

The  
Economic Growth  
of Pakistan

SERGEI KAMANEV

**VANGUARD**

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Vanguard Books Ltd.,  
8-Davis Road, Lahore.

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Printed at Awami Press  
4, Lawrence Road, Lahore.  
Pakistan.

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## FOREWORD

Professor Sergei Kamenev's book will be a welcome addition to the literature on Pakistan. It is made more significant because of the author's base at the Institute of Oriental Studies, Moscow, the premier institution of its kind in the U.S.S.R., and of the U.S.S.R. Academy of Sciences.

A few words about the author whom I met when I was a guest, a Visiting Professor at the Institute. Although Professor Kamenev is one of the younger members — he was born in 1951 — of the Institute he has been working there since 1971. He has a Ph.d. in Economics from the Institute and has a distinguished academic record. He has authored over thirty research publications mostly on the problems of economic and social development in Pakistan. Of note are the monographs "Pakistan: Public Finance and Economic Development" (1982) and the present volume, "The Economic Growth of Pakistan".

"The Economic Growth of Pakistan" seeks to discover economic indicators of growth and relate them to socio-political developments from the time of Pakistan's creation in 1947 up to 1971. In economic terms there was progress. The book concludes: "So, from 1947 to 1971 Pakistan achieved significant progress in its economic development" (page 177). However, there were other areas where progress was less satisfactory. Of note was the "slow progress in agriculture, growing inequality in income distribution, increased population growth". These factors "contributed to the very low living standards of the working people" (ibid). Many of these problems still confront the economic planners of Pakistan.

Many of Professor Kamenev's sources on Pakistan come from the Government of Pakistan, in particular

the Planning Commission, the United Nations or Western economists. There are even laudatory references to Dr. Mahbub ul Haq, Pakistan's Minister for Planning and Development, who was then, in the early 1960s, a young economist at the Commission. Professor Kamenev pays him tribute as "the outstanding economist" (page 150).

Perhaps the arguments in the book would have been further enriched if the author had consulted some of the studies of rural Pakistan. For instance, the period of Ayub Khan's Government in the 1960's saw what was described as the "green revolution". There are valuable contributions on rural society and agricultural growth during this period by Pakistanis such as Hamza Alavi, Saghir Ahmed and Shahid Burki (although there is a reference to Burki's paper on demography). In particular the absence of Hamza Alavi, an internationally known Marxist social scientist, is notable.

Professor Kamenev's analysis ends in 1971. But great events took place after 1971 which shook the foundations of Pakistan. Of these the greatest was the separation of East Pakistan. Of the major contemporary issues two stand out as characteristic of the 1980s. One assisting Pakistan's push, now that it has an income per capita of 350 dollars, towards the middle-level nations of the world (and Pakistan should soon be joining that category according to Shahid Burki, Director of the World Bank), the other acting as an economic drag. The first consists of the 3 million Pakistanis working abroad who remit 3 billion dollars annually. The second of the 3 million Afghan refugees who depend on Pakistani hospitality. Perhaps Professor Kamenev could undertake a second volume to bring the story of the economic growth of Pakistan up to date.

Professor Kamenev's theoretical position is that of a Marxist economist. However, those who expect purple passages will be disappointed. His book is a diligent, scholarly and sober effort to interpret economic growth in Pakistan during a certain period of

its history. It will act as a useful methodological and theoretical corrective to the economic view of Pakistan usually derived from Western — or Western trained — economists.

Akbar S. Ahmed  
Islamabad  
July, 1984.

## PREFACE

More than three decades have already passed since the national—liberation revolution in colonial India. The overthrow of the colonialists' rule, the reorganisation of the economy and the mobilisation of the domestic resources plus foreign aid have provided all the conditions for the rapid economic development of the South—Asia and other liberated countries. But in the course of their economic growth these countries have had to face many new complex problems. While the developing countries have been able to increase their growth rates, the rapidly growing population in these countries has retarded the growth of per capita income. This was also the reason for the worsening of the food situation and for other difficulties in agriculture needing special measures to boost agricultural output. In recent decades social life in those newly liberated countries that have embarked on the capitalist path of development, has been fraught with acute class struggle caused by increasing inequalities in income distribution.

The extensive literature on the economic problems of the Third World is continuing to grow. One of the distinguishing features of this literature, just like the books on the economic problems of the developed market economics, is the increasing prominence of macro—economic research, which deals with particular phases or circular flow, economic growth factors and the possibilities of raising the effectiveness of national production, questions of modelling and planning of economic development, etc. Macro—economic research makes it possible to examine the economy of a particular country as a whole, to analyse the proportions and ties between its various parts, to determine the growth rates and to compare and summarise the

economic indicators of different states.

Prior to 1971 Pakistan united two extensive and densely populated territories more than 1,500 km apart. This left an appreciable imprint on the economic, social and political development of Pakistan in the early period of its independence. But in 1971 the country went through a serious political crisis. This led to radical economic, social and political transformations. The emergence of an independent Pakistan on the ruins of colonial India in 1947 and the 1971 crisis are the boundaries of a quite definite, distinct period in the country's history, forming the chronological framework of this research.

It has only become possible to make an analysis of Pakistan's national economy comparatively recently. In colonial India national accounts statistics were almost non-existent. Since the availability of such statistics largely determined the effectiveness of the government's economic policy and, in particular, long-term planning, the government's economic agencies exerted every effort to evolve national accounts statistics. Moreover, these statistical data were needed by UN agencies, and UN specialists rendered no small aid to the appropriate Pakistan organisations in creating such statistics. Although the quality of the information so far obtained with the help of this statistical system is not very high, research can be conducted and scientific results that are on the whole trustworthy can be obtained.

Apart from national accounts and demographic statistics, an important role in the writing of this book was played by the documents of the Planning Commission, especially the First, Second, Third and Fourth Five-Year Plans. Each plan summed up the results of the previous period of planned development and compared them with earlier years. Thus, each new plan contained the results of the country's economic development over a longer previous period. Those sections of these documents were also important to a certain extent which defined the main trends in the country's



economic and sociocultural development for the next five years and the appropriate allocations. The Planning Commission published a large number of other materials on the country's economic development which have likewise been used to no small extent in writing this book.

This work is coming after a series of investigations by Soviet scholars devoted to Pakistan's economic problems. Special note should be made of the works by V.Y. Belokrenitsky, S.F. Levin, V.A. Pulyarkin, V.G. Rastyannikov, M.A. Sidorov, F.A. Trinich and I.V. Zhmuida. The interplay of economics and politics called for the use of the works of historians, and here we should make special mention of the works of Y.V. Gankovsky, I.M. Kompantsev, V.N. Moskalenko, L.R. Polonskaya, and R.I. Sherkovina. In preparing this book, the author has drawn on the works of the foreign scientists S.M. Akhtar, Nurul Islam, Mahbub ul Haq, A. Maddison, M. Mannan, G.F. Papanek, J. Stern, Azizur Rahman Khan, Taufiq M. Khan, W. Falcon. Questions examined in this work are discussed directly in a number of articles by S. Abbas, M. Afzal, A. Bergan, S. Bose, M. Handkar, R. Khandker, and M. Chaudry.

The author conveys his sincere gratitude to the associate workers of the Pakistan Department and also the Financial and Economic Problems Department of the Institute for Oriental Studies of the USSR Academy of Sciences who have helped the author with their valuable remarks and suggestions. The author is very grateful to Dr. Akbar S. Ahmed for his kind assistance in having this book published. I would also like to thank him warmly for writing the Foreword.

## ONE

### THE DEVELOPMENT OF NATIONAL ACCOUNTS STATISTICS IN PAKISTAN

On gaining political independence in 1947, Pakistan launched a prolonged and complicated struggle to put an end to its position as an agrarian and raw material appendage of the developed capitalist countries, to reshape its economy's semicolonial structure, to accelerate the growth rates and to increase the average per capita income. There are many conditions and prerequisites for success in this struggle, one of them being a systematic analysis of the processes developing in the economy. The study of these processes at the modern scientific level is only possible on the basis of national accounts statistics. In Pakistan, as in other developing countries, considerable efforts have been made in recent decades to evolve such statistics.

An important part in evolving national accounting in general and in the developing countries in particular has been played by the United Nations Organisation. In the early fifties investigations in the field of national accounts went beyond the national framework, and

work was started to achieve international standardisation of the system of national accounts. The result of this work was the elaboration in those years of the UN national accounts system. Since 1956 the UN Statistical Office has begun to forward to all countries questionnaires compiled according to the international system of national accounts adopted in 1953. In 1957, the United Nations Statistical Commission published the international "Yearbook of National Accounts Statistics", which has appeared regularly since then. In an attempt to ensure that the Yearbook contained the appropriate data on as many countries as possible, the UN helped to arrange national accounting in countries where it was previously non-existent or was only just emerging.

However, even in the most developed capitalist countries national account statistics is still far from perfect. For example, it does not yet take into account the labour outlays of owner-car drivers, housewives and some other categories of unpaid labour. There are also many other shortcomings. It is understandable that similar statistics in the developing countries may be very approximate for they still lack many types of sectoral statistics, and due to the existence of a large subsistence sector in agriculture and some other branches, the illiteracy of most of the population and some other causes, the existing statistics are rather incomplete. However, positive changes are taking place in these statistics in terms of quantity and quality, which sum up the labour performance of a society more fully and better with every passing year.

In the provinces of British India some national economic indicators were evaluated back in the nineteenth century, and in the first half of the twentieth century quite a few national economic calculations were made in the country. Special mention should be made of the calculations of India's national income made by K.T. Shah and K.J. Khambata <sup>1</sup> and also by V. Rao <sup>2</sup>. In their works Indian economists tried to demonstrate the exceedingly low level of per capita

income, the poverty and hardships of the working people, the merciless colonial—imperialist exploitation of the country and also the vast riches appropriated and exported by the colonialists.

The imperative need to organise national accounts statistics in Pakistan became obvious shortly after the winning of independence. In 1950, following the adoption of the Colombo Plan, attempts were made in Pakistan to draw up a six year plan of the country's economic development, and this at once brought out considerable difficulties connected with the absence of national accounts statistics in the country. In this connection, the Central Statistical Office was formed in Karachi in September 1950,<sup>3</sup> and early in 1952 the first issue of its monthly publication, "Statistical Bulletin", appeared.

The first estimation of Pakistan's national income was made for the period 1948—49 and published in the "Statistical Bulletin" in 1952.<sup>4</sup> However, due to the absence of many statistical data at that time, quite a large number of approximate evaluations had to be made. During the first half of the fifties work was carried out to improve the registration and collection of indicators of sectoral statistics. This work was crowned with the compilation and publication of data on the national income and its structure by sectors for 1949—50 to 1952—53.<sup>5</sup> The same materials in revised form supplemented with data for 1953—54 were published in the statistical yearbook for 1955. Lastly, after the publication in 1953 of the UN system of national accounts and in connection with the drafting of the First Five—Year Plan of Pakistan for 1955—1960, the sectoral estimation of the national income was further improved and was then carried out annually.

In the fifties the national income was only calculated at the production stage, but in this case, too, Pakistan statisticians experienced great difficulties, which were due to the lack and inadequate quality of sectoral statistics (especially for agriculture, small—scale industry and some services) and also because of the

inadequate qualifications of Pakistan's national accounts statisticians.<sup>6</sup> Serious difficulties also arose in the value estimation of the goods produced, especially in the subsistence sector of agriculture and small-scale industry. Therefore, the annual sectoral systematic calculation of the national income started in the mid-fifties could not in many cases avoid approximate evaluations; "as a result, the existing estimates are highly unreliable and the margin of error may be 20 to 30 %".<sup>7</sup>

For this reason, a number of measures were taken in that period to improve national accounts statistics. In 1959-60, a census of manufacturing was taken in the course of which calculation was made of the value added in each of the 19 basic branches of the registered industry. In 1960, a census of dwellings was carried out, which helped to improve the calculation of the value added in the ownership of dwellings. Next year Population Census followed which made it possible to make more precise calculations of the average per capita income in the fifties.

While in the fifties the main part in the development of national accounts statistics was played by staff members of organisations doing practical work (chiefly the Central Statistical Office and the Planning Commission), in the sixties the Pakistan Institute of Development Economics founded at the end of the fifties was also prominent in the development of national accounts statistics and in the training of national accounts statisticians. The associates of the Institute conducted a series of important investigations of these problems and published their results in the Institute's publication ("The Pakistan Development Review"). National statisticians were helped considerably in this work by foreign specialists (E.F. Szczepanik, A. Bergan, G. Renis, and others).

In 1961, the Central Statistical Office set up a commission to improve the national income statistics in the country. The report submitted by the Commission in July 1962 contained recommendations to orga-

nise statistical counting by provinces. The commission specially stressed the need to develop national accounts statistics that would conform to the demands of the UN national accounts system.<sup>8</sup> In pursuit of these recommendations, the National Income Commission was formed in April 1963, which included six leading specialists in national accounts statistics. The Commission was set the task of working out recommendations to radically improve all the national accounts statistics and develop sectoral statistics for the purpose. Another of the Commission's functions was that of improving the national income statistics for the previous 15 years of Pakistan's existence. The results of its work, which included more precise estimates of the national income for 1949-50—1958-59 and recommendations for the further improvement of national accounts statistics, were published in 1964.<sup>9</sup>

One of the topmost proposals of the Commission concerned the incorporation of four tables on national product by provinces with considerable statistical improvements which could contribute to better drafting of the country's economic plans.<sup>10</sup>

These estimates are the following:

- 1) Net National Product of Pakistan by Provinces at current factor cost.
- 2) Net National Product of Pakistan by Provinces at constant factor cost of 1959-60.
- 3) Gross National Product of Pakistan by Provinces at current factor cost.
- 4) Gross National Product of Pakistan by Provinces at constant factor cost of 1959-60.

The Commission also pointed to the need for a more precise estimate of the size of the country's population, the rate of its growth and also the amount of per capita income. In the 1950's, the rate of population growth was revised, taking into consideration adjustments to the 1961 census.

Estimates of the size of Pakistan's population (old and

revised) are characterised by the following figures (million):<sup>11</sup>

<i>Year</i>	<i>1961 Census</i>	<i>Revised</i>
1959—60	91.9	98.9
1960—61	93.7	101.5
1961—62	95.6	104.1
1962—63	97.6	106.8
1963—64	—	109.6

As a result of the underestimation of the size of the population, the average per capita income during that period was considerably overestimated. In the first half of the 1960's these figures, too, were therefore revised.

One of the important points made in the Interim Report was the need for the standard system of the UN national accounts statistics to be introduced in Pakistan. national accounts statistics to be introduced in Pakistan.

Moreover, the Report pointed out that there was a serious problem of organising uniform information about basic national account indicators, for there were a rather large number of "official" estimates of these indicators which greatly differed from one another. Thus, the two Mid-Plan Reviews of 1963 and 1964 and the Evaluation Report of 1965 (both prepared by the Planning Commission) give divergent estimates of Gross National Product based on different calculation methods.<sup>12</sup>

While, the first issues of the UN Yearbook of National Accounts Statistics published data in the section "Pakistan", on the industrial origin of Net Domestic Product estimated only at constant factor cost for 1949—52, in 1963 the publication already contained data on the industrial origin of Net Domestic Product calculated in both current and constant factor cost for 1949—52. The UN Yearbook of National Accounts Statistics for 1964, in conformity with the recommendations of the National Income Commission,

gave data on the industrial origin of Pakistan's Gross Domestic Product at current and constant factor cost of 1959-60. National accounts indicators had to be calculated on a later price base due to the considerable inflationary growth of prices in the country in the second half of the 1950's.

Thus, up to the middle of the 1960's Pakistan only communicated to the UN Statistical Office information on the industrial origin of Gross Domestic Product calculated at both current and constant factor cost of 1959-60.

The first steps in estimating the national income at the distribution stage were made in the first half of the 1960's. True, some elements of National Income had already been estimated by incomes earlier, but they did not have any independent significance and were designed as an indirect means of determining the size of value added where its direct determination was impossible. Thus, about one-third of the initial calculations of the national income made in the 1950's were based not on summing up value added, but incomes corresponding to it.<sup>13</sup>

In 1964, Khadija Haq investigated the income distribution inequalities among the urban population of Pakistan.<sup>14</sup> But her study was limited in scope, since it was based on income data and, according to her own admission covered, only 0.5 % of all families and 5 % of urban families. The next stage was the sample survey of personal incomes in Pakistan carried out by the Central Statistical Office in 1963-64. It covered more than 8,000 families in the countryside and towns of East and West Pakistan. Proceeding from this survey, the Norwegian economist A. Bergan obtained the first ever data on the class structure of the national income in 1963-64, i.e., he made the first estimate of the national income at the stage of distribution.<sup>15</sup> According to his estimates, the overwhelming part of the national income was made up of personal incomes (over 94 %).

The above sample survey marked the beginning of



annual surveys of this type. The data of these surveys, beginning with 1963-64, were published in the "Quarterly Survey of Economic Conditions". True, surveys carried out in 1964-65 and 1965-66 were not complete. Firstly, they did not cover the full fiscal year, but only part of it (January-December 1965) and secondly, the 1965-66 survey enveloped only the urban population. The 1967-68 survey data were not processed and were not therefore even published in the survey for that year. Thus, the fullest surveys, fit for analysis of national income by incomes were conducted in 1963-64, 1966-67 and 1968-69. Most significant was the fact that the surveys of 1966-67 and 1968-69 were conducted according to a uniform procedure which made it possible to compare their results.

