,76,32,500	10,76,32,500	10,76,32,500	
1961—62		19,99,76,101	19,99 76,101	19,99,76,101	
1962—63		29,41,66,535	29,41,66,535	29,41,66,535	
1963—6o		39,49,37, 89	39,49,37,289	39,49,37,289	
1964—65		32,47,90,000	32,47,90,000	32,47,90,000	
Sub-Total :		132,15,02,425	132,15,02,425	132,15,02,425	
IV. 3rd Plan					
1965—66		25,08,75,000	25,08,75,000	25,08,75,000	
1966—67		7,90,90,000	7,90,90,000	7,90,90,000	
1967—68		20,17,65,000	20,17,65,000	20,16,65,000	
1968—69		10,53,92,000	10,53,92,000	10,53,92,000	
1969—70		4,92,30,250	4,92,30.250	4,92,30,250	
Sub-Total :		35,62,87,250	35,62,87,250	35,62,87,250	

COMMITMENT AND DISBURSEMENS OF FOREIGN AID (GRANT) FROM U.S.A. (LOCAL CURRENCY RELEASES) UNDER PL-480-II

(Rupees)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-Ist Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55					
Sub-Total :					
II. Ist Plan					
1955—56					
1956—57					
1957—58				6,62,07,000	
1958—59				1,74,73,000	
1959—60				1,77,70,000	
Sub-Total :				10,14,50,000	
III. 2nd Plan					
1960—51					
1961—62					
1962—63					
1963—64					
1964—65					
Sub-Total :					
IV. 3rd Plan					
1965—66					
1966—67					
1967—68					
Sub-Total :					
Total :				10,14,50,000	

COMMODITY AID
COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANTS) FROM U.S.A.
Public Law 480 Title - I

(U.S.A. $)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-Ist Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55	—	28,483,322	28,483,322	8,349,089	20,135,233
Sub-Total :	—	28,483,322	28,483,322	8,348.089	20,135,233
II. Ist Plan					
1955—56	20,135,233	16,849,710	36,984,943	10,163,543	26,821,400
1956—57	26,821,400	72,359,086	99,180,486	78,189,560	20,990,926
1957—58	20,900,926	61,421,610	82,412,536	70,125,019	12,287,517
1958—59	12,287,517	77,412,482	89,700,099	44,779,355	44,920,744
1959—60	44,920,744	74,596,470	119,517,214	71,016,402	48,500,812
Sub-Total :	20,135.233	302,638,918	322,774,691	274,273,879	48,500,812
III. 2nd Plan					
1960—61	48,500,812	85,862,339	134,363,151	101,512,494	32,850,657
1961—62	32,850,657	62,214,495	95,065,152	72,023,588	23,041,564
1962—63	23,041,564	130,642,280	153,683,844	127,476,387	26,207,457
1963—64	26,207,457	136,317,044	164,524,501	143,281,478	21,243,023
1964—65	21,243,025	168,819,458	190,062,481	176,337,625	13,724,856
Sub-Total :	48,500,812	585,855,616	634,356,428	620,631,572	13,724,856
IV. 3rd Plan					
1965—66	13,724,858	53,560,342	67,285,200	66,541,367	743,833
1966—67	743,833	105,975,607	104,719,440	97,912,635	6,806,805
1967—68	6,806,805	147,910,001	154,716,806	131,039,729	23,677,077
1968—69	23,677,077	19,420,474	43,097,551	37,993,785	5,103,756
2969—70	5,103,756	34,300,000	39,403,756	33,333,630	6,070,126
Sub-Total :	13,724,858	359,166,424	372,891,282	366,821,156	6,070,126

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANT) FROM U.S.A. PL 480-II
Public Law 480 Title - II

(U.S.A. $)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-1st Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55	—	8,671,473	8,671,473	8,671,473	—
Sub-Total :	—	8,671,473	8 671,473	8,671,473	—
II. 1st Plan					
1955—56		33,402,385	33,402,386	33,402,386	—
1956—57		—	—	—	—
1957—58		7,966,353	7,966,383	7,966,353	—
1958—59		—	—	—	—
1959—60		—	—	—	—
Sub-Total :	—	41,368,738	41,368,738	41,368,738	—
III. 2nd Plan					
1960—61					
1961—62					
1962—63	—	28,126,384	28,126,384	12,199,094	15,927,290
1963—64	15,927,290	4,849,632	20,776,922	9,049,095	11,727,827
1964—65	11,727,827	12,135,164	23,862,991	—	23,862,991
Sub-Total :	—	45,111,180	45,111,180	21,248,189	23,862,991
IV. 3rd Plan					
1965—66	23,862,991	—	23,862,991	21,696,424	2,166,747
1966—67	2,166,747	2,850,000	5,016,747	670,058	4,346,689
1967—68	4,346,689	—	4,346,686	1,957,573	2,389, 16
1968—69	2,389,116	2,560,000	4,949,116	1,552,595	3,396,521
1969—70	3,396,521	—	3,396,551	—	3,396,521
Sub-Total :	23,852,991	5,410,000	29,272,991	25,876,470	3,396,521

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANT)
FROM U.S.A. PL 480-II
Public Law 480 Title - II

(U.S.A. $)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-1st Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55	—	8,671,473	8,671,473	8,671,473	—
Sub-Total :	—	8,671,473	8 671,473	8,671,473	—
II. 1st Plan					
1955—56		33,402,385	33,402,386	33,402,386	—
1956—57		—	—	—	—
1957—58		7,966,353	7,966,383	7,966,353	—
1958—59		—	—	—	—
1959—60		—	—	—	—
Sub-Total :	—	41,368,738	41,368,738	41,368,738	—
III. 2nd Plan					
1960—61					
1961—62					
1962—63	—	28,126,384	28,126,384	12,199,094	15,927,290
1963—64	15,927,290	4,849,632	20,776,922	9,049,095	11,727,827
1964—65	11,727,827	12,135,164	23,862,991	—	23,862,991
Sub-Total :	—	45,111,180	45,111,180	21,248,189	23,862,991
IV. 3rd Plan					
1965—66	23,862,991	—	23,862,991	21,696,424	2,166,747
1966—67	2,166,747	2,850,000	5,016,747	670,058	4,346,689
1967—68	4,346,689	—	4,346,686	1,957,573	2,389, 16
1968—69	2,389,116	2,560,000	4,949,116	1,552,595	3,396,521
1969—70	3,396,521	—	3,396,551	—	3,396,521
Sub-Total :	23,852,991	5,410,000	29,272,991	25,876,470	3,396,521

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANTS) FROM U.S.A.

Public Law 77 (Gift Wheat Aid) and Flood Relief (U.S.A. $)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-1st Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55		73,684,639	73,684,639	73,684,639	—
1955—56		7,004,668	81,004,668	81,004,668	—
Sub Total :		81,004,668	81,005,668	81,004,668	—
II. 1st Plan					
1955—56					
1956—57		1,577,707	1,577,707	1,577,707	—
1957—58					
1958—59					
1959—60					
Sub-Total :		1,577,707	1,577,707	1,577,707	—
III. 2nd Plan					
1960—61					
1961—62					
1962—63					
1963—64					
1964—65					
Sub-Total :					
IV. 3rd Plan					
1965—66					
1966—67					
1967—68					
Sub-Total :					
TOTAL :		82,582,375	82,582,375	82,582,375	

COMMITMENT AND DISBURSEMENT OF FOREIGN AID (GRANTS) (LOCAL CURRENCY RELEASES) UNDER 104 (Q) D&H

(Rupees)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-1st Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55					
Sub-Total :					
II. 1st Plan					
1955—56					
1956—57					
1957—58					
1958—59					
1959—60					
Sub-Total :					
III. 2nd Plan					
1960—61					
1961—62					
1962—63					
1963—64					
1964—65					
Sub-Total :					
IV. 3rd Plan					
1965—66		30,00,000	30,00,000	30,00,000	
1966—67		1,21,40,000	1,21,40,000	1,21,40,000	
1967—68	2,66,00,000	2,66,00,000	2,66,00,000	2,66,00,000	

COMMITMENT AND DISBURSEMENT OE FOREIGN AID (GRANTS) FROM U.S.A. (PL-77A3C-GIFT WHEAT ACCOUNT)

(in Rupees)

Period	Undisbursed balance (Opening)	Commitment during the year	Total available	Disbursement	Undisbursed balance (Closing)
1	2	3	4	5	6
I. Pre-1st Plan					
1950—51					
1951—52					
1952—53					
1953—54					
1954—55				2,00,00,000	
Sub-Total :				2,00,00,000	
II. 1st Plan					
1955—56				69,78,445	
1956—57				4,65 00,000	
1957—58				24,94,332	
1958—59				95,79,788	
1959—60				—	
Sub-Total :				6,55,52,565	
III. 2nd Plan					
1960—61				34,24,682	
1961—62				—	
1962—63				4,00,000	
1963—64				13,18 000	
1964—65				24,85,000	
Sub-Total :				76 27,622	
IV. 3rd Plan					
1965—66				72,110	
1966—67				—	
1967—68				—	
Sub-Total :				72,110	
Total :				9,32,52,357	

Effect of Aid to Agriculture

Being the major sector in terms of its size, and in terms of contribution to our national income, it seems pertinent to accord agriculture a high priority.