On the basis of these three surveys R.H. Khandker investigated national income by incomes in those years, estimated the inequality in income distribution in rural and urban areas, studied its dynamics from 1963 to 1969 and also demonstrated the role of the budget in the redistribution of national income.<sup>16</sup> However, as will be shown in the chapter on the distribution of national income, one should take rather a critical view of R.H. Khandker's conclusions, since they were based on sample surveys and contain quite a few approximate evaluations. The author's estimates show that the income distribution inequalities in Pakistan diminished in 1963-1969, while, in the opinion of many economists, they increased, and the author himself notes a discrepancy between the data of the surveys and numerous indirect indications to the contrary.<sup>17</sup> R.H. Khandker's research was published in abridged form in the publication of the ECAFE (ESCAP).<sup>18</sup>

In the second half of the 1960's two studies appeared which were called upon to contribute to the development of regular estimates of the national income at the distribution stage. Thus, in 1967 Azizur Rahman Khan studied the dynamics of wages in manufacturing from 1954 to 1964.<sup>19</sup> Another study, by S.R. Bose,

was devoted to the investigation of the dynamics of the real incomes of the rural poor in the Eastern province and covered the period from 1949 to 1966.<sup>20</sup>

The difficulties of providing national income estimates at the second stage of reproduction are quite understandable, for the income method of making estimates can only be applied by countries that have reached a definite level in the development of their economic statistics. This is reflected, in particular, in the fact that at a certain stage in economic development income tax begins to play a decisive role in public finance, while income taxation statistics provide the basic material for estimating the national income by incomes. However, in Pakistan this source could not be used for the purposes indicated, since only a small part of the population (the high income groups) was subject to this type of taxation. Moreover, in the 1950's the untaxed minimum was raised, while income tax rates tended to decline. M. Ayub Khan's government which came to power in October 1958 proclaimed a new taxation policy under which the number of persons who paid income tax fell considerably to 0.26 % of the total population drawing incomes in cash.<sup>21</sup>

As regards the land tax, its rates were fixed back in colonial times and were not revised after the formation of Pakistan, despite the multiple growth in prices. For this reason, the materials of land taxation could not be used for obtaining data on the incomes of the rural population. In this connection and also on account of the mass tax dodging by the exploiter classes, Pakistan to this day does not have regular statistics on the national income by incomes.

The expenditure estimates could not be made for a long time due to the absence of statistics on private consumption. To fill this gap, a sample survey of household budgets in urban areas was conducted in 1955-56, followed in 1960 by a survey of rural residents. The sample survey of expenditures by the rural population conducted in 1960 embraced 250 villages in each province and in each village eight families were

selected for polling and ascertaining their monthly expenditures. Extrapolation of the results of this survey to the entire rural population produced data on the personal consumption of rural dwellers throughout the year. A sample survey of the household budgets of the urban population was undertaken by the Central Statistical Office in 1955—56 in some towns. A substantial drawback of it was that it only covered low-income groups. An estimate of the current consumption of high-income groups was confined to a survey of the personal consumption of civil servants carried out in Karachi. These two surveys formed the basis for the assessment of personal consumption of the urban population.

The first estimate of the national product at the stage of expenditure was proposed by M.A. Khandkar in 1962 and covered the years 1960—61.<sup>22</sup> Private consumption was calculated on the basis of the two above mentioned sample surveys and government consumption was estimated on the basis of public finance statistics. An estimate of private consumption by the data of sample surveys is very faulty, and since private consumption forms the main part of the expenditure of Gross Domestic Product, this leads to big errors in the total result. The overwhelming part of private consumption is made up of personal consumption, which presents the greatest difficulties in calculation. This is why its development in the advanced capitalist countries took many decades, while in the developing Asian countries it is almost universally absent to this day. This is due to the fact that the estimate must take into account the current consumption of millions of people, most of whom are illiterate. So far, Pakistan has neither regular accounting of these expenditures nor statistics for internal trade.

As there are no data on savings, M.A. Khandkar calculated investments. But in this case, too, what he calculated were not investments as such but private and government expenditures on development. Yet development outlays as they figure in statistics and

economic literature differ considerably from capital investments, for they include many non-capital expenditures on the one hand, and do not include many investments designed for use as capital on the other.

An important step in the development of the estimate of the national product at the stage of expenditure were investigations of S.A. Abbas and T.M. Khan who delivered reports at the conference on national accounts statistics in Istanbul in 1962. Both reports dealt with the problems of calculating investments. The main part of S.A. Abbas's report was devoted to the theoretical conceptualisation of the essence of investments and their role in economic development.<sup>23</sup> Another part of his report was a survey of the materials available in Pakistan for the annual estimation of investments and of data on the size of public and private investments during the Second Five-Year Plan (1960-1965). The author pointed out that in Pakistan there were no direct estimates of internal savings and that they were determined indirectly, by deducting from the total gross investments external resources (foreign aid, loans and foreign private investments, as well as foreign exchange reserves used for this purpose). In his report T.M. Khan presented his calculation of investments into fixed assets in 1960-61. He made the calculation by three independent methods as provided for by the UN national System of National accounts and obtained a rate of investments that equalled 9.4 % of the national income that year.<sup>24</sup>

The National Income Commission formed in 1963 pointed out in its concluding report presented in February 1966 the great importance and necessity of regular estimates of the expenditure of Gross Domestic Product, and of making family expenditure sample surveys essential for computing private consumption.<sup>25</sup> The Commission drew the attention of the Central Statistical Office to the need to improve the assessment of investments into fixed assets separately for rural areas and towns and cities.

The work carried out by the middle of the 1960's

made it possible to begin annual estimation of the national product at the expenditure stage from 1966. But in contrast to the experimental evaluation of the way this product was used in 1960—61, when private consumption was computed directly on the basis of sample surveys of household budgets, the Central Statistical Office determined this indicator indirectly, by deducting gross investments and government consumption from Gross Domestic Product estimated by the output method.<sup>26</sup> Gross investments were calculated directly, while the data on government consumption were taken from the budget statistics. This indirect method was due to the absence of regular statistics on private consumption in the country. In this way calculation was made of the expenditure of Gross Domestic Product in the first half of the 1960 s.

Due to the absence of the data necessary for measuring the national product, Pakistan could not use any single method of measurement. The estimates of the Gross National Product were prepared by a combination of all three methods. The output method was used to compute the value added in agriculture, mining and quarrying, manufacturing, construction and electricity. The income method was used to work out income in the sphere of transport and communication, water supply, sanitation, trade, banking and insurance, ownership of dwellings, defence, public administration and services. The expenditure method was used comparatively seldom to evaluate the value added in some sectors of the service sphere.<sup>27</sup>

The value added in agriculture was estimated by four sectors: production of crops, livestock production, fishing and forestry. The value added in crop production was in turn divided into the value added by major and minor crops. The gross value of major crops at current cost was derived by multiplying the annual output by its average price. The prices of minor crops were taken at the rate of 80 % of their wholesale prices and the further estimation of the gross value was carried out in the same way as shown above. The value added was

computed by deducting the value of the intermediate output (i.e., seeds, fertilizers, herbicides and pesticides, watering expenditures, etc.) from the total sum of the gross value of major and minor crops. Due to the absence of data on the value of some crops, the gross value of major and minor crops in West Pakistan was raised by 4 %. The gross value of livestock products was estimated in the same way as in crop production; in view of the insignificant value of intermediate products the gross value was assumed to be the same as the value added. The prices of fishing products were deflated by 10 % and then the gross value was computed in the same way as in crop production. The value added was estimated by deflating the gross value by 3 % (to exclude double counting). The gross value in forestry was estimated by realisations at auction, as reported by the Provincial Departments of Agriculture and its deflation by 3 % (to exclude double counting) produced value added in this sector of the economy. Summing up the values added products in these four sectors the CSO obtained the value added in agriculture as a whole. Depreciation in this sector of the economy was taken to be equal to 5 %.

The value of the output of mining and quarrying was derived in the same way as in agriculture. To exclude double counting and to obtain the value added, the gross value reduced by 17 %. Depreciation in this sector was assumed to be equal to 5 %. The value added in large-scale manufacturing was estimated on the basis of the Census of Manufacturing Industries 1959-60 in the course of which the value added during that year at each enterprise of large-scale manufacturing was computed. Estimates for subsequent years were obtained by multiplying the value added by the index of production of large-scale industry for that year compared with the base year (1959-60). Depreciation was estimated at 10 %. In small-scale manufacturing the value added was estimated indirectly by computing it for 1959-60 (by multiplying the number of persons engaged in small industries by the average value added

per person) and then the value added was computed on the assumption that the rate of employment in this sector grew by 2.7 % annually. Depreciation was taken at a rate of 5 %.

Due to the absence of the data necessary for estimating the value added in construction, the contribution of this sector to the creation of Gross Domestic Product was assessed indirectly and separately for urban and rural localities. In towns and cities the cost of construction was assumed to be ten times that of the cement used. Further, it was assumed that 40 % of the result obtained equalled the value added. In rural areas the computation was based on gross rent data: it was assumed that it constituted 8 % of the cost of construction and that the value added equalled 50 % thereof. The depreciation rate was put at 2.5 %.

The contribution of transport and communication, trade and the credit system, public administration and other sectors of the sphere of services was computed by adding up the incomes and profits of all the persons employed in these sectors. In other words, the value added was computed by the income method.

Thus, during the period under review Pakistan made an independent estimate of Gross Domestic Product only at the production stage, summing up figures on the value added in production and the services. As in most other developing countries of Asia, no regular estimate was made at the distribution stage. However, the sample surveys that were conducted gave valuable material for assessing the incomes of the various strata of Pakistan society. Calculation of Gross Domestic Product at the stage of its expenditure was effected partly in an indirect way when private consumption was determined by deducting government consumption and gross investments from the amount of this product, calculated by the output method. Although the quality of the data of national account statistics is not as yet very high, they do provide the basis for investigating the national product of Pakistan.

## Notes

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## TWO

### NATIONAL PRODUCT OUTPUT

In the first post-independence years the economy of Pakistan was characterised by extreme backwardness, a colonial structure, low labour productivity and saving product ratio and a tremendous dependence on foreign capital. Traditional sectors were dominant in the economy. The modern sector was mainly represented by some branches of industrial production, primarily the jute and cotton industry. The capital goods sector was very poorly developed. For this reason, the industrial bourgeoisie was very weak and the dominant positions were controlled by landlords, merchants and usurers.<sup>1</sup>

### AGRICULTURE

After two centuries of colonialist domination agriculture, the basic sector of the economy was caught up in a profound and long drawn-out crisis: land cultivation was extremely primitive and the yields of the major crops were very low; animal husbandry, which played an

important role in the economic life of West Pakistan, was carried on by extensive methods. The development of agriculture formed the required basis for the expansion of other sectors of the economy, above all modern industry. Agricultural production was to provide food for the growing population in other fields and spheres of life. It was to supply industry with growing quantities of agricultural raw materials. A rise in the productivity of agricultural labour means that manpower will be released and transferred to other rapidly growing branches at a faster rate. Lastly, the development of agriculture and the growth of the incomes of those employed in it are bound to create a market for industrial goods.

In examining this branch of Pakistan's economy, account should be taken of some of its specific features. Firstly, agricultural output comprised more than half of Gross Domestic Product, and more than three-quarters of the economically active population were engaged in agriculture, so that the stagnation of this sector had a painful effect on the economy as a whole. The greater part of population lived in rural areas and therefore the level of agricultural development and the condition of agricultural production determined the living standards of a sizable proportion of the population. Secondly, the export of agricultural produce was the main source of foreign exchange. Thus, in the fifties jute and cotton exports accounted for more than 75 % of Pakistan's total exports.<sup>2</sup> In this way, import and investment possibilities did, to a considerable extent, depend on the export of this produce. Thirdly, Pakistan's industry, textiles in particular, depended, to a great extent, on agricultural raw materials as a result of which low cotton production slowed down the growth of industrial production.

The formation of the sectoral structure of agriculture was greatly influenced by British capital, which turned colonial India into an agrarian and raw material appendage of the industrial metropolis, into a supplier of marketable grain and agricultural raw materials. The

main agricultural sector was crop production, which contributed more than half of its total output. Live-stock breeding played a subordinate role compared with crop production (Table 1).

**Table I**  
**Structure of Pakistan's Agriculture,\* (%)**

	1949-50	1954-55	1959-60	1964-65	1969-70
Gross National Product	100.0	100.0	100.0	100.0	100.0
Agriculture	59.9	56.0	53.6	47.9	46.2
Of which:					
Crop production	43.8	40.2	37.5	34.5	34.6
(major crops)	(33.6)	(31.3)	(30.6)	(28.4)	(28.3)
(minor crops)	(10.2)	(8.9)	(6.9)	(6.1)	(6.3)
Livestock breeding	12.3	11.9	11.8	9.9	8.5
Other sectors	3.8	3.9	4.3	3.5	3.1

\* Compiled on the basis of *Pakistan Economic Survey, 1972-73. Islamabad, 1973, Statistical Section, pp. 2-3.*

The leading position in agriculture was occupied by crop production and especially by four major crops—wheat and cotton (West Pakistan), rice and jute (East Pakistan). Rice and wheat were the main food crops, while jute and cotton formed the basis of exports. As a result of the 1947 division, many areas which produced these major crops went to Pakistan, while agro-based enterprises remained on Indian territory. This was an important cause of the stagnation of agricultural production.

Despite the reforms carried out in 1950-52, the productive forces in agriculture grew very slowly. Perhaps, the most widespread modern implements were the chaff-cutter and presses for processing sugarcane, as well as cotton and wheat seeders. These were used almost solely in Punjab, the most technically advanced province of Pakistan. Well-irrigation farming was based on the traditional "Persian Wheel" and mechanical pumps had just begun to emerge.<sup>3</sup> Only a few landlords and an insignificant part of the well-

to—do peasants used improved agricultural technology and chemical fertilizers.

In these conditions the agricultural production index in the first half of the 1950's remained practically on the same level (1959—60 = 100): in 1949—50 it equalled 86, in 1952—53 it dropped to 84 and in 1955—56 again rose to 86.<sup>4</sup> While the rice crop increased in that period, although insignificantly, rising from 8.2 m. tons in 1949—50 to 8.4 m. tons in 1954—55, wheat production shrank respectively from 3.9 to 3.2 million tons.<sup>5</sup> Stagnation in agriculture was greatly affected by successive crop failures in 1951—53 and also by the fact that in the 1950's the sown areas expanded by less than 10 %, while the population grew by 26 %. Because of stagnation Pakistan was faced with a particularly acute food problem. The country strove to overcome the prolonged food crisis by means of food imports. In ten years, from 1947 to 1957, these imports reached more than 3 m. tons<sup>6</sup>, the overwhelming part of the imports (over 90 %) failing on the second half of the period, particularly on the years of famine, 1956 and 1957.

The development of the productive forces was inhibited by the existing system of agrarian relations when the large landed property of a numerically small section of the feudal landlords existed alongside small—scale land use. According to various official surveys, in the fifties West Pakistan's landlords owned more than three—fifths of all the cultivated land. As regards the Eastern province, landlords controlled more than four—fifths of the cultivable land area. Despite all the differences in the system of land ownership and land operation in both parts of the country, they had one thing in common: a numerically small class of landlords, taking advantage of its monopoly of the land, gratuitously appropriated a considerable part of the income created in agriculture, while tens of millions of the land, gratuitously appropriated a considerable part of the income created in agriculture, while tens of millions of peasants, experiencing the heavy oppression of feudal

and semi-feudal exploitation, cultivated small plots of land averaging 3-5 acres.<sup>7</sup>

In 1955, Pakistan launched its First Five-Year Plan for the economic development. The text of the plan emphasised that the development of agriculture (primarily the production of food crops) was the most important task. At the same time, out of the total allocations of Rs.10.8 billion only 16 % were earmarked for the development of agricultural production (compared, for instance, with 29 % for irrigation and power). But in reality the total inputs in agriculture were 36 % lower than planned.<sup>8</sup> Production growth was to be ensured through expansion of the sown areas and also through use of mineral fertilizers, improved seed varieties, etc. If, prior to 1958 all chemical fertilizers were imported, in 1958 the first two factories for their production went on stream (in Daudkhella and Lyallpur). All the same, the plan targets for the use of fertilizers were fulfilled by only 45 %.<sup>9</sup> At the same time, certain expansion of the areas sown for the major food crops—rice and wheat—made it possible in the period from 1954-55 to 1959-60 to increase rice production from 8.4 m. tons to 9.5 m. tons and wheat from 3.1 m. tons to 3.9 m. tons.<sup>10</sup> However, the production of non-food crops dropped somewhat, primarily jute and cotton. Moreover, the fall of world prices for raw material goods created unfavourable conditions for the marketing of basic export items.

The government took definite measures to overcome the food crisis, trying above all to boost the productive forces of agriculture. It launched the construction of new irrigation structures and the development of irrigated lands and carried out measures to combat soil erosion and bogging up. But the results achieved were less than modest: from 1947 to 1955 about 818,000 acres of new lands were irrigated and developed and protective measures against bogging-up were carried out on an area of 185,000 acres. But, at the same time, about 0.5 m. acres were lost due to salination and bogging up, yielding a total increase of slightly more

than 0.5 m. acres over the eight-year period.<sup>11</sup> Thus, these measures could not raise the productive forces in agriculture to any appreciable extent and mitigate the food crisis in the country.

The state tried to boost production and expand the cultivation of improved seed varieties. In the second half of the 1950's their production was carried on almost solely on state farms and some private capitalist farms whose output was purchased by the state. But this fund was divided as a rule between the farms of landlords and kulaks, for improved seed varieties could only be afforded by rich and well-to-do rural families. The use of these seed varieties was mainly confined to Punjab area and partly to the North-West Frontier Province.<sup>12</sup>

By and large, the development of agriculture in the fifties was based, as before, on the small-farm economy of peasant proprietors and tenants. Capitalist relations had just begun to develop and certain shifts in the technical base of agriculture brought about by the governments' active measures did not produce any appreciable results.

When M. Ayub Khan's government came to power, some changes occurred in Pakistan's economic life in general and in agriculture in particular. The land reform of 1959 noticeably weakened the positions of those landlords who clung to their earlier privileges and feudal farming methods and contributed to the expansion of the entrepreneurial activity of the landlord class as a whole and to the growth of the role and influence of the kulak upper crust in particular.<sup>13</sup>

Under the Second Five-Year Plan about 15 % of all the expenditures of the private and public sectors were allocated for the development of agriculture, a greater part of these funds being invested in fertilizer production, the purchase of improved seed varieties, and agricultural implements and equipment for tube wells.<sup>14</sup> In that period a marked growth was registered in the use of chemical fertilizers. During the Second Five-Year Plan the increasing application of

fertilizers became one of the main means of boosting agricultural output. From 1959-60 to 1964-65 in West Pakistan alone the use of fertilizers rose from 19,400 to 87,200 tons as a result of which fertilizers came second after irrigation as a factor in the growth of agricultural produce.

In the first half of the 1960's more attention was devoted to irrigation. The main projects in this field included the construction of new irrigation structures and the remaking and repair of old ones. Naturally, investments in this field were made almost solely by the state: in 1960-65 Rs. 4.4 billion were spent on irrigation and power development (2.1 billion and 2.3 billion respectively).<sup>15</sup> Another major trend in this work was irrigation with the help of tube wells, the number of which increased more than six fold at that time. An important factor of "smaller" irrigation was the rapid expansion of the production of diesel engines and electric pumps. Expenditures on their purchase were comparatively low (Rs. 4-10 thousand) and were, as a rule, recouped within a year or two. Thus not only the landlords but also the well-to-do peasants could well afford them. The development of this type of irrigation was no small factor in the growth of capitalist relations in the countryside. Highly important also was such a factor as favourable weather conditions, which helped to considerably raise the production of both food and non-food crops.

The index of the production of major agricultural crops went up from 100 in 1959-60 to 123 in 1964-1965. Rice production increased from 9.4 m. tons to 4.6 m. tons.<sup>16</sup> The production of non-food crops rose from 15.8 m. tons (the average from 1955-56 to 1959-60) to 22.4 m. tons (the average from 1960-61 to 1964-65).<sup>17</sup> These changes in agricultural production were, to a definite extent, the consequence of the rapid growth in the agricultural population, the development of national industry and certain shifts in the production infrastructure. The growth of foreign aid and political stability enhanced the effect of the state



stimulation of agricultural production.

In the second half of the 1960's the "green revolution" came to Pakistan. During that period high-yielding grain varieties adapted to local conditions were evolved on the basis of Philippine rice and Mexican wheat. The prerequisites for the "green revolution" were provided in the first half of the 1960's when more fertilizers began to be used, new farming techniques were introduced and irrigation was developed. The development of the "green revolution" marked a qualitative leap in the development of the agricultural productive forces.

New rice and wheat varieties have been used on a broad scale since 1967-68. As can be seen from the data given below, the production of these major food crops rose perceptibly during that year and in the years that followed (million tons):<sup>18</sup>

	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Rice	11.6	11.6	10.8	12.5	13.2	14.2
Wheat	4.6	3.9	4.3	6.4	6.6	7.3

Rice and wheat yields in the areas of hybrid cultivation rose to 24 maunds per acre (compared with 10 maunds yielded by local varieties) and 20 maunds per acre (against 7 maunds produced by local varieties), respectively. Two factors contributed to this: the good response of new varieties to fertilizers and fact that they do not get lodged as a result of the plentiful application of fertilizers. Compared with local varieties, they not only yield bumper crops, but mature much faster, which raises the coefficient of repeated crops. There was also a rapid growth of areas sown to high-yielding varieties of these crops (by the end of the 1960's hybrid rice varieties occupied more than 50 % of the total area under rice). Thanks to the introduction of these cereal varieties West Pakistan had already become self-sufficient in grain by 1968.

The introduction of high-yield varieties of cereals required considerably greater application of chemical

fertilizers. During the Third Five-Year Plan (1965–1970) this became one of the basic factors in expanding agricultural production. Over this period the consumption of fertilizers more than trebled compared with the first half of the 1960's. An important part in this was played by the state policy subsidising the production of mineral fertilizers and giving much publicity to them. The dynamics of their use (both through the expansion of domestic production and increased imports) are reflected by the data given below (thousand tons):<sup>19</sup>

Fertilizers	1965	1968	1970
Nitrogenous	109	230	352
Phosphatic	11	40	66
Potassic	2	16	12

An important factor in the growth of agricultural production was also the increase in the tractor pool. If in 1959 the country had about 2,000 tractors, in 1969 their number in the Western province alone had risen to 19,000 of which more than 16,000 were owned by landlords and about 2,400 tractors belonged to the state and cooperatives.<sup>20</sup> An important feature of the process was the concentration of tractors in a few advanced irrigated areas of the country. Thus, three quarters of all the privately owned tractors in the Western province were found in the four districts of Punjab. At the same time, mechanisation increased mainly on the farms of the landlords and kulaks: the greatest number of tractors were found on farms of 50–100 acres.<sup>21</sup> As a result of mechanisation and the growing employment of hired labour the social nature of the big landlords changed, too: from a feudal class they turned into a bourgeois class.

The production index of major food crops increased considerably: rice—from 123 in 1964–65 to 149 in 1969–70 and wheat from 117 to 118.<sup>22</sup> Value added in agriculture during this period increased at constant factor cost from Rs.19.8 billion to 24.5 billion. How

ever, despite the absolute growth of agricultural production, its relative share in Gross Domestic Product, gradually diminished, falling from 59 % in 1949–50 to 54 % in 1959–60 and 46 % in 1969–70. This was directly connected with the priority growth of other sectors of the economy, above all industrial production.

## INDUSTRY

The share of industry in Gross National Product was low in the first post-independence years, equalling a mere 6 %, 5.9 % being contributed by manufacturing and 0.1 % by mining and quarrying. The low share of the mining industry was due to the inadequate prospecting of mineral resources, the remoteness of the main deposits discovered and also the lack of demand for mineral resources. Manufacturing was dominated by small semi-handicraft enterprises based on manual labour: the share of large-scale industry was small, slightly more than 1 %, while small-scale industry had to be created from scratch in Pakistan. During that period the country was heavily dependent on imported equipment and raw materials. Besides, many branches of industry were controlled by foreign, chiefly British, capital.<sup>23</sup> Following India's division, the territory which went to Pakistan contained only 9.7 % of the total number of enterprises (1,406 out of 14,569) and 6.6 % of the workforce (206,000 out of 3,142,000).<sup>24</sup>

The index of growth of large-scale industry in 1950–59 works out in the following way:<sup>25</sup>

1950	1951	1952	1953	1954
38	47	59	76	100
1955	1956	1957	1958	1959
127	144	152	162	182

The Korean war led to a considerable rise in the prices of agricultural raw materials on the world market. Pakistan's refusal to devalue the rupee and the intro-

duction of strict control over imports ensured a definite surplus of agricultural raw materials coupled with a shortage of industrial goods as a result of which the prices of agricultural products dropped while those of industrial goods rose. As a result, there was a considerable redistribution of incomes from agriculture to industry, and this was the main cause of the high growth rates of large-scale industry. True, growth took place mainly in branches connected with the processing of agricultural and mineral raw materials. In 1954, 43 % of the value added in industry was derived from the sector of the primary processing of agricultural raw materials — 30 % from the cotton industry and 13 % from the food industry.<sup>26</sup>

The private sector supported by the government invested in sectors which ensured quick returns and a high rate of profit. These branches were, first and foremost, the jute and cotton industry. It should be pointed out that while the latter was created with the joint participation of private capital and the Pakistan Industrial Development Corporation, the former was almost totally monopolised by private national capital. The distinguishing features of both industries was the high concentration of production: at a considerable number of jute and cotton mills the number of employees was over five hundred.<sup>27</sup>

The rapid growth of industry was, to a considerable extent, promoted by a government's economic policy which encouraged the development of this sector. The explanation is that prior to 1947 Pakistan's economy was mainly oriented on exports so that branches in the primary processing of raw materials were relatively more developed. This led to the absence of a wide range of industrial goods on the domestic market and to Pakistan's complete dependence on imports of capital goods. The government saw the way to reducing this dependence in the creation of modern industries based on or connected with agricultural production.

The specific development of industry had its effect

on the growth of small-scale industrial production. It contributed to the liquidation of the commodity shortages experienced in the first post-independence years. It was of considerable importance that large-scale industry emerged. as we have already noted, not in all but in only a few branches, leaving many branches "free" for small-scale and medium production which, naturally, contributed to its growth.<sup>28</sup> Although the growth of small-scale industry was not as rapid as that of large-scale industry, its share in Pakistan's manufacturing during the 1950's was bigger than that of large-scale industry.

In the second half of the 1950's the growth of industrial production slowed down to some extent, although under the First Five-Year Plan industry came first in both the volume of investments and the growth rate. Its share in total expenditures was fixed at 28 %, including 17 % of public sector allocations. At the same time, actual investments in industry amounted to Rs. 2.4 billion (instead of Rs. 3 billion planned), of which Rs. 1.7 billion were private investments. It was estimated that government investments were realised to the extent of 50 % and did not exceed Rs. 780 million.<sup>29</sup>

Most of the government investments in industry were channelled through the Pakistan Industrial Development Corporation founded in 1952. It played a significant role in the country's industrialisation and especially in the 1950's since major industrial projects were undertaken during that period with the help of the Corporation. In the second half of the 1950's PIDC investments in industry were planned at the rate of Rs. 1.6 million. The construction programme included 30 projects in the sugar, cement and jute industry, fertilizer production, etc. Actually, its investments barely exceeded Rs. 1 billion by 1960<sup>30</sup> and the planned growth of capacities in most of the industries indicated above was not reached.<sup>31</sup>

Another specific feature of industrial development of Pakistan was the mixed form of participation

of the state (through the PIDC) and private capital in industrial construction. Wherever private capital did not have enough resources to develop some branches of industry, it was assisted by the state. This was the way that many jute projects equipped with modern facilities were built. This joint participation in industrial development testified to the fact that the state followed a course of consolidating the positions of the national bourgeoisie, helping it to transfer capital from the sphere of circulation to the sphere of industrial production. This course was reflected in the fact that many enterprises built by the PIDC were placed under the control of the private sector. By the end of the 1950s the state controlled less than half of the total investments in the enterprises built by the Corporation. In this connection, V.G. Rastyannikov and S.A. Kuzmin pointed out that "in its functions the biggest state industrial company in the country is thus turned into a building contracting organisation operating in the interests of private national, mostly large commercial-industrial and banking capital".<sup>32</sup>

A change in the structure of the economy presupposes not only a change between agriculture and industry, but also a change in the forms of production—lower, i.e., small-commodity and small capitalist forms, and higher i.e., large capitalist forms. In this connection it is appropriate to trace changes in the relationship between large and small-scale industry. In the process of industrial development this relationship changed in favour of large-scale industry: if in 1949–50 it was in the ratio of 25:75 and in 1954–55 the ratio changed to 45:55, in 1959–60 it already stood at 55:45. This was connected with the priority growth of large-scale industry.<sup>33</sup>

M. Ayub Khan's government, which took over in 1958, continued the same industrial policy as its predecessor. In 1958–62, still more favourable conditions were created for private business and its sphere of activity expanded. Further scope was given to the most important function of the public sector, that of

serving the interests of private capital.<sup>3 4</sup> During that period the direction of investments changed and the main part of them was now made not in traditional, but in auxiliary branches of heavy industry. This was due to two factors. Firstly, in the first half of the 1960s capital concentration and saving by the Pakistan bourgeoisie reached such considerable proportions that it could now invest capital in more capital-intensive sectors of industrial production and, secondly, by the beginning of the 1960's the greatest protection was given to auxiliary branches and the output of the means of production. The growth of manufacturing and mining (1960 = 100) can be seen from the following data:<sup>3 5</sup>

	1960	1962	1964	1966	1968	1969
Manufacturing	100	139	181	214	256	274
Mining	100	124	161	182	185	202

As a result of the rapid growth of industry (the large-scale industry in the first place) its share in Gross Domestic Product in 1964-65 rose to 11.4 % (up to 7.6 % in the case of large-scale industry and up to 3.8 % in the case of small-scale industry), compared to 9.2 % in 1959-60. However, although large capital extended the industrial structure of its investments, the general economic boom in the country also contributed to the growth of small-scale industrial production. Besides, a large number of small and medium-sized enterprises came into being as a result of the growth of a number of large modern enterprises. Small businesses also flourished owing to the growth of the urban population, which gave rise to new requirements and a demand for modern manufactured goods, and small-scale industry moved more quickly than large-scale industry in meeting this demand.

After 1965, the growth rates of Pakistan's industry began to sharply decline owing to a number of difficulties which confronted the country in the second half of the 1960's. Firstly, the Indian-Pakistan military

conflict led to a high rise in military spending, which diverted considerable funds from productive use: in the total government those on defense rose from 21 % in 1964-65 to 38 % in 1965-66.<sup>3 6</sup> Secondly, there was a marked drop (almost by 25 %) in the influx of foreign aid. Moreover, the unfavourable weather conditions in 1965-1968 led to a sharp increase in the spending of foreign exchange on food imports, and this resulted in a reduction in capital goods imports. These and other causes shaped the conditions in which industry developed in the second half of the 1960's.

Thus, we may distinguish several stages in the development of Pakistan's industry: 1949-50 to 1954-55 were a period of industrial revival and upgrade largely connected with the "Korean boom"; 1954-55 to 1959-60 marked a certain decline in the rates of industrial growth due to political instability, the effect of the cyclical crisis, discontinuance of the stimulating influence of import-export regulation and a worsening of the balance of payments; the first half of the 1960's was marked by a new upswing in industry—cement, chemicals, fertilizers, etc., from the middle of the 1960's Pakistan entered the second stage of industrialisation with emphasis on the expansion of capital equipment production, but due to the instability of the economic and political life the earlier growth tendencies and inter-sectoral ratios in industry were disturbed.<sup>3 7</sup>

In the post-independence period the value added in industry increased from Rs. 1.5 billion in 1949-50 to 7 billion in 1969-70. Its share in GNP increased accordingly from 6 to 13 %. Fairly high growth rates of industry are characteristic not only of Pakistan, but also of many other countries in the Third World. They are even higher than in industrially developed countries. But we must take into account the fact that industrial development in Pakistan, as in many other developing countries, began from a very low starting level so that high rates of industrial growth could not and did not lead to decisive shifts in the



structure of the economy.

## FOREIGN TRADE

As regards the share of national product, trade came second after agriculture, comprising 11.6 % of the GNP in 1949—50, thus exceeding the share of industry by 100 %. This high share of trade is connected with India's colonial past when the country largely developed as an agrarian—raw—material appendage of the metropolitan country and as a market for its goods. As a result, particularly big growth was achieved in the export sectors of agriculture.

In its physical volume domestic trade is far ahead of foreign trade, but at the same time the role of foreign trade in the creation of the national product is much larger than that of domestic trade. This is so because profits in foreign trade are many times higher than in domestic trade.

Foreign capital always strove to appropriate the maximum part of the profit accruing from trade with the colonies. This was ensured not only through an appropriate price ratio but also by the export of capital. But foreign capital could never do without the help of local merchants, who were to ensure the semi-wholesale and retail realisation of imported industrial goods and the procurement of the raw material and food products needed by the metropolitan country. Therefore foreign capital had to share its profits with local merchant capital. As a rule, local traders received a small part of these profits, but still it was fairly large by local standards. This is why in India and other colonial and dependent countries over the centuries capital accumulation took place to a large extent in the sphere of circulation, in foreign trade in the first place.

The effect of foreign trade on the economic development of Pakistan and the dependence of the economy on the world market can be seen from the ratio of exports and imports to the Gross National Product.<sup>3 8</sup>

	1949-50	1954-55	1959-60	1964-65	1969-70
Export, Rs. million	1,218	1,223	1,843	2,408	3,337
Import, Rs. million	1,284	1,103	2,461	5,374	5,098
Ratio of export to GNP, %	6.1	5.8	5.9	5.2	4.6
Ratio of import to GNP, %	6.5	5.2	7.8	11.7	7.1

As can be seen from the above data, the ratio of exports to the GNP gradually declined during the 20-year period. This reflected the relatively low growth rates of basic export sectors in agriculture, first of all, the jute and cotton sectors. In Pakistan, as in many other developing countries, exports played a very important part in the economy, first and foremost, it was the main source of the foreign exchange needed for the imports of capital and other goods. Till the middle of the 1960s Pakistan had a very small number of enterprises for the production of capital equipment and the development of modern industry chiefly depended on export receipts, and consequently, these formed a prerequisite for structural shifts in the economy. The decline of the share of exports in GNP had an adverse effect on the economic growth of Pakistan.

As regards imports, their ratio to Gross National Product, especially in the first half of the 1960's, had a tendency to rise. This was the consequence of the growing business activity of the state and the private sector and also the growth of consumption in the country.

In the post-independence years no radical changes have taken place in the structure of export and it retains its agrarian raw material orientation as a whole. But, at the same time, we cannot fail to note some specific aspects which have appeared in exports during the country's economic development. If in the first years of independent development the share of raw,

jute and raw cotton was fairly high, comprising 43 and 33 % of the total value of exports in 1949—50<sup>39</sup> respectively and finished items did not figure in exports at all, by 1970—71 the share of these items had dropped respectively to 20 and 8 % and such items became prominent in exports as jute articles (20 % of the total value of exports) and cotton articles (11 %).<sup>40</sup>

The commodity structure of imports underwent considerable changes during the period under review and was a sort of indicator of the efforts that were being made to accelerate economic development and create an economy ensuring the supply of key goods for production purposes. Firstly, the share of consumer goods in imports declined (thus, from 1960—61 to 1967—68 it fell from 30 to 20 %). At the same time, there was a certain rise in the share of semi-manufactured goods and raw materials for their production (from 14 to 18 % in the indicated period).<sup>41</sup> This was the result of the measures taken by the government to expand national production of manufactured consumer goods. But one of the most important structural changes was the higher import share of goods for production purposes, primarily equipment: from 9 % in 1951—52 it rose to 22 % in 1969—70.<sup>42</sup> These changes in the structure of imports were the outcome of the Five-Year Plans and a special part in this was played by the state, whose economic policy and, in particular, foreign trade regulation subordinated imports to the needs of economic development.

The value added in the sphere of trade rose in invariable prices from Rs. 2.9 billion in 1949—50 to 6.8 billion in 1969—70. But despite this rather rapid growth in the size of the value added to trade, its share in GDP throughout the period under examination changed insignificantly, rising from 11.6 % in 1949—50 to 11.7 % in 1959—60 and 12.8 % in 1969—70.

## **TRANSPORT AND COMMUNICATIONS**

In colonial India the development of transport and communications was fully geared to the interests of

the metropolitan country—the export of agricultural raw materials from India and the import and sales of British manufactured goods on its home market. No small part in the development of the transport system was played by the military interests of the colonialists. Thus, many roads were of strategic importance and were of little use from an economic standpoint.

Pakistan's transport system after the division did not ensure proper links even within one and the same province, to say nothing of inter-province traffic. Accounting for about a quarter of the territory and one-fifth of the population of the whole of the South-Asian sub-continent, Pakistan had only one-seventh of its railway and highway network. The quality of the rolling stock was much worse compared with worn-out railway stock of postwar India. Most of the highways ran parallel to railways so that their commercial value was not great. The position was still worse in communications. The overwhelming number of villages did not have postal communications, while telegraph and telephone were luxury items even for the urban population.<sup>43</sup>

The main transport in Pakistan is railway transport, which is state controlled. Since 1961, special boards have been responsible for the exploitation and building of railways in each province. From 1947 to 1971 the country's operational railway network increased from 7,998 km to 8,536 km, most of the new railways being built in the 1960s. The Pakistan railway network is not very dense and in the Eastern province it is several times less so than in the Western province. The reason for this was not only the shorter length of railways, but also the fact that the greater part of the freight was shipped by water and rail.

The expansion of the material and technical facilities of railway transport led to a certain growth in freight and passenger traffic. From 1949-50 to 1969-70 this growth was expressed in the following figures:<sup>44</sup>

	1949-50	1969-70
Freight traffic, million tons	11.3	15.3
Passenger traffic, million passengers	117.7	189.9

The comparatively low growth in traffic was not only due to the slow growth in the total length of railways but chiefly to the rapid development of automobile and air transport.

In the years of independence the number of motor vehicles in the country increased considerably ('000):<sup>4 5</sup>

	1947	1955	1960	1965	1969
Jeeps and Cars	12.6	42.9	63.4	114.2	128.7
Buses	5.2	8.1	11.3	16.9	23.7
Trucks	0.9	15.8	23.9	38.2	43.7

These data show that trucks registered the biggest increase. This is explained by the needs of freight transportation and also by the inadequate railways. A certain part in the rapid expansion of the number of motor vehicles in the 1960's was played by the emergence of the motor assembly industry.

On the other hand, the network of country roads expanded to a small extent, as can be seen from the following data ('000 km):<sup>4 6</sup>

	1949-50	1959-60	1969-70
All roads	25.5	33.2	36.1
High type	9.4	15.5	20.2

Although roads of the low type continued to occupy an important place in the country's transport system, an increasing part began to be played by roads of the high type the length of which exceeded the length of low type roads by the close of the 1960's. This was mostly the result of the growth in modern mechanised transport and, to a certain extent, of the ousting of the lower economic patterns in agriculture

and industry.

Air transport figured greatly in inter-provincial and international traffic. From 1955 onwards all air carriages were handled by the Pakistan International Airlines Corporation 80 % of whose shares belonged to the state and 20 % to private capital. Air transport mainly handled passenger traffic and mail carriage. The volume of passenger and freight movement and mail carriage increased more than tenfold on both domestic and international airlines in the period under review.

A very important part is played by sea transport which helps to maintain most of the foreign trade and interregional economic links. The government made great efforts to create a national merchant fleet and by 1971 the number of merchant ships reached 71 with a total tonnage of 770,000 tons.

The Pakistan government paid much attention to the development of transport within the country. By the end of the 1960s expenditure on its development envisaged by Five-Year Plans moved into second place after allocations for industry, though growth was slower (%):<sup>47</sup>

1950-55	1955-60	1960-65	1965-70
14.0	16.6	17.6	20.4

A certain growth in gross investments in transport was accompanied by a steep rise in government investments, which was due to the fact that private capitalists did not have sufficient funds to develop modern types of transport: if in 1949-50 government investments comprised 28 % of the total investments, in 1964-65 the figure was 48 % and in 1971 it reached 60 %.

From 1949-50 to 1969-70 the value added in the sphere of transport and communication increased in invariable prices from Rs. 1.2 billion to 3.5 billion or nearly trebled. At the same time, there was an absolute and relative growth in the share of transport and comm-

unication in GDP which rose from 5.1% in 1949-50 to 6.5% in 1969-70.

During the same period the share of other sectors of the sphere of services, apart from trade, transport and communication, likewise increased (%):<sup>4 8</sup>

	1949-50	1954-55	1959-60	1964-65	1969-70
Goods	67.0	65.8	65.4	64.8	64.0
Services	33.0	34.2	34.6	35.2	36.0
of which:					
Transport and communication	5.1	5.7	5.9	6.5	6.5
Wholesale and retail trade	11.6	11.6	11.7	12.3	12.8
Banking and insurance	0.3	0.4	0.6	1.0	1.4
Ownership of dwellings	5.7	5.6	5.6	4.8	4.3
Public administration and defence	4.3	4.5	4.1	4.5	5.3
Other services	6.0	6.4	6.7	6.1	5.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

As is evident from the above figures, the role of the service sphere in the creation of GDP gradually but steadily increased. This was contributed by several service sectors, first and foremost, transport and communication and also trade, the credit system and public administration. Parallel to this the share of such items as "ownership of dwellings" and "other services" (which include the health service, education, personal services, entertainment, etc.) dropped somewhat from 1949-50 to 1969-70 from 5.7% to 4.3% and from 6.0% to 5.7% respectively.

Thus, in examining the dynamics of Pakistan's economy in its sectoral structure, we must take into consideration not only the growth of key sectors of material production (agriculture, manufacturing, construction) and the service sphere (e.g., trade, the financial sphere) but also a fact of no small importance, namely that the structure of the economy shifted from

the production of goods to the production of services. The main factor contributing to the growth of this sphere was the rapid increase in the effective demand for services. The expansion of the service sphere and its contribution to the production of national product is characteristic of all countries at a definite stage in their development. A similar process is also observed in Pakistan. The imperative of its development has made the service sphere a profitable area of entrepreneurial capital, the final point of the migration flows of the economically active population.<sup>49</sup>

The overall outcome of the structural changes that took place in Pakistan's economy during the period under review is shown in Table 2.

In the quarter of a century of Pakistan's independent existence its GDP more than doubled. The main contribution was made by agriculture. Large allocations for its development, the development of new lands, the removal of the vestiges of feudalism from the system of agrarian relations, the successes of the "green revolution" and other factors yielded tangible results. There was a noticeable increase in the number of landlords and farmers who adopted capitalist farming. Marketable part of agricultural product and in particular of non-food crops increased. But the share of agriculture in the country's economy declined, which was directly connected with the priority growth of industry (in particular, large-scale industry), construction and some service sphere. During the period under review most of the allocations were directed into industry and infrastructure. In the process of industrial development the ratio between large-scale and small-scale industry changed markedly: if in the early 1950s the volume of the latter was three times greater than that of the former, in the late 1960's this ratio became 3:1 in favour of large-scale industry.

The main result of the structural changes in Pakistan's national economy during the period under review was the expansion of the national basis of economic development. Owing to the diversification



**Table 2**  
**Industrial Origin of Gross National Product\* (at constant factor cost 1959-60)**

	1949-50		1954-55		1959-60		1964-65		1969-70	
	Million Rs.	%	Million Rs.	%	Million Rs.	%	Million Rs.	%	Million Rs.	%
Total	24,466	100.0	27,908	100.0	31,439	100.0	41,266	100.0	52,986	100.0
Of which:										
Agriculture	14,669	59.9	15,654	56.0	16,753	53.6	19,761	47.9	24,501	46.2
Mining and quarrying	27	0.1	45	0.2	70	0.2	131	0.2	158	0.3
Manufacturing	1,433	5.9	2,220	7.9	2,930	9.2	4,711	11.4	6,852	12.9
(large-scale)	(346)	(1.4)	(1,002)	(3.6)	(1,565)	(4.7)	(3,156)	(7.6)	(5,083)	(9.6)
(small-scale)	(1,087)	(4.5)	(1,218)	(4.3)	(1,365)	(4.5)	(1,555)	(3.8)	(1,769)	(3.3)
Construction	238	1.0	415	1.5	651	2.1	1,921	4.7	1,952	3.7
Electricity, gas, water and sanitary services	33	0.1	47	0.2	107	0.3	283	0.7	464	0.9
Transportation, storage and communications	1,239	5.1	1,588	5.7	1,857	5.9	2,680	6.5	3,466	6.5
Wholesale and retail trade	2,856	11.6	3,261	11.6	3,665	11.7	5,109	12.3	6,761	12.8
Banking and insurance	77	0.3	111	0.4	224	0.6	448	1.0	757	1.4
Ownership of dwellings	1,387	5.7	1,559	5.6	1,772	5.6	2,017	4.8	2,296	4.3
Public administration and defence	1,063	4.3	1,243	4.5	1,331	4.1	1,883	4.5	2,743	5.3
Other services	1,480	6.0	1,773	6.4	2,112	6.7	2,544	6.1	3,051	5.7

\* Calculated from *Pakistan Economic Survey, 1972-73, Statistical Section, pp. 2-3.*

of the economy and the growth of modern industry and the modern infrastructure, Pakistan's economy, which prior to 1947 was an agrarian and raw material appendage of the metropolitan country, became largely independent, controlled by national elements and serving their interests. Another major result of these changes was a considerable growth in national capitalism. Its development is traceable in all the major sectors of the national economy, but especially in large-scale industry.

No small role in bringing about these changes and the more than double overall growth in Gross National Product belonged to the state. In Pakistan, as in most other developing countries, the growing role of the state in the economy was conditioned by the need to eliminate the consequences of the colonial past and to protect national interests in the face of neo-colonialism and by the relationship of class forces and grass-roots pressure which forced the government to exert great efforts to step up the rate of economic growth. This was reflected both in the expansion of the public sector and in the activation of the government's economic policy. The state took charge above all of sectors which yielded small profits or no profits at all and rendered great assistance to the private sector. The part played by the state was manifest to the greatest extent in the drafting and implementation of the Five-Year Plans.

## Notes

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## THREE

### DISTRIBUTION OF THE NATIONAL INCOME

After the national product is produced, it is distributed among the various social groups. The main factor determining the participation of the different classes in this process is the existing relations of production, the way the direct producers interact with the means of production and also who owns these means of production. K. Marx wrote: "The structure of distribution is fully determined by the structure of production. A definite mode of participation in production determines a specific form of distribution".<sup>1</sup> In other words, in the reproduction process distribution follows production and is determined by the nature of this production.

In class-divided societies a considerable part of the national income is appropriated by relatively small groups of landlords, merchants, usurers and capitalists. Only part of their incomes forms the saving fund, while the other part is spent on their consumption or is taken out of the country. The latter is characteristic particularly of the Third World countries. The greater the part of the national income appropriated by the

exploiters, the smaller is that part of it that goes to the working people, who are the real creators of the national product. With the given size of the national income and the population, their living standard depends on the share of the working people's incomes in the national income. In turn the living standard determines the quality of society's main productive force. This elucidates the economic, social and political significance of the national income distribution between the working people and the exploiters in such societies.

The existence of many economic structures in the Third World countries explains the exceptionally motley social composition of the population, and this in turn impedes the evaluation of the national income distributed. However, in these countries (including Pakistan), as in all class-divided societies, the social structure is above all determined by the division of the population into working people (peasants, artisans, workers) who earn their incomes by work, and exploiters (landlords, merchants, capitalists), who appropriate part of the national income created, in the form of land rent, interest, commercial and industrial profit.

Prior to independence India was a country dominated by precapitalist relations, with a rapidly growing capitalist sector, which had basically been the main factor behind the country's social structure before 1947. Despite the existence of numerous intermediate social groups, the overwhelming part of the population was made up of peasants who, as a rule, combined agricultural and artisan activity. The agrarian system in colonial India, including the territories which went to Pakistan, was characterised by the domination of large landlord estates, mass-scale landlessness of the peasants or small plots in their possession, which compelled them to lease land. The lease terms were very hard and as a rule land rent comprised about a half of the harvest. A part of the peasants still owned their own plots of land, but it was rapidly dwindling. At the same time, there was a noticeable increase in the number of peasants who lost their land and became tenants and agri-

cultural labourers. With the fall in the average per capita agricultural production in colonial India in the first half of the twentieth century, the peasant owners' and tenants' incomes declined. Artisans were also subjected to severe exploitation.

A considerable portion of the national product produced by the peasants and artisans was appropriated by the landlords in the form of rent, by usurers in the form of interest and by merchants in the form of commercial profit. The vast rent-based incomes of the landlords were mainly used by them for non-productive purposes—for trade and money-lending, to maintain their lavish consumption and to hoard wealth. Capitalist elements in agriculture were very small and the growth in this sector of the economy was based on the same feudal and semi-feudal foundations as before. At the same time, the capitalist sector rapidly developed in industry and transport, and an ever increasing part of the national income consisted of the capitalist profit and the workers' wages.

There are hardly any statistics on the social structure of the total or economically active population of Pakistan, which could be helpful in examining the income distribution in Pakistan. In the International Labour Organization statistics the classification is based not on a class approach but on rather hazy criteria, which only confuse the issue. Thus, in these statistics the economically active population is divided into categories of employment—employers and workers on own account, salaried employees and wage earners, family workers and others. Thus, one and the same category includes groups of the population differing greatly in their social position. The rural classes, on the one hand, and urban classes, on the other, are more or less distinctly separated. But again exploiters and the exploited are brought together within identical groups. In agriculture the category of persons engaged in independent activity embraces feudal landowners and the rural bourgeoisie, small and middle landowners and also tenants. In other sectors of the economy this category



includes large entrepreneurs, small businessmen, the professions, and artisans. In a number of cases, board members and managers of companies belonging to the bourgeoisie figure come under hired labour alongside workers and office employees. In agriculture the category of those working for hire covers both agricultural labourers and peasants, working for large land proprietors on a feudal basis. Yet another category includes people occupying a different social position.

According to this classification, the structure of the economically active population as on February 1, 1961, was as follows:

**Table 3**  
Economically Active Population by Status and Sex (1 February 1961\*), million

	Total	Male	Female
Total	30.2	26.4	3.8
Employers and workers on own account	15.9	15.1	0.8
Salaried employees and wage earners	6.1	5.8	0.3
Family workers	7.4	4.8	2.6
Others and status unknown	0.8	0.7	0.1

\* *Statistical Yearbook for Asia and the Far East, 1969*, Bangkok, 1970, p. 287.

There are also statistical data on the division of the economically active population into agricultural and non-agricultural which, considering the small number of rural exploiters compared with the peasantry, may give a tentative estimate of the peasants' share. As can be seen from Table 4, the peasants comprised 75 % of the economically active population according to the 1951 census. Within 20 years, from 1951 to 1970, their proportion fell by 4 % (—) by 1 % (down to 74 %) in the fifties and down to 71 % during the next decade.<sup>2</sup>

In the early post-independence years the system of agrarian relations as it evolved during the colonial times continued to exist. In the eastern province peasant land holders were almost non-existent, while in the western

**Table 4**  
**Economically Active Population of Pakistan in 1951-1970\***

	1951		1961		1970	
	Million	%	Million	%	Million	%
Pakistan	22.4	100	29.4	100	42.3	100
Agricultural active population	16.9	75	21.7	74	30.2	71
Non-agricultural active population	5.5	25	7.7	26	12.1	29
East Pakistan	12.9	100	16.8	100	24.7	100
Agricultural active population	10.7	83	14.3	85	20.8	84
Non-agricultural active population	2.2	17	2.5	15	3.9	16
West Pakistan	9.5	100	12.5	100	17.6	100
Agricultural active population	6.2	65	7.4	59	9.4	53
Non-agricultural active population	3.3	35	5.1	41	8.2	47

\* Compiled from: "1961 Census", Karachi, 1961, pp. V-42-43; The Fourth Five-Year Plan, 1970-75, Islamabad, 1970, pp.111-112.

part there was quite a sizable stratum of them which accounted for two-fifths of the land area. But in most cases their holdings did not provide for the needs of the peasant families. Thus, 80 % of the peasant holdings in the Punjab did not exceed 10 acres and 15 % of the peasant holdings in Sind were under 15 acres in area. Therefore many peasants were forced to lease land. In East Bengal over 80 % of the land area was cultivated by tenants, but the overwhelming majority of them (over 85 %) had still smaller plots of 5 acres, while 76 % had less than 3 acres. Capitalism was very poorly developed in agriculture at that time. According to the 1951 census, Pakistan had about 1,650,000 landless agricultural labourers or about 10 % of the economically active population, and about 90 % of them were in the eastern province. Moreover, almost 650,000 tenants worked for hire during a considerable part of the year.

Investigations carried out by Soviet scholars make it possible to trace the processes of evolution of the

peasantry in Pakistan,<sup>3</sup> especially its class differentiation. During the process of accelerating stratification of the peasants fewer and fewer small and middle peasants ascended to the higher groups. Beside, in Pakistan as in other developing countries, the peasants were ruined faster than capitalist forms developed in farming. In consequence, the main part of the peasants were pauperised but not to a sufficient extent to become proletarians. At the same time, the ranks of the well-to-do peasants grew more slowly, but only a few of them replenished the ranks of the rural capitalists.

After the agrarian reforms of the 1950's changes took place in the structure of land ownership and land operation, and thereby in the social composition of the population connected with agricultural production as well. The 1960 Pakistan Census of Agriculture<sup>4</sup> revealed that a considerable proportion of the rural toilers was made up of landless peasants— 26 % in East Pakistan and 11.3 % in West Pakistan—and also owners of less than one acre—18 % in East Pakistan and 13.5 % in West Pakistan. Together with share-croppers these semi-proletarian strata comprised 44 % of the total peasant population in East Pakistan and 25 % in West Pakistan. The rest of the peasant population consisted of small producers on their own account (Table 5). The poorest households with holdings under 5 acres claimed 58 % of all the households in East Pakistan and 44 % in West Pakistan, or almost three quarters of the Pakistan peasantry (84 % in the Eastern province and 55 % in the Western province). Those were casual labourers and poor peasants. Medium-sized farms ranging from 5 to 25 acres comprised 16 % of all the households in East Pakistan and nearly 40 % in the western part of the country. But only households of more than 12 acres (and these accounted only for a quarter of the middle-sized households) paid their way, meaning that in the process of bourgeois evolution their owners could become capitalist-type farmers. Kulak households with 25 acres and more constituted a small proportion—0.3 % in the eastern province and 7 %

in the western province. Well-to-do kulak farms together with 12 odd acre middle sized farms were the main social support of the ruling circles in the countryside and supported the government's efforts to promote the development of capitalism in the country.

**Table 5**  
**Size Distribution of Operational Holdings in Pakistan**  
**Agriculture in 1960\***

Sized range of family holding (acres)	Percentage of rural households	Percentage of area
<b>East Pakistan</b>		
No land	26.0	0.0
Less than 1	18.0	3.2
1-2.5	20.2	13.0
2.5-5	19.5	26.4
5-25	16.0	52.6
25 and above	0.3	4.8
<b>West Pakistan</b>		
No land	11.3	0.0
Less than 1	13.5	0.7
1-2.5	15.6	2.8
2.5-5	14.7	5.9
5-25	37.8	47.9
25 and above	7.1	42.7

\* Maddison, A., *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, London, 1971, p. 151.

As regards the class of landlords, in the first post-independence years owners of more than 100 acres of land in West Pakistan controlled 40 % of the cultivated land in the Punjab and 90 % in Sind. In East Bengal the zamindars owned over 82 % of the land. The agrarian reform of 1950 dealt a heavy blow at the zamindari landownership in East Pakistan. Under the 1959 reform, in the Western part of the country the lands of 6,061 landlords, chiefly in the Punjab and Sind, whose possessions exceeded the established ceiling, were to be cut. But in reality the reform affected only 902 of them, including 755 landowners and 147 jagirdars.<sup>5</sup> The rest of them, having divided their land between their relatives and using other machinations, became exempt from the law.

Capitalist farms, which employed technology and hired labour, appeared back in the colonial times in areas of commercial farming. As a result of agrarian reforms (especially the reform of 1959) and other government measures in the field of agriculture, the development of capitalism in this sector of the economy proceeded at a noticeably higher rate. More landowners who engaged in capitalist farming appeared. Thus, the 1960 Census of Agriculture revealed that large landowners who owned 50 and more acres of land cultivated a significant part of their land (over 70 %) with the help of hired workers and leased out the rest.<sup>6</sup> Some farms in West Pakistan employed as many as 20 hired workers.

In view of the low level of capitalist development in Pakistan, the rural and even the urban working class constituted an insignificant proportion: in 1950 there were 1.6 m. workers employed in industry and construction and by the end of the 1960's their number had almost trebled and reached 4.5 million.<sup>7</sup>

The urban working class was formed partly from among the agricultural workforce (mainly casual labourers and poor peasants) and partly from among the rural artisans ruined by the competition of large-scale machine production. One of the characteristic features of the Pakistan working class was its rather high concentration. Thus, in the 1960's factories with more than 1,000 workers employed three-quarters of all the proletarians who worked in census industry. Moreover, a very high percentage of industrial workers consisted of seasonal and temporary workers, especially at small enterprises.

Another feature of the Pakistan working class was its close ties with the village. Many workers had their families there and this forced them to systematically remit part of their meagre wages.

A multitude of peasant families could not provide their own subsistence. Nor could they exist on the earnings of their breadwinners from outside employment and were forced to work as hard as they possi-

bly could to make ends meet. This was one of the deepest sources of long-time ties with the countryside and the reason why there was no professional proletariat in Pakistan. On the other hand, despite its small numbers, the actions of the proletariat made a definite imprint on the political struggle in the country.

A sizable contingent of Pakistan working people consisted of workers on their own account in the non-agricultural sectors of the economy whose number had reached about three million by the mid-sixties and of whom about 30 % were in the towns and cities and the rest in rural areas. The greater part of these workers (over 60 %) were employed in various sectors of artisan production, construction and the services and the rest were mainly small and marginal traders. Most of these workers continued to be associated with pre-capitalist (subsistence and small-commodity) structures and slowly succumbed to ruin.

Following the formation of Pakistan, power in the country passed to a block of large landlords and non-national, chiefly commercial and money-lending bourgeoisie. In the 1950's, the block was dominated by landlords, primarily landed magnates of West Pakistan (especially the Punjab). But it should be borne in mind that landlords, merchants and usurers were connected among themselves not only functionally but also personally: as a rule, landlords also engaged in trading and money-lending, while merchants and money-lenders were in most cases also large land-owners who leased their land.

The division of colonial India was carried out in such a way that almost the entire factory industry went to India. The jute of East Bengal was processed at jute mills in Calcutta and the cotton of West Pakistan at cotton mills in Ahmadabad and Bombay. Naturally, all the owners of these enterprises and other groups of the bourgeoisie connected with them remained in India. Moreover, the division was accompanied by the mass resettlement in India of Hindu businessmen who

played an important role in trade in those parts of colonial India that passed to Pakistan. Their emigration led to the outflow of commercial and money-lending capital from Pakistan which was only to a small extent compensated by the influx from India of capital belonging to Muslim merchants and usurers.

Facing no competition on the part of Hindu businessmen, the richest groups of the Pakistan population began to transfer their savings from the sphere of circulation to the sphere of industrial production. A decisive part in this was played by a small group of Muslim merchants who came from India.<sup>8</sup> In the view of scarcity of basic means of production and of the general backwardness of the economy, a highly important part was played by state subsidies. State control over foreign trade, which ensured the protection of a number of industries from foreign competition, the granting to industrialists of a number of benefits in taxation and the financial aid given to some of them and the creation of the public sector all helped the big bourgeoisie a great deal in switching over to industrial activities and expanding its positions in the country's economy.<sup>9</sup>

Economic development was accompanied by the rapid growth of large-scale industry, trade and banking and, accordingly, of the capital accumulation in the hands of the Muslim bourgeoisie. In 1959-60 seven families controlled approximately a quarter of all the assets in private industry and 16 families had control over 40 % of these assets.<sup>10</sup> But particularly marked changes took place in the 1960s leading to significant consolidation of the positions of large industrial and commercial bourgeoisie. As capitalism developed "in breadth" and the lower forms of capital evolved, the number of enterprises rapidly increased. Thus, from 1948 to 1963 the number of registered establishments in manufacturing alone increased fourfold.

However, the processes of concentrating production and capital in Pakistan developed even more

apace. It is highly significant that a number of reasons are responsible for the development of many sectors of Pakistan's industry, right from the creation of large factory-type enterprises. In 1968, Mahbub ul Haq, who was Chief Economist of the Planning Commission, declared that economic power is concentrated in the hands of the top group of 20 families, which control almost 66 % of all the industrial assets, about 79 % of all the insurance funds and about 80 % of the total bank assets.<sup>11</sup> Later these families numbered 22, and in 1972 A.R. Shibli, a long-time student of Pakistan monopolies, estimated that the top section of the industrial and commercial bourgeoisie (on the eve of the formation of Bangladesh) enveloped 30 families which concentrated about 80 % of the country's national wealth.<sup>12</sup>

In the post — independence period groups connected with state, political, military, administrative and other functions also began to play an important part. In the first place, they included the top echelons of the civil and military bureaucracy which numbered about 15,000 officials of different civil services by end of the 1960's<sup>13</sup> and also about 500 generals and senior officers of the armed forces. Among them were also top civil servants who numbered more than 10,000 families.

x

x

The statistics for the distribution of the national income appear usually later than the statistics for its production and expenditure. As we have already noted, such regular statistics for Pakistan are still non-existent. But the question is so important for the government and national economic science that great efforts were being made in Pakistan to obtain at least tentative data on the matter. This was behind the publication of some figures on the distribution of personal incomes in the country at the end of the 1960's and in the early 1970's.

At the beginning of the 1970's R.H. Khandker compiled data on the distribution of incomes in Pakistan in 1963-64, 1966-67 and 1968-69.<sup>14</sup> Below



**Table 6**

Structure of Income Distribution in 1963-64, 1966-67 and 1968-69,\* (%)

	1963-64			1966-67			1968-69		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
<b>Bottom 10 % of income earners</b>	2	3	3	4	3	4	3	3	3
<b>Bottom 20 %</b>	7	7	7	8	8	8	9	8	8
<b>40 %</b>	19	18	19	20	18	19	22	19	20
<b>50 %</b>	26	26	26	28	25	26	30	26	28
<b>Top 20 %</b>	43	46	45	41	47	44	39	46	43
<b>10 %</b>	29	30	29	27	34	30	25	32	28
<b>5 %</b>	18	20	19	18	23	20	14	22	18

\* Compiled from: R.H. Khandker; *Distribution of Income and Wealth in Pakistan*. "Pakistan Economic and Social Review", Spring 1973, pp. 9-10.

are some of the summary results he obtained.

The table shows that the share of incomes of the poorest and poor sections of Pakistan's population in the town and country rose in 1963-69. But in rural areas this process developed faster than in the towns and cities. The greatest increase was registered in incomes of 20-40 % of the poor groups of the population. At the same time, the incomes of those in the top income brackets declined to a certain extent. In some years there were changes in the opposite direction (for example, the increase in the share of the top 10 and 20 % of Pakistan's population in 1966-67 compared with 1963-64), but they were short-lived and did not upset the general trend indicated.

On the basis of these data, R. Khandker computed the coefficient of income distribution inequality in the corresponding years (Lorenz ratio):<sup>15</sup>

	1963-64	1966-67	1968-69
Rural areas	0.350	0.321	0.294
Urban areas	0.366	0.384	0.364
Total	0.358	0.346	0.333

These data show that income distribution inequality in urban areas is greater than in rural areas. While the Lorenz ratio for the countryside reveals a noticeable lessening of this inequality, in urban areas this inequality did, to a certain extent, grow in 1963-64 to 1966-67 and particularly during the next two years. But, according to these data, income distribution inequality in rural areas diminished so rapidly that it affected the dynamics of income distribution in the country as a whole.

M.G. Chaudhry, investigated the distribution of incomes in the Pakistan countryside during the 1960's i.e., over a longer period than that covered by R. Khandker. Below we reproduce his summary figures (%):<sup>16</sup>

	1959-61	1966-67	1969-70
Bottom 10 % of income earners	2.8	4.0	3.7

Bottom 20 %	6.2	8.6	9.2
40 %	19.0	21.0	21.9
Top 10 %	19.0	17.3	14.9
20 %	28.5	26.7	23.9
30 %	43.4	41.1	38.9

On the basis of these data showing a rise in the share of the incomes of small holders, tenants and agricultural labourers and a fall in the share of the landlords, kulaks and other rural exploiters, M. Chaudhry computed the Lorenz ratio which reflects the extent of the inequality in income distribution: it equalled 0.358 in 1959-61, 0.320 in 1966-67 and 0.296 in 1969-1970.<sup>17</sup> R.K. Khandker's computation of the Lorenz ratio yielded more or less the same results: 0.350 in 1963-64, 0.321 in 1966-67 and 0.294 in 1968-69.

Thus, according to M. Chaudhry's findings as well, in the 1960's there was a fall in the inequality of rural income distribution, the highest increase being shown by the incomes of the poorest 20 % of the population at the expense of the 10, 20 and 30 % of the richest sections of the population. M. Chaudhry associates the decline in income distribution inequality in the countryside with the development of the "green revolution".<sup>18</sup>

In the early 1970's, J. Azfar studied income distribution in Pakistan in 1966-67 on the basis of a sample survey of household expenditures in 1966-67 which covered incomes and the consumption of various social groups in Pakistan.<sup>19</sup> On the basis of his findings, J. Azfar computed the ratio of income distribution inequality:<sup>20</sup>

	1963-64 <sup>21</sup>	1966-67
Rural areas	0.356	0.334
Urban areas	0.445	0.436
Total	0.381	0.365

Although the above figures do not coincide with the

results obtained by R. Khandker and M. Chaudhry, they do, by and large, reveal the same tendency towards a decline in the inequality of income distribution in rural and urban areas and in Pakistan as a whole. On the other hand, while R. Khandker came to the conclusion that from 1963–64 to 1966–67, despite the general tendency, there was a certain increase in the inequality of income distribution in urban areas, J. Azfar's evaluations testify to its decline.

Other data are also used to prove the decline in the income distribution inequality in urban areas (Table 7).

**Table 7**

**Dynamics of Industrial Workers' Wages in West Pakistan,\* %**

Period	Money wages	Prices	Real wages
1954 to 1958	+5.5	+9.6	-3.7
1958 to 1967–68	+51.3	+42.6	+6.1
1967–68 to 1969–70	+17.1	+6.6	+9.9
1954 to 1969–70	+87.0	+66.7	+12.6

\* N. Hamid, *The Burden of Capitalist Growth. A Study of Real Wages and Consumption in Pakistan*, "Pakistan Economic and Social Review", Spring 1974, p. 50.

With the exception of the brief span from 1954 to 1958, both money and real wages rose steadily, increasing by 12.6 % by 1970 compared with 1954. These figures show a rise in the real wages of urban workers even despite a rather high prices rises in the country.

But we must take two factors into consideration. Firstly, in the given case we are dealing with the wages of industrial workers, i.e., the most highly paid section of the working class while, for example, in construction and transport money wages increased more slowly and real wages even tended to decline. Secondly, Pakistan economists themselves pointed to the shortcomings and approximate estimates of the available sources (industrial censuses and price statistics) and believed that the growth in real wages is rather overstated and workers have hardly had a fair share of the gains from

industrialisation.<sup>22</sup> According to the estimates of the economists from the Planning Commission, during the 1960's real wages dropped by almost one-third.<sup>23</sup>

Thus, according to the figures quoted above, in the 1960's the inequality of income distribution in urban areas and the country as a whole and, especially, in the countryside declined. The highest gains accrued to 20 to 30 % of the low income group at the expense of 10 to 20 % of the richest groups in Pakistan society.

x            x            x

Now then, how were the above figures obtained after all, considering that to this day, as we have already pointed out, Pakistan does not have regular statistics on the distribution of the national income?

In the first chapter we spoke of the difficulties of estimating the national income by incomes in general and in the developing countries in particular, in view of the insignificant role of income taxation. Thus, the UN national accounts yearbooks give information even now about income distribution only for a small number of Asian countries. The figures in question were obtained on the basis of sample surveys of household incomes and expenditures of various groups of Pakistan's population conducted separately in urban and rural areas, especially the surveys of 1963-64, 1966-67, and 1968-69. But the fact that they drew their conclusions on the basis of sample surveys, calls for some caution. "Data on income distribution are notoriously unreliable, even in developed countries. The raw data are usually derived from information supplied by the income recipients themselves; its accuracy is therefore a function of the recall of the respondent, of his perception of the use to which the information will be put, of his veracity about a sensitive subject, etc."<sup>24</sup>

However thoroughly sample surveys are conducted, they cannot embrace proportional groups of income earners in various sections of Pakistan society. We must keep in mind at least two factors which have led to the serious understatement of the incomes of society's wealthy groups in statistics and surveys. One is the

concealment of a sizable part of their incomes and the other factor is the unwillingness of official circles and government-employed economists to reveal the growth in inequality in the distribution of incomes and the deterioration of the working people's conditions.

This understatement of high income groups in the sample surveys was noted by J. Azfar. He made a detailed analysis of the 1966-67 sample survey whose findings were used by all the authors mentioned earlier and pointed out that "the survey contains a wealth of information on the pattern of size distribution of income and consumptions. A major shortcoming of the survey was the small sample size especially in the upper ranges of income where only a handful of families are recorded (as low as 0.1 or 2 families in some income groups)."<sup>25</sup>

Moreover, the data on the distribution of personal incomes (though their sum differs little from the size of the national income) produce a picture of somewhat more equal distribution than the corresponding structure of the national income. This is due to the fact that the estimates we quoted did not take into account the undistributed profits of corporations and some other incomes of the exploiter elements which form their collective property. Thus, R. Khandker, for example, pointed out that he could not estimate undistributed corporate profit formed after the deduction of budget contributions and payment to shareholders, direct taxes and dividends from the incomes of private and public-legal corporations. Therefore, he said, the share of income from property worked out lower than it was.<sup>26</sup> On the other hand, the data on personal incomes include some transfer payments which are distributed more evenly than all incomes. This leads to a certain exaggeration (compared with the data on the distribution of the national income) of the share of the working people in the total incomes.

Some economists have also pointed to other sample surveys (regrettably without specifying them) which show a rise in the income distribution inequalities in

rural and especially in urban areas. But they held the view that these sources of information were prepared by less qualified specialists and were therefore disregarded in estimating income distribution inequalities.<sup>27</sup>

As regards M. Chaudhry's estimates, it is not clear to what extent he took into account the incomes of the capitalist farmers, merchants and usurers. Many of them lived in towns and, as a rule, had other sources of income and often incomes from industrial operations in towns played the leading role. M. Chaudhry himself pointed out that ". . . the highest income groups are not represented fully in the CSO surveys and the number of the respondents does not exceed one or two in most cases".<sup>28</sup> This alone calls in question M. Chaudhry's conclusion about the decline of income distribution inequalities in rural areas.

Incidentally, in developed capitalist countries, too, the statistics on the national income are far from perfect. S. Kuznet's wrote: "Consequently, the trends in the income structure can be discerned but dimly, and the results considered as preliminary informed guesses".<sup>29</sup> This shows how cautious we must be in using the available data on the distribution of the national income in developing countries. I. Adelman and C. Morris, who have studied the problem, admit that many studies on this question have been based on approximate estimates, so that great caution was required in treating these studies and especially their assessments.<sup>30</sup>

x            x            x

At the same time, there are quite a few data published in Pakistan and other countries which are at variance with the thesis that the income inequalities in Pakistan have diminished. On the contrary, they tend to testify to growing inequalities.

In the course of Pakistan's economic development the national income increased at constant prices from Rs. 22.9 billion in 1949-50 to Rs. 29.3 billion in 1959-60 and Rs. 49.4 billion in 1969-70. During these two decades agriculture remained the main sector of the economy, although its share in the national

income fell from 61 % in 1949—50 to 54 % in 1959—60 and 47 % in 1969—70. Thus, with the decline in the share of agricultural production in the national income a smaller part of it fell during distribution to the share of all groups of the rural population (landless labourers and tenant share—croppers, kulaks and landlords). This is a natural result of the economic development connected with the growth of the secondary and tertiary sectors and their increasing importance and, accordingly, with the growth of the incomes of the social groups employed in them. What was the pattern of income distribution within these groups?

In the first two or three years after the division of colonial India the inequality of income distribution in the rural areas, it appears, did, to some extent, diminish. This was the outcome of the mitigation of the exploitation of the peasants through rent payment, trade and money—lending. The first factor appeared as a result of the flight of Hindu landlords from the eastern part of the country and the second factor was the consequence of the flight of Hindu money—lenders and the consequent annulment of the debts of a considerable number of Muslim peasants.<sup>31</sup>

In the 1950's, the average growth rates of agriculture reached 1.3 %. The annual population growth stood at 2.4 %, which meant a decline in average per capita agricultural production. Since the 1950 reform hardly lessened the rent exploitation of the peasants at all and did not lead to any changes in land distribution in their favour, we can hardly speak about a weakening of income distribution in the rural areas at that time. All the more so, since the Pakistan peasants were subjected to severe commercial and money—lending exploitation apart from rent exploitation. Advances were made against marketable part of future crops, food products and manufactured goods were sold on a hire—purchase basis and loans covering the various, mostly consumer needs of the peasants, were granted. In the 1950's, as there was still no organised credit, the place of Hindu money—lenders was taken over by Muslim money—



lenders. The debts of the Pakistan peasants began to grow rapidly again.

According to the 1960 Pakistan Census of Agriculture, the indebtedness of Pakistan peasants reached Rs. 1.3 billion of which Rs. 1.2 billion were owed by landholders. Total agricultural debts were divided as follows: 91 % were from private sources and a mere 9 % came from organized sources.<sup>3 2</sup>

In these conditions the income distribution inequalities increased during the 1950's. According to K. Griffin, the real incomes of the rural working people fell in the fifties and rose to the level of 1949-50 only in 1964-65.<sup>3 3</sup> The situation was particularly hard in the eastern province where high growth rates of population led to a rapid fall in the average per capita cultivated area and the incomes of peasants (Table 8).

**Table 8**

**Per Capita Factor Incomes of Total, Agricultural and Rural Populations of East Pakistan\* (Rs., at 1959-60 prices)**

Year	Gross provincial product per capita	Agricultural value added per head of agricultural population	Per capita rural income
1949-50	285	228	271
1951-52	290	225	274
1953-54	295	230	280
1955-56	263	194	247
1957-58	270	199	253
1959-60	271	196	252
1961-62	289	207	267
1963-64	305	207	279

\* S.R. Bose, *Trend of Real Income of the Rural Poor in East Pakistan, 1949-66*. "Studies on National Income and Its Distribution", Ed. by Taufiq M. Khan, Karachi, 1970, p. 144.

S. Bose wrote: "The decline in agricultural value added per head of agricultural population and in per capita rural income indicates, if anything, that the real income of the poorest stratum of rural population declined over time, perhaps quite appreciably."<sup>3 4</sup>

**Table 9****Nominal-wage earnings and real-wage earnings,\* Rs.**

Year	Nominal wage earnings	Nominal earnings deflated by index based on 1949	Index of real wages
1949	497	497	100
1951	402	386	78
1953	357	363	73
1955	339	461	93
1957	441	389	78
1959	478	440	89

\* Compiled from: S. Bose, *Trend of Real Income of the Rural Poor in East Pakistan*. "Studies on National Income and Its Distribution", Ed. by Taufiq M. Khan, Karachi, 1970, p. 158.

As can be seen from the data given in Table 9, in the 1950's the wages of agricultural workers shrank not only relatively but also absolutely.

During the next ten years the growth rates of agriculture increased considerably, reaching 3.4 % annually on average in 1960-65 and 4.5 % in the second half of the 1960's. The second half of the decade was a period of rapid agricultural growth and rising incomes for the agricultural classes. Thus, the average per capita food production rose from 95.6 in 1963-64 to 117 in 1971-72 or by 23 % (1959-60 = 100). As to the distribution of rural incomes as it shaped up in the process of the "green revolution", there are numerous data testifying to the growth in inequalities during that period.

Pakistan economist N. Hamid, using the materials of Household Income and Expenditure Surveys, compiled the following Table.

Since in the state of poverty a sizable proportion of the incomes of peasants and agricultural labourers was spent on food, these data, showing the absolute reduction in grain consumption by working people, testify to an absolute reduction in their incomes. Since the economy expanded rapidly at that time and the average per capita rural incomes rose from Rs.243 in 1959-60 to Rs.292 in 1969-70,<sup>35</sup> these data also speak of a rapid growth in the incomes of the high groups of the rural

**Table 10****Daily Per Capita Consumption of the Poorest 60 % of the Rural Population\* (Ounces)**

Year	Rice and wheat	Pulses	Total	Index (1963-64 = 100)
1963-64	16.36	0.81	17.17	100.0
1966-67	14.12	0.60	14.72	85.7
1968-69	15.17	0.68	15.85	92.3
1969-70	15.02	0.60	15.62	91.0
1970-71	14.90	0.65	15.55	90.6
1971-72	14.35	0.62	14.97	87.2

\* N. Hamid, *The Burden of Capitalist Growth. A Study of Real Wages and Consumption in Pakistan*. 'Pakistan Economic and Social Review', Spring, 1974, p.60.

population. Consequently, the fruits of the "green revolution" were almost fully enjoyed by the exploiter classes.

As is commonly known, the "green revolution" was the result of the introduction of high-yielding variety seeds the application of large quantities of fertilizers, irrigation projects and the mechanisation of agricultural work. Almost all these improvements are connected with considerable and often very large investments, which could only be afforded by landlords, kulaks and other capital owners. D.A. Khan and H.A. Chaudhry pointed out that HYV seeds, mineral fertilizers and technology, all components of the "green revolution", were acquired first of all by the propertied classes in the rural areas, by those who ran or were going to run their farms along modern lines.

The highest number of tubewells belonged to large landowners owning 26-50 acre farms (Table 11). The greater part of the tractors belonged to those who owned still bigger areas 50-100 acres. In both cases, the smallest number of tractors and tubewells belonged to small holders and tenants.

In modernising their technical facilities, the biggest holders relied on the lavish state subsidies. They played a decisive part in boosting agricultural production in 1960's.<sup>36</sup> But it was also they who garnered practically all the fruits of these changes. The total rural

**Table 11**

**Distribution of Tubewells and Tractors in West Pakistan by Size of Area Owned by Their Owners as per November 1968\***

Size of area owned	Number of tubewells	Per cent	Number of tractors	Per cent
No area	4,680	7	574	3
Under 13 acres	3,320	4	450	3
13-25 acres	15,240	20	1,025	6
26-50 acres	18,050	24	2,326	14
51-100 acres	14,240	19	3,407	21
101-200 acres	9,120	12	3,094	19
201-500 acres	5,550	7	3,238	19
501- and over acres	5,520	7	2,469	15

\* Source: D.A. Khan, H.A. Chaudhry, *Income Impact of the Green Revolution*, "Pakistan Economic and Social Review", Spring, 1973, p. 77.

income from agricultural subsidies and investments was appropriated by a small number of big landlords.<sup>37</sup>

X

X

X

Let us now examine the data on the growth in income distribution inequalities in urban areas. The share of non-agricultural sectors in Pakistan's national income rose from 39 % in 1949-50 to 53 % in 1969-1970. This means that the incomes of all the classes engaged in these sectors of production of goods and the service sphere increased, too. The greater part of these classes form the urban population with the bourgeoisie and workers as its main components.

In such developing country as Pakistan the dynamics of per capita grain consumption is a good indicator of changes in the living standards of the population and its real incomes. In Pakistan food expenditure in the towns and cities comprised 50-60 % of household budgets on average and at least 40-50 % of the outlays on food were accounted for by purchases of wheat, rice and pulses.

As can be seen from Table 12, the daily per capita consumption of cereals fell by 4 % from 1963-64 to

1969-70. This means that the real incomes of the poorest 60 % of the urban income earners declined during this period. At the same time, there can be hardly any doubt that the incomes of the poorest 10-20 % of the population dropped to a still greater extent.

Let us examine separately the dynamics of the consumption of wheat and rice, on the one hand, and pulses, on the other. Wheat and rice are more essential food products than pulses, and when the average per capita consumption of pulses falls faster than that of wheat and rice (24 % against 2.7 %), we can hardly doubt that there is a drop in the real incomes of the poorest 60 % of the urban income earners. This has unquestionably had its effect on the social and political situation in the country in 1968-69 and is a good explanation of the mounting strike movement from November 1968 to March 1971.

**Table 12**  
**Daily Per Capita Consumption of the Poorest 60 %**  
**of the Urban Population (Ounces)\***

Year	Rice and wheat	Pulses	Total	Index (1963-64 = 100)
1963-64	13.49	0.82	14.31	100.0
1966-67	13.33	0.73	14.06	98.3
1968-69	13.31	0.67	13.98	97.7
1969-70	13.13	0.62	13.75	96.1
1970-71	13.38	0.64	14.02	98.0
1971-72	12.98	0.62	13.60	95.0

\* N. Hamid, *The Burden of Capitalist Growth, A Study of Real Wages and Consumption in Pakistan*. "Pakistan Economic and Social Review", Spring, 1974, p. 57.

Urban areas are admittedly centres of commercial and industrial activity and the service sphere. The money savings and material values created by working people all over the country flow to the towns and cities in thousands of rivulets. During the period under review Pakistan towns and cities increasingly became centres of capitalist development, the site of large industrial enterprises, companies and firms in

different economic sectors. It is the most difficult task to estimate the profits and incomes of different groups of exploiters, while it is much easier to see the movement of urban workers' wages.

Where there was mass migration of the rural population to towns and cities the latter were not able to provide jobs for all the migrants and became crowded with paupers, vagabonds, and other elements. The growth in the working people's incomes was adversely affected by unemployment. Despite definite positive shifts in economic development, unemployment increased, amounting in the mid-sixties to about one-fifth of the economically active population.<sup>38</sup> These and some other factors had an adverse effect on the growth of the workers' real wages.

There are data which show a drop in the share of wages and salaries in the national income. In the majority of capitalist countries wages averaged 40-50 % of the value added in industry. But in Pakistan the share of wages in the value added in industry amounted to less than one-third and tended to fall during the 1960's.

As will be seen from Table 13, during the 1960's both wages and the value added in large-scale industry increased, wages rising by 2.5 times and the value added trebling during this period. As a result, the share of wages in the value added in industry fell from 25 to 20 %. In the cotton industry this share declined still more from 32 to 23 %.

The incomes of the bourgeoisie, on the other hand, soared sky high. A. Maddison pointed out that there was a considerable growth in the high income groups who began to get a greater part of the national income.<sup>39</sup> This may be illustrated by the following example. The Dawood Group, which in 1959 bought the Karnaphuli Paper Mills, one of the biggest paper mills in the whole of Asia, from the Pakistan Industrial Development Corporation, made annual profits from it in the first few years to the tune of Rs.4.2—

**Table 13**

**The Share of Industrial Workers' Wages in Value Added\***

Year	Value added Rs.000,000		Wages Rs.000,000		The share of wages in value added, %	
	Total	In cotton industry	Total	In cotton industry	Total	In cotton industry
1959-60	1,595	466	393	150	25	32
1962-63	1,918	592	468	172	24	29
1965-66	2,846	663	608	194	21	29
1967-68	3,707	830	722	201	20	24
1969-70	4,802	1,260	987	295	20	23

\* Compiled from: N. Hamid, Op. cit., p. 56.

4.3 million. Several years later, in 1961-64, its profits made during those years topping Rs. 16.8 million the purchasing price of the mills.<sup>40</sup> In 1959-60, seven families controlled about a quarter of all the assets of private industry and 16 families accounted for about 40 % of the assets.<sup>41</sup> Maddison estimates that in the 1960's the profits of the bourgeoisie comprised over two-thirds of the value added in industry.<sup>42</sup>

These and numerous other data leave one in no doubt that in the post-independence years the Pakistan bourgeoisie was largely formed anew and that its profits and general financial and economic might increased tremendously.

The national-liberation revolutions in South Asia brought hundreds of millions of people into motion. The struggle against foreign oppression and exploitation was inseparable from the struggle against the local exploiters, all the more so since both the former and the latter were bound up with one another economically and politically. This is why those classes and social groups which came to power as a result of successful national-liberation revolutions could not but take into account the moods of the broad masses

of the working people, the peasants in the first place, in their policy and declarations. Hence, the proclamation of a course to build a socialist society or, at any rate, a society offering greater social justice in many developing countries. Yet, in Pakistan's official scientific studies one comes across statements to the effect that the increase in the rates of economic growth and the reduction in income distribution inequalities were in inverse proportion to one another. In their view, the concentration of incomes in the hands of the rich ensures a higher saving rate which, in turn, contributes to the growth in employment, production and incomes themselves. Since the country suffers from the low level of productive forces and employment, the maintenance or even intensification of inequalities in income distribution was bound to help in solving these acute problems in the economy. In drafting long-term programmes of economic and social development the Pakistan government proceeded from the priority of growth rates over the solution of the problem of more equal income distribution.

The authors of the Second Five-Year Plan wrote in this connection: "Direct taxes cannot be made more progressive without affecting the incentives to work and to save. The tax system should take full account of the needs of capital formation. It will be necessary to tolerate some initial growth in income inequalities to reach high levels of saving and investment. What is undesirable is a wide disparity in consumption levels. Tax policy should, therefore, be so oriented as to direct a large part of high incomes into saving and investment rather than consumption."<sup>43</sup> In their turn, the authors of the Third Plan wrote: "What is basic to the establishment of Islamic Socialism is the creation of equal opportunities for all rather than equal distribution of wealth."<sup>44</sup> And this from the preliminary estimates of the Fourth-Five Year Plan: "We cannot distribute poverty. Growth is vital before income distribution



can improve.”<sup>45</sup>

On the other hand, quite a few studies of the question by specialists living in Pakistan were published at home and abroad. The overwhelming majority of them believe that the income distribution inequalities did not diminish but rather increased, in rural and urban areas alike. This is particularly significant for rural areas, since if in urban areas the relevant data show the unchangeability or even an insignificant increase in these inequalities, in rural areas they reveal their marked diminution. Thus, R. Khankder noted that, although the available figures testified to the lowering of inequalities in the country, “the estimated measures of inequality show a decline over time while the common belief in Pakistan is that the problem of inequality of income has been accentuated in the past few years.”<sup>46</sup>

D.A. Khan and H.A. Chaudhry came to the conclusion in their joint study of income distribution in the setting of the “green revolution” that “the onset of recent agricultural transformation is showing tendencies of increasing the socio-economic, regional and class disparities in rural Pakistan.”<sup>47</sup>

Many economists held the view that in the setting of the “green revolution” social inequality was considerably intensified and distribution inequalities increased. Thus, discussing the conditions that took shape in Pakistan’s agriculture in the 1960’s, N. Sanderatne pointed out: “The policies pursued since 1959 resulted in a rapid rate of agricultural growth, while at the same time they increased the disparities in incomes between the large landowners and small owners and tenants.”<sup>48</sup> W.P. Falcon held that in the process of the “green revolution” the disparities in income distribution between the various classes of the rural population increased quite unprecedentedly.<sup>49</sup> R. Amjad concluded that the “green revolution” considerably accelerated the growth in agriculture, but its fruits accrued mostly to large farms.

Small farms could not apply high-yielding seed varieties, since this required significant capital outlays (on the purchase of tractors, the building of tube-wells, chemical fertilizers, etc.). Moreover, the supply of additional water to the fields was monopolised by large landowners. The state could not siphon off part of the considerably increased incomes from agricultural production through its tax policy, and this naturally tended to accentuate income distribution disparities in rural Pakistan.<sup>50</sup> S. Bose wrote: "It is, however, generally held that Pakistan's pattern of development has generated increasing income inequalities among classes. . . The development strategy has placed major reliance on the private enterprise and sought to generate a higher saving rate through redistributing income in favour of those groups whose saving rates are considered to be relatively high. This has meant an increasing concentration of income in the hands of a small group of wealthy industrialists. . . One cannot even exclude the possibility that the process of economic development redistributed income in such a way and to such an extent that the bottom group (say, the quartile) in the income scale has become absolutely poorer while per capita income of the population as a whole increased."<sup>51</sup> This view was also shared by such economists as Nigar Ahmad, Rafiq Ahmad, Dilawar Ali Khan and many others.<sup>52</sup>

The conclusion about growing inequalities in income distribution was also drawn by such reputed economists in the West as A. Maddison and G. Papanek. A. Maddison wrote that in Pakistan "the distribution of income and the sources of income have changed rapidly over the past twenty five years."<sup>53</sup> G. Papanek observed that "the great inequalities in personal income and wealth were rather directly the consequence of Pakistan's pattern of development."<sup>54</sup> We could continue the list of economists and their views, but the conclusion they draw is the same: in both rural and urban areas

inequalities in income distribution were accentuated, especially in the course of the green revolution. The growth of income inequality was also recorded in official documents. Thus, the Fourth Five-Year Plan pointed out: "Reliable indices about the distribution of income in the country are not available at present. The scattered information that can be put together reveals that income distribution has become fairly skewed in the process of economic development."<sup>55</sup> The development strategy of the 1960's was based on the thesis that "there is a conflict between equity and growth and we must have growth first and worry about distribution later. It is also a commonly held belief that this part of the policy was successful and the concentration of incomes increased considerably during the period with the rich getting richer and the poor poorer."<sup>56</sup>

Increasing inequality in the distribution of the national income was not only characteristic of Pakistan but also of many other Asian countries. Gunnar Myrdal wrote: "There is a paradox in the South Asian situation: although greater equality has been proclaimed as an immediate practical goal for planning and policy, marked inequality exists everywhere. The disparity is the more striking because, despite more or less successful attempts at planning, economic inequalities have generally not decreased since independence; if anything, they have increased in all the countries of the region, with the possible exception of Ceylon. This trend is most apparent in India and Pakistan. . ."<sup>57</sup> The same can be seen in India. The quality of national accounts statistics and macroeconomic investigations in this country is far better than in Pakistan and there are in particular a great many publications on national income distribution in India. Yet official statistics show a fall in the income distribution inequality, while, in the view of investigators, this inequality has increased in reality.<sup>58</sup>

Of great interest is the comparison of income

distribution inequalities in Pakistan and other Asian countries, but the statistics for the distribution of the national income is unfortunately poorly developed not only in Pakistan but also in most other Asian countries. Therefore the data available to us do not allow any definite conclusions to be drawn. Besides, when comparing income distribution in different countries, we should keep in mind the fact that information about incomes is usually provided by income recipients themselves, so that it is unreliable because in the majority of the Third World countries mass concealment of incomes is practised to a certain extent to avoid income taxation.

As far as can be seen from the data in Table 14, great social inequality in income distribution exists in developed and least developed countries. In Japan the national income was distributed more evenly than, say, in Iraq where the bottom 20 % of the income earners accounted for only 2 % of the total incomes, while the top 5 % received 34 %. A similar picture is observed in Lebanon and the Philippines. As regards Pakistan, it occupies an intermediate position in this group of countries.

**Table 14**

**Distribution of the National Income in Some Countries of Asia in the Early 1960's \***

	Income groups				
	Low (20 %)	Low (60 %)	Middle (40-60 %)	Highest (20 %)	Highest (5 %)
Burma	10.0	36.0	13.0	48.5	28.2
India	8.0	36.0	16.0	42.0	8.0
Iraq	2.0	16.0	8.0	68.0	34.0
Japan	4.7	31.1	15.8	46.0	14.8
Lebanon	3.0	23.0	15.8	61.0	34.0
Pakistan	6.5	33.0	15.5	45.0	20.0
Philippines	4.3	24.7	12.0	55.8	27.5
Sri Lanka	4.5	27.5	13.8	52.3	18.4

\* Compiled from: I. Adelman and C.T. Morris. *An Anatomy of Income Distribution Patterns in Developing Nations*. "Development Digest", October 1971, p. 27; I. Adelman and C.T. Morris. *Economic Growth and Social Equity in Developing Countries*. Stanford (California), 1973, p. 152.

The growing inequality in income distribution in Pakistan could not fail to have its consequences. The accelerated economic growth in the 1960's proceeded at the expense of the broad masses of the people and contributed to the concentration of wealth in the hands of a small group of top income earners. This caused growing dissatisfaction among the overwhelming majority of the population and actually formed the basis of the acute political crisis of 1968.

The installation of A.M. Yahya-Khan's military regime in 1969 did not lead to any substantial changes in income distribution in Pakistan. The military administration took a number of measures to attract proletarian and semi-proletarian and also the petty-bourgeois strata of the urban population to the side of the new regime. It established a wages minimum for unskilled workers at 115-140 rupees monthly and planned a gradual rise in salaries for some categories of low-paid civil servants. Besides, peasants' debt arrears in taxes were remitted or their payment deferred and office employees and other low-income groups of the population were exempted from income taxation.<sup>59</sup> These measures had the effect of causing the political tension in the country to slacken off, to a certain extent, but it did, however, grow more acute again following the first general elections in the country's history.<sup>60</sup> Along with the other causes, the steady growth in the income distribution inequalities ultimately led to the extremely acute political crisis of 1971.

## Notes

1. K. Marx, *Introduction to the Economic Manuscripts of 1857-1858*, Works, Russ. ed., Vol. 12, p. 721.
2. According to other sources, the peasants comprised 67 % of the economically active population in

1970. (*Growth and Inequality in Pakistan*, London, 1972, pp. 5-6).
3. See: M.A. Yakovlev, *Agrarny Pakistan*, Moscow, 1968; V.G. Rastyannikov, S.A. Kuzmin, *Problemy ekonomiki Pakistana*, Moscow, 1958; S.I. Tansykbayeva, *Krestyanstvo Pakistana*, Tashkent, 1969; V.I. Tyurin, *Agrarniye Problemy Pakistana (Agrarian Problems of Pakistan)*, Saratov, 1968.
  4. *1960 Pakistan Census of Agriculture, All Pakistan Report*. Karachi, 1964.
  5. *Pakistan, Reference book*, Moscow, 1966, p.269.
  6. *1960 Pakistan Census of Agriculture*, p. 9.
  7. Maddison, A., *Class Structure and Economic Growth. India and Pakistan Since the Moghuls*, pp. 158—159.
  8. A. Maddison pointed out in this connection that “the landlord class which was predominant politically in the first decade of independence had almost no role in industrial development”. (A. Maddison, *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, p. 139).
  9. V.G. Rastyannikov, S.A. Kuzmin, *Problemy ekonomiki Pakistana*, p. 94.
  10. G.F. Papanek, *Pakistan's Development, Social Goals and Private Incentives*, Cambridge (Mass.), 1967, p. 68.
  11. Mahbub-ul-Haq, *A Critical Review of the Third Five Year Plan, Management and National Growth*, Karachi, 1968, p. 27.
  12. S.F. Levin, *Review of the book by A.R. Shibli, “22 Families”, Narody Azii-i-Afriki (People of Asia and Africa)*, No.6, 1974, pp.168-172.
  13. A. Maddison, *Class Structure and Economic Growth. India and Pakistan Since the Moghuls*, p. 143.
  14. R.H. Khandker, *Distribution of Income and Wealth in Pakistan*. “Pakistan Economic and Social Review”, Spring 1973.
  15. R.H. Khandker, *Op. cit.*, p.12.
  16. M. Ghaffar Chaudhry, *Rural Income Distribution*

- in Pakistan in the Green Revolution Perspective*. "The Pakistan Development Review", Autumn 1973, p. 251.
17. M. Ghaffar Chaudhry, *Rural Income Distribution in Pakistan in the Green Revolution Perspective*. "The Pakistan Development Review", Autumn 1973, p. 253.
  18. M. Ghaffar Chaudhry, *Rural Income Distribution in Pakistan in the Green Revolution Perspective*, p. 248
  19. J. Azfar, *The Distribution of Income in Pakistan, 1966-67*, "Pakistan Economic and Social Review", Spring 1973.
  20. J. Azfar, *The Distribution of Income in Pakistan, 1966-67*, p. 48.
  21. For comparison J. Azfar gave data on the inequality of income distribution in Pakistan in 1963-64 obtained by A. Bergan.
  22. N. Hamid, *The Burden of Capitalist Growth, A Study of Real Wages and Consumption in Pakistan*, "Pakistan Economic and Social Review", Spring 1974, pp. 53-54.
  23. *The Fourth Five Year Plan, 1970-75*. Islamabad, 1970, p. 13.
  24. I. Adelman and C.T. Morris, *An Anatomy of Income Distribution Patterns in Developing Nations*, "Development Digest", October 1971, p. 25.
  25. J. Azfar, *The Distribution of Income in Pakistan, 1966-67*, "Pakistan Economic and Social Review", Spring 1973, p. 44.
  26. R H. Khandker, *Distribution of Income and Wealth in Pakistan*, "Pakistan Economic and Social Review", Spring 1973, p. 13.
  27. See: J. Azfar, *The Distribution of Income in Pakistan, 1966-67*, "Pakistan Economic and Social Review", Spring 1973, pp. 44-45.
  28. M. Ghaffar Chaudhry, *Rural Income Distribution in Pakistan in the Green Revolution Perspective*, "The Pakistan Development Review", Autumn

- 1973, p. 225.
29. S. Kuznets, *Economic Growth and Income Inequality*, "The American Economic Review", March 1955, p.4.
  30. I. Adelman and C.T. Morris, *Economic Growth and Social Equity in Developing Countries*, Stanford (California), 1973, p. 145.
  31. A. Maddison, *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, pp. 149-151.
  32. *1960 Pakistan Census of Agriculture, A Summary of West Pakistan Data*. Karachi, S.a., p. 35.
  33. See: K. Griffin, *Financing Development Plans in Pakistan*, "The Pakistan Development Review", Winter 1965.
  34. *Studies on National Income and Its Distribution*. Ed. by Taufiq M. Khan, Karachi, 1970, p. 148.
  35. N. Hamid, *The Burden of Capitalist Growth, A Study of Real Wages and Consumption in Pakistan*, "Pakistan Economic and Social Review", Spring, 1974, p. 60.
  36. V.G. Rastyannikov, *Agrarnaya evolyutsiya v monogoukladnom obshchestve (Agrarian Evolution in a Multi-Structural Society)*. Moscow, 1973, p. 289.
  37. Economic Research Academy, *Prices, Taxation and Agriculture*. Karachi, 1969, p. 36.
  38. *The Third Five Year Plan (1965-70)*. Karachi, 1967, p. 118.
  39. A. Maddison, *Class Structure and Economic Growth*, p. 140.
  40. S.F. Levin, *Formirovaniye krupnoi burzhuzii Pakistana (Formation of the Big Bourgeoisie of Pakistan)*, Moscow, 1970, pp. 119-120.
  41. G.F. Papanek, *Pakistan's Development, Social Goals and Private Incentives*, p. 68.
  42. A. Maddison, *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, p. 159.
  43. *The Second Five Year Plan, 1960-65*, p. 49.



44. *The Third Five Year Plan (1965-70)*. Karachi, 1967, p. 5.
45. *Socio-Economic Objectives of the Fourth Five Year Plan, 1970-75*. Islamabad, 1968, p. 17.
46. R.H. Khandker, *Distribution of Income and Wealth in Pakistan*, "Pakistan Economic and Social Review", Spring 1973, p. 13.
47. D.A. Khan and H.A. Chaudhry, *Income Impact of the Green Revolution*, "Pakistan Economic and Social Review", Spring 1973, p. 79.
48. Nimal Sanderatne, *Landowners and Land Reform in Pakistan*, "South Asian Review", January 1974, p. 130.
49. W.P. Falcon, *The Green Revolution: Generations of Problems*, "American Journal of Agricultural Economics". December 1970, p. 702.
50. A. Maddison observed that, although the incomes of large landowners in West Pakistan in the 1960's grew tremendously, they paid less than 2 % of their incomes in taxes (A. Maddison, *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, p. 152).
51. "Studies on National Income and Its Distribution". Ed. by Taufiq M. Khan. Karachi, 1970, pp. 141-142.
52. See: M. Ghaffar Chaudhry, *Rural Income Distribution in Pakistan in the Green Revolution Perspective*, "The Pakistan Development Review", Autumn 1973, p. 247.
53. A. Maddison, *Class Structure and Economic Growth, India and Pakistan Since the Moghuls*, p. 140.
54. G.F. Papanek, *Pakistan's Development, Social Goals and Private Incentives*, p. 242.
55. *The Fourth Five Year Plan, 1970-75*, p. 13.
56. "Pakistan Economic and Social Review", Spring 1974, p. 47.
57. Gunnar Myrdal, *Asian Drama, An Inquiry into the Poverty of Nations*. New York, 1968, p. 756.

58. See: Intraregional Trade Projections, Effective Protection and Income Distribution. Vol. III. Income Distribution. Bangkok, 1972, pp. 74-75; M. Mukherjee, G.S. Chatterjee, *Trends in Distribution of National Income 1950-51 to 1965-66*, "Economic and Political Weekly", July 15, 1967, pp. 1259-1268.
59. "Dawn", April 10, 1969. "Dawn", September 2, 1969.
60. For more details see: Yu. V. Gankovsky, V.N. Moskalenko, *Tri konstitutsii Pakistana (The Three Constitutions of Pakistan)*. Moscow, 1975, pp. 78-79.

## FOUR

### BUDGET REDISTRIBUTION OF THE NATIONAL INCOME .

Even in those capitalist countries where the state is the owner of a comparatively large number of enterprises, organisations and property whose output or incomes participate in the creation of the national product, it receives only a small part of this product upon initial distribution, while the bulk of goods and services produced are appropriated by individuals and corporations in the private sector. The state becomes the owner and, consequently, the user of a substantial part of this income only after budget redistribution of the national income. The character and scale of this redistribution are determined by the social and economic essence of a given state. The scale of redistribution always grew in periods of transition from one socio-economic formation to another and it increased perceptibly in the wake of the national-liberation revolutions in former colonial and dependent countries.

The majority of countries, which have thrown off the colonial yoke, are characterised by a significant

growth in the role played by the state in the economy. This is due to the need to eliminate the consequences of the colonial past and protect national interests in the face of neo-colonialism and to the alignment of internal class forces which compels the governments of these countries to exert great efforts to ensure rapid growth rates and all-round socio-economic development. The growing economic role of the state is expressed in many forms and, first and foremost, the growing role of the state as a regulator of economic life and as direct agent of economic activity. In the latter case, we see the expansion of the public sector in the economy—augmentation of the absolute dimensions and the share of state commercial enterprises and assets relative to the private sector.

This aspect of the economic role of the state in general and the public sector in particular determines the place of the latter in the budget system of the developing countries, Pakistan included. In Pakistan, which has chosen the capitalist path of development, the public sector, like all the state's economic activity, is called upon above all to take charge of non-profitable and low-profitable sectors and spheres of the economy, to give all possible support to the private sector and in this way to ensure accelerated growth in this sector. Related to this is also the low effectiveness of many components of the public sector, and this accounts for its weak fiscal impact.

As can be seen from Table 15, almost all the revenue from the public sector at the beginning of the period under review was credited to the budget of the central government and the government of West Pakistan, leaving a miserable sum, 4 % of the total receipts, for the budget of East Pakistan. Later on, the share of revenue from the public sector paid into the central budget and the budget of the eastern province increased while its share in the budget of West Pakistan decreased considerably. This is indicative of a certain expansion of the public sector in the eastern province and its growing activity.

Table 15

## Budget Receipts from the Public Sector in Pakistan\*

	1949-50		1954-55		1959-60		1964-65		1969-70	
	Min Rs.	%	Min Rs.	%	Min Rs.	%	Min Rs.	%	Min Rs.	%
Total	373	100	608	100	989	100	2,051	100	3,005	100
Of which:										
Revenue from the public sector to the central bud- get	170	46	307	50	583	59	951	46	1,943	65
Revenue from the public sec- tor to the bud- get of East Pakistan	16	4	45	7	57	6	300	15	478	16
Revenue from the public sector to the budget of West Pakistan	187	50	256	43	349	35	800	39	584	19

\* Compiled from: *The Budget in Brief, 1965-66. Rawalpindi, 1965. Section II, pp. 10-15*; "Pakistan Economic Survey, 1972-73". Islamabad, 1973, Statistical Section, pp. 114-117.

The main share of the federal and provincial budgets receipts from the public sector was accounted for by the recovery of loans granted to the provinces by the central government and loans granted to local government bodies by provincial authorities (Table 16). Their share in all the incomes from the public sector rose from 37 % in 1949-50 to 57 % at the end of the 1960's. Receipts from railways and also post office, telegraph and telephone represented net deductions to the budget. In 1961, railways were placed under provincial jurisdiction and divided into Pakistan Western Railway and Pakistan Eastern Railway. This is why from that year on railway revenues are reflected not in the central budget but in provincial budgets. The central government began to receive profits solely in the form of a 4 % fixed rate on the capital invested in railways, which figured in the budget item "Debt services"<sup>1</sup>. Civil administration receipts represent payment for the

various services provided for the population by government institutions. Defence services receipts were the proceeds from the sale of outdated military stocks and various material.

**Table 16**

**The Structure of Central Budget Receipts from the Public Sector\*, in million of Rs.**

	1949-50	1954-55	1959-60	1964-65	1969-70
Total	170.3	306.5	582.8	950.9	1,942.6
Of which:					
Railways (net)	19.7	61.8	127.4	—	—
Post office, telegraph and telephone (net)	—	6.6	29.5	46.5	113.1
Debt services	61.5	88.3	71.6	452.2	1,057.3
Other capital receipts	3.3	33.2	4.2	54.3	76.2
Civil administration	7.8	18.5	35.3	142.3	182.5
Currency and mint	10.8	20.8	36.2	59.9	84.3
Defence services	54.7	39.9	101.4	99.4	145.7
Others	12.5	37.4	177.2	96.3	283.5

\* Compiled from: *The Budget 1959-60. Explanatory Memorandum. Karachi, 1959, pp. 114-115*; "Pakistan Economic Survey, 1972-73", pp. 114-115.

Thus, the primary distribution of the national income left for the government an insignificant part of it which equalled 2 % in the early 1950's and 4.4 % at the end of the next decade (Table 17). This small growth in revenues from state enterprises and property was the consequence of a certain expansion in the public sector and its higher profitability. However, even in the 1960's many enterprises were unprofitable, operated at a loss and received government subsidies. Profit was only yielded by some enterprises, which did not play any significant role either in the national economy or in the public sector.

The low profitability of state enterprises and organisations was due to a number of causes. Their planning was poorly organised and construction estimates were often exceeded. Their workforce was often several times bigger than required. Due to the shortage of skilled specialists there were frequent cases of malfunctioning

Table 17

## The Share of Public Sector Revenues in the National Income of Pakistan\*

	1949-50	1954-55	1959-60	1964-65	1969-70
National income, mln Rs.	18,653	19,701	29,372	42,449	68,921
Public sector revenues, mln Rs.	373	608	989	2,051	3,005
The share of public sector revenues in the national income, %	2.0	3.1	3.4	4.8	4.4

\* Computed from: "Statistical Yearbook for Asia and the Far East, 1971". Bangkok, 1972, p. 296; "Pakistan Statistical Yearbook, 1967". Karachi, 1968, p. 284; "Pakistan Economic Survey, pp. 114-117.

which caused considerable losses and idling of equipment. Moreover, there were widespread practices of family patronage, misuse of the official status and corruption of the management. But perhaps the main factor, as Soviet economist Yu. M. Osipov points out, was the inadequately substantiated price policy: there was a growing tendency to adapt the policy of prices to the requirements of the private sector.<sup>2</sup>

However, in Pakistan government business activity developed at a comparatively fast rate compared with other Third World countries and accounted for quite a sizable proportion of the national income. The share of the public sector revenues in Gross National Product in some Asian countries in 1965 was as follows (%):<sup>3</sup>

India . . . . .	1.9	South Korea . . . . .	2.3
Malaya . . . . .	3.1	Taiwan . . . . .	3.8
Pakistan . . . . .	3.6	Thailand . . . . .	1.2
Philippines . . . . .	0.4	Turkey . . . . .	0.5
Sri Lanka . . . . .	2.9		

In Turkey and the Philippines, for example, the share of the public sector in GNP was less than 1 %.

Only in Taiwan was the share of public sector revenues in Gross National Product higher than in Pakistan, reaching 3.8 %. The causes of this low share of the public sector in other Asian countries were the same as in Pakistan. Thus, in Thailand, South Korea and the Philippines the public sector was subservient to the development of the private sector and acted as a field of attraction for foreign investments. The public sector "loses its qualities when the centre of gravity shifts not to the expansion of public sector savings but to stimulation of related enterprises in the private sector, irrespective of their contribution to the comprehensive development of the economy".<sup>4</sup>

The main instrument of the budget redistribution of the national income is the tax system. Through taxes the state withdraws and appropriates part of the product created in the private sector and part of the incomes of the employees of the public sector. Taxes are obligatory payments exacted by the state from juridical and physical persons and in societies divided into antagonistic classes they serve as one of the main sources of income for the exploiter state. Very important in this connection is the structure of the tax system, especially the division of taxes into direct and indirect. In contrast to the direct taxes, levied directly on the incomes and property of taxpayers, indirect taxes are exacted through commodity prices, chiefly of consumer goods. In this way the tax burden is shifted into the shoulders of their consumers, most of whom are working people. This is why V.I. Lenin called indirect taxes taxes on the poor.<sup>5</sup>

This fiscal function of taxes is not the only one. In the conditions obtaining in Pakistan, as in the majority of other countries of the Third World with their low-profitable public sector and the underdeveloped market of long-term credit taxes have been and remain one of the most important sources of capital formation. Taxes perform this function not only directly as the foundation of public finance used for investment, but also indirectly, through various tax benefits and rebates for



the private capitalist sector.<sup>6</sup>

The tax system and tax policy of Pakistan have been studied by Soviet economists. They have been examined by S.A. Kuzmin in his article based on the materials of the 1950's and early 1960's, with emphasis on the analysis of taxation changes introduced by M. Ayub-Khan's government.<sup>7</sup> A thorough analysis of the Pakistan government's taxation policy in the 1960's is to be found in V.Y. Belokrenitsky's work<sup>8</sup> which concentrates on studying the influence of the taxation policy on the country's economic development, and thereby on its socio-political development, too. Problems of public finance (including questions of the taxation system) have attracted the attention of other Soviet investigators as well.<sup>9</sup>

Throughout the period under examination the Pakistan government sought to intensify taxation and thus ensure maximum receipts for itself. Taxes were not the government's only concern. It occupied itself equally with other existing and potential sources of receipts for the treasury, both internal and external. The government's overall and taxation policy was conditioned by the objective needs of economic growth, and in this respect the government acted in the interests of the whole country. At the same time, it was inseparably linked with the class interests of the ruling circles, which continued to operate a system whereby they represented and protected the interests of all the dominant classes. But as distinct from other treasury receipts, taxes always had deep class implications, for they served directly to extract financial resources from the private sector.

Although in their taxation policy the ruling circles were forced to manoeuvre between various social groups of Pakistan society, this policy was always geared to the interests of the exploiters. The government granted benefits in direct taxation to the big bourgeoisie and landlords and at the same time had to make certain concessions to the petty bourgeoisie and the working people. The taxation policy was subordinated to the inter-

ests of the country's economic development. With its help the government strove to ensure rapid expansion of industry, to attract foreign capital, to stimulate the import of capital goods by means of export-import items.

Before we proceed to examine questions of the redistribution of the national income through taxation, let us say a few words about the degree of reliability of the data on public finances in Pakistan, especially tax receipts. All the budget data pass through four consecutive stages of estimation at which the figures about government receipts and expenditures are made more precise. The first stage—Budget Estimate—is the estimation of the receipts and expenditures throughout the coming fiscal year on the basis of the last two months of the current year. The next stage—Revised Estimate—is based on the data of the ten months that have passed since the beginning of the fiscal year and their extrapolation to the remaining two months. The third stage—Provisional Actuals—comes two years after the end of the given fiscal year and, lastly, Final Account is published after a lapse of no less than five to six years after the end of the respective fiscal year. This rather complicated system of financial accounts is the result of its incoherency and large margins of budget estimate errors. Thus, S.R. Lewis and S.K. Qureshi have admitted that "Budget Estimates and Revised Estimates differ considerably from the Provisional and the Final Accounts."<sup>10</sup> Unfortunately, rather big disparities also characterise the data of the third and fourth evaluations and since all the data on tax revenue at the end of the 1960's will not be further specified, these data, although real, are still just provisional real data.

Moreover, the data on budget revenues and expenditures in separate years fluctuate within large limits. This is why, for purposes of correct estimation of the dynamics of growth in tax receipts, we have taken years further on (without equal intervals between them) which show smaller deviations from the average level.

As can be seen from Table 18, ordinary receipts

comprised about 8 % of the national income in 1949-50 and rose to 17 % in 1968-69, i.e., more than doubled. The taxation system syphoned off to the budget an increasing part of the national income, which rose from 5.8 % at the beginning of the 1950's to 11.6 % at the close of the 1960's. Thus, over the two decades the share of the national income redistributed through the taxation system, doubled. This was the result of the taxation policy of the government, which, due to the shortage of funds for financing national economic development plans and reimbursing inordinately large military spending and government debt servicing, was forced to look for ways of augmenting budget receipts.

**Table 18**

**The Share of Ordinary Revenues and Tax Receipts in the National Income of Pakistan\***

	1949-50	1955-56	1961-62	1964-64	1968-69
National income, mln Rs.	18,653	21,169	34,079	42,449	63,044
Ordinary revenues, mln Rs.	1,476	2,078	4,376	7,140	10,657
Taxes, mln Rs.	1,073	1,521	3,007	4,806	7,292
Share of ordinary revenues in the national income, %	7.9	9.8	12.8	16.8	16.9
Share of taxes in the national income, %	5.8	7.2	8.8	11.3	11.6

\* Calculated from: 'Statistical Yearbook, 1955', New York, 1956, pp. 510-511; 'Statistical Yearbook, 1960', New York, 1961, pp. 532-533; 'Statistical Yearbook, 1967', New York, 1968, pp. 653-654; 'Statistical Yearbook, 1970', New York, 1971, pp. 674-675; 'Statistical Yearbook for Asia and the Far East, 1971', Bangkok, 1972, p. 296; 'Pakistan Statistical Yearbook, 1967', Karachi, 1968, p. 284.

In this state of affairs the main means of mobilising internal resources were taxes, chiefly indirect taxes (Table 19). In the first post-independence years taxes comprised 73 % of all the ordinary revenues of the central and provincial governments.<sup>11</sup> This figure remained the same throughout the fifties. At the beginning

**Table 19****Direct and Indirect Taxes Ratio\***

	1949-50		1955-56		1961-62		1964-65		1968-69	
	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%
Direct Taxes	215	20	388	25	798	27	1,257	26	1,698	23
Indirect Taxes	858	80	1,133	75	2,209	73	3,549	74	5,594	77

\* Calculated from: "Statistical Yearbook, 1955", pp. 510-511; "Statistical Yearbook, 1960", pp.532-533; "Statistical Yearbook, 1967", pp. 653-654; "Statistical Yearbook, 1970", pp. 674-675.

of the next decade the share of taxes amounted to 69 % of all the receipts and remained at the level of 67-68 % up to 1969-70. This slight reduction in the share of tax receipts in ordinary revenues was connected with the growth of other revenues (from the public sector, state trade, recoveries of loans and advances from provinces and local government organs). At the same time, taxes were and remain the main source of ordinary revenues.

The considerable preponderance of indirect taxes in the total tax receipts was due to the rather low level of Pakistan's economic development, especially industry, the small number of persons subject to direct taxation and the great dependence of revenues on foreign trade and, in particular, customs duties. Simultaneously, as shown in Table 19, in the fifties the share of direct taxes in the total tax receipts rose from 20 to 27 %. During the next decade, however, it fell to some extent and the share of indirect taxes rose. This was the consequence of the fall in the level of direct taxation (raising of the untaxed minimum, introduction of lower aggregate tax rates) and higher indirect taxation rates (and, accordingly, greater receipts from them) as part of the new taxation policy of M. Ayub-Khan.

The main item of receipts from direct taxes in Pakistan were revenues created in the industry. If we compare the movement of direct taxation with the growth in the value added in large-scale industry, we shall find that direct taxation declined relatively, and this process developed faster in the sixties than during the previous decade.

The main indirect taxes are customs, excise duty and sales tax (Table 20).

At the beginning of the 1950's customs constituted the main part of the ordinary receipts of the combined budget, averaging 44 % (in 1950-51 they reached 47 %). This was connected with the "Korean boom" the imperialist countries' demand for raw materials and high increases in their prices on the world market, which led to an increase in the budget proceeds from export duties. But when the Korean war ended, these receipts

**Table 20**

**Principal Ordinary Revenues of the Central and Provincial Governments\***

	1949-50		1955-56		1961-62		1964-65		1968-69	
	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%	Mln Rs.	%
<b>Total</b>	1,476.2	100	2,078.4	100	4,376.1	100	7,140.1	100	10,656.5	100
Of which:										
<b>Direct taxes:</b>										
Income tax	114.9	8	223.9	11	436.4	10	745.1	10	1,019.2	10
Corporation tax	7.4	-	60.2	3	100.5	3	238.9	3	320.5	3
Land tax	92.6	6	103.9	5	261.4	6	272.9	4	358.4	3
<b>Indirect taxes:</b>										
Customs	521.2	35	593.9	29	798.4	18	1,126.4	16	1,691.3	16
Excise duties	80.7	6	158.5	7	485.0	11	991.7	14	2,351.9	22
Sales tax	139.8	10	190.4	9	717.5	16	1,142.9	16	1,088.9	10
Other taxes	116.1	8	190.5	9	208.2	5	288.4	4	462.2	4
Other receipts	403.5	27	557.1	27	1,368.7	31	2,333.8	33	3,364.1	32

\* Compiled from: "Statistical Yearbook, 1955", pp. 510-511; "Statistical Yearbook, 1960", pp. 532-533; "Statistical Yearbook, 1967 pp. 653-654; "Statistical Yearbook, 1970", pp. 674-675.

shrank, both absolutely and relatively, amounting to 29 % in 1955-56 and 18 % of all the ordinary revenues in 1959-60. In the second half of the 1950's unfavourable conditions developed on the world market for goods exported and imported by Pakistan. The gap between the prices of the agricultural raw materials exported by Pakistan and imported industrial commodities more than doubled in those five years. Despite the physical expansion of exports, receipts from export duties markedly declined. This particularly affected jute and raw cotton exports, the two items on which the total customs receipts depended most of all.<sup>1 2</sup> Many items of light industry were not subject to export duties at all, for their high costs and low quality made them poor competitors on the world market.

Another cause of the reduction in customs proceeds was the change in the import structure in which the share of capital goods, which were completely or almost completely exempt from import duties, gradually rose. This was part of the overall policy of the government, which encouraged the development of modern sectors and gave investment incentives to the private sector. Therefore, despite the increased volume of imports, there was no adequate growth in import duties. Moreover, part of the imports did not pass through the usual commercial channels, e.g., US food deliveries.<sup>1 3</sup>

As for customs duties, the ruling circles found themselves in a rather contradictory position. On the one hand, fiscal interests called for an increase in their proceeds for the budget and for higher export and import rates and, on the other, the economic development plans forced the government to lower them in order to stimulate the import of capital goods and the means of production for the development of industry and other sectors of the economy, as well as the export of agricultural raw materials, the main source of foreign exchange. The facts cited above show that the latter tendency prevailed over the former tendency but, as will be shown later on, the drop in customs proceeds was made good by the increase in other taxes.

In the 1960's, the share of customs in ordinary revenues continued to fall, although at a slower rate than during the previous ten years, declining from 18 % in 1961-62 to 16 % in 1968-69. This was the result of the further relaxation of the customs duties levied on export goods. With a view to encouraging exports, export duties were lifted from Comilla cotton in 1962 and those on tea in 1963. Jute and cotton duties were halved in 1964-65 and repealed altogether in 1967.<sup>14</sup> On the other hand, many import duties tended to rise. This is explained, firstly, by their protectionist character (protection of home-made goods against foreign competition), and, secondly, by the government's desire to restrict imports of luxury articles. But import duties on capital goods were reduced.

Second in importance was the excise duty. As is known, it is imposed first of all on consumer goods and also on communal, transport and other services. Excise duties are included in the price of goods or service charges and are thereby actually shifted onto the working people. Excise duties were imposed by the centre and the provinces. In the 1950's, their share was insignificant—about 5 % in 1949-50, 7 % in 1955-56 and about 9 % in 1959-60. At that time, few goods were subject to excise duty, among them refined petroleum products, cotton and jute articles, tobacco, sugar, tea, cement, matches, salt, soap and some steel items.<sup>15</sup>

Big changes in excise taxation followed in the wake of the new taxation policy adopted by M. Ayub-Khan's government. In 1959, excise rates were raised for many consumer goods, first of all cotton fabrics and artificial rayon fabrics.<sup>16</sup> Besides, excise duties were increased for some types of yarn, matches, soap, tea and cheap brands of cigarette.<sup>17</sup> Simultaneously excise duties were extended to a wider range of goods. Thus, in the mid-sixties the number of excise-taxed goods nearly doubled compared with the late 1950's, and by the end of the 1960's their total number had reached 42.<sup>18</sup> All this increased the share of excise duties in the



total taxes and government revenues. In the 1960's, their share in ordinary revenues rose from 11 % at the beginning of the decade to 22 % at the end of the decade.

Pakistan, like other developing countries, is faced with the acute problem of small-scale industry. Throughout the decades it was locked in unequal competition with imported and local manufactured goods. Peasants, who plied handicrafts along with farming, and especially specialised artisans lost their additional source of income or were ruined. In the 1950's and 1960's this problem was aggravated by the growth in the rural overpopulation and rural and urban underemployment. The countries that most acutely needed accelerated economic growth and higher living standards for their population were increasingly unable even to provide them with jobs. The Pakistan government took measures to create conditions for the development of handicrafts as a means of boosting the growth of the national product and providing additional incomes for small producers.

Since the growth of excise taxation chiefly affected manufactured goods, this increased the competitiveness of small-scale production. As a result, the owners of small establishments and artisans could raise the prices of their goods to some extent, and this in turn contributed to the expansion of production in small-scale industry. Thus, Soviet economist V.Y. Belokrenitsky estimates that the taxes on non-factory fabrics were one-fifth to one-tenth of the taxes on factory-made fabrics. This led to a rapid growth in production in non-factory weaving, which owed its growth mainly not to the expansion of hand-weaving but to small-scale mechanised production.<sup>19</sup>

Another type of indirect taxes is sales tax. Referring to this tax, G.M. Radhu noted: "The case for a general sales tax is that it is an elastic and dependable source of revenue. It is well suited for conditions in Pakistan and other developing countries, for it is able to reach those parts of population with incomes too low to be covered

by income tax