Industrialization is the other attractive but expensive alternative. Unnecessary emphasis on industrialisation may be perilous in so far as it leads to the neglect of various non-economic considerations involved in planning the development of Pakistan. Statistical evidence shows the injection of external capital in this sector, over a period stretching from the dawn of Independence to the present day. In the present review we have to judge and weigh the effects of aid on our agricultural sector. It has to be examined whether it has led to "mobilisation of indigenous human and material resources in this sector or not".

In the pre-plan economy, aid was sanctioned in large amounts but the utilization was not significant. The pre-plan period was characterised by instability and administrative disarray. Most of the investment was on projects with long gestation period. The administrative chaos coupled with the primitive state of agriculture all contributed to the low rate of growth i.e. 1.4% per annum. The annual investment rate in agriculture was 80 million rupees, much less than what was needed to give a big push to this sector.

With the appointment of national planning board, afive year plan was launched in 1955. Although overt recognition was given to the importance of agriculture, however the plan failed to increase the investment to a significant degree, the actual investment being only 57 million rupees in the 5 year period.

The first five year plan showed a disappointing performance. In first four years, 70.4% increase in imports of grain over planned target occured. The main factors for this set back were poor weather conditions and slow rate of implementation of Agricultural Devement Plan.

The Second Five Year Plan showed marvellous results in the agricultural sector. Output in food grains during 1961-62 recorded an increase of 21%touching the target laid down for 1964-65. The incrcase in production of jute, cotton and sugar cane was also encouraging as compared to the plan targets. The achievement in jute, cotton and sugar-cane was 16.2%, 10·4% and 20·2% as campared to the plan targets of 22%, 38%, 36% respectively. This increase occured in a single year and this point is important in judging the merits of aid. The sudden spurt of progress marks the presence of preconditions or, say, the impetus necessary for agricultural growth. Large quantities of fertilizer were provided by different governments during the preceding ten years and fertilizer plants were provided for domestic production. Irrigation problem was solved to a large extent, insecticides and pesticides, better seeds, tractors, technical know how and host of other inputs had been for years pouring in from different countries. Domestic energy and will combined with the presence of these important materials accelerated the rate of growth. It is inconcievable to imagine rapid strides in agriculture within a year after a long and dreary period of stagnation.

The Third Plan saw the continuation of the forward leap. The growth rate in agricultural sector had jumped to 3·4% per annum. The Third five year plan found Pakistan on the threshold of an agrarian revolution. In other words, the period of 1960-70 witnessed a great change in the agricultural sector as is evident from the following comparative studies.

Growth of value added in Agricultural sector (Compound Growth Rates)

Sub-Sector	*1950-60*	*1960-70*	*1950-70*
Major crops	1.5	4.4	3.0
Minor crops	1.2	4.9	1.8
Other Agricultural	2.4	2.3	2.4
Total Agricultural	1.4	3.9	2.6

Output of principal crops

Period	*Rice*	*Wheat*	*Sugar cane*	*Tea*	*Jute*	*Cotton*
		(million tons)		(million lbs.)	(million bales)	
1949-50	8.2	3.9	10.0	38.9	6.0	1.3
1959-60	9.5	3.9	15.00	57·0	5.6	1.7
1960-70	13.8	7.1	29.9	70.0	7.0	3.0

Per Capita Availability of Food Grains
(Million Tons)

	1949-50	1959-60	1969-70
Domestic Prod.	13.3	14.5	22.5
Net Imports.	—	1.2	0.9
Total Available	12.0	14.3	21.1
Population (Millions)	78.8	98.8	132.3
Total per capita availability (Oz. per day)	14.9	14.2	15.7

These studies reveal that taking per capita consumption as constant, we have achieved self sufficiency in food grains. In cash crops tremendous increase has occured. But it is difficult to calculate exclusive growth caused by aid. However, a fair view of things can make us understand the major role played by external help.

Aid has been provided by various Goverments for varied tasks in agriculture under varying conditions. The total quantum of aid, which flowed in since independence is $1133.825 millions. Gross investment in agriculture and irrigation was Rs. 21650 million during the period 1947-70. Aid thus constituted approximately 25% of the total investment. The largest share of aid was provided by the American Government. U.S. Aid was 62% of the total inflow, the rest 38% coming from the rest of the donor countries. Irrigation & fertilizer were the largest absorbers of aid, squeezing 80% of the total aid provided.

Thus Governments have been generous enough to provide us facilities for agricultural improvement i.e. helping us in wiping out salinity and water logging, providing us colossal amounts of funds for improving our irrigation etc. and extending us helping hand in modernizing techniques of farming. The completion of Taunsa, Ghulam Mohammad Barrages, the building of Dams at Mangla and Warsak have helped us in getting rid of water shortage. All these monumental achievements have been largely assisted by foreign governments. New seeds such as Mexi Pak 65 for wheat and Irri Rice have been a part of aid programme to help us in improving our food condition. Consortium and Non consortium sources have helped in building fertilizer factories at various places and that is an indirect help to boost agricultural production upwards. K.L. Seth has stated that

"Agricultural growth resulted from institutional changes, and better arrangements for water, fertilizer, seeds, pesticides, machinery and improved methods of farming". And I would add that the latter arrangements were almost completely provided by foreign countries. The essential infrastructure for revolutionizing the agricultural sector has been built exclusively with the help of foreign funds.

Aid thus has certainly benefitted our agriculture. However, the failure to achieve "startling" results is to be found in the under utilization to waste of the aid. Weaknesses in our planning and organisational structures, were of course responsible for the slow rate of growth. Till lately we had not visualised the goal of modern agriculture. At other times, sudden jumps in the productivity tricked us into feeling that we have broken the back of the problem. A well defined target must be laid down and at the same time aid should be less and less political in nature and more in accordance with considerations for energising the economic prosperity of this world. More aid should flow in agricultural sector, so that distributive justice also takes place and the pauperisation of peasantry ends. The Swedish form of aid "that is restricting their agricultural production to 80% of their seeds, catering for the rest 20% through imports from LDC's" is indeed a sound measure to boost the agrarian societies of the third world. If other countries in the prosperous part of world follow suit, development would become much easier. The tariff reforms and aid suggestion by Colin Clark are reasonably sound and if implemented will certainly prove advantageous for developed as well as under developed countries. It won't be unwise to suggest a broad outline of the Agricultural policy needed.

The policy can be divided into following major headings :

1. *Technology* : Introduction of new seeds and vareities in the light of our national needs.
2. *Incentive* : This covers price policy, storage facilities, and markets.
3. *In-puts :* This includes seeds, fertilizers, water, & plant protection equipment.
4. *Credit :* Training and Extension of services.

Aid should be granted by carefully studying the local conditions as well as the policy stated above. In addition to closer agreement on this policy co-ordination and cooperation of countries on the question of repayment should be taken into account. The repayment capacity of U.D.C.'s should not be taxed heavily for it inhibits growth as it is happening now. Aid flow should be continuous without any rigid insistence on the methodology for its usage : the trend of tying aid should be reversed. If aid is provided for a project, other than which can contribute more, growth process will be retarded. For example in our own case, international assistance can be greatly beneficial if markets for our products are provided ; that is IInd proposition is given the major impor tance in the aid programme, the second the provision of high yield seeds and varieties and then comes, the III, IV & V propositions. If aid is rigidly tied to some projects of minor importance, the gain may be insignificant.

Another important aspect is the continued supply of aid. If the D.Cs contribute generously, Green Revolution in this country will not be a distant goal. An assured flow of aid to agriculture can be instrumental in revolutionizing the lot of the farmer as well as contributing to the overall prosperity of our economy.

Growth can only become self-sustained when it gains momentum with a degree of self reliance. Foreign aid does contribute in initiating growth both as a source of capital supply and in affecting the social pattern of the economy through demonstrative effect. But a continous reliance on foreign aid leads to serious economic repurcursions. It is, therefore, required that all sectors of the economy must grow rapidly to provide sufficient funds for development.

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*The total amount of aid given in the preceding pages excludes P.L. 480 programme aid in the Second and Third five year plan. Part of this aid has been utilised in agriculture but as exact statistics are not available I have ventured to exclude it from the total. The Canadian commodity aid too, has not been included in the total flow of resources.—Author.

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CONVERSION TABLE

Country	*Currency*	*Pakistan Rupee per currency unit*
Australia	Dollar	5.3333
Canada	Dollar	4.4048
France	New Franc	0.9645
Japan	Yen	0.0132
West Germany	Deutsche Mark	1.1905
New Zealand	Pound	5.3333
Sweden	Krona	0.9205
U.K.	Pound	11.4286
U.S.A.	Dollar	4.7619
Yugoslavia	Dinar	0.3810

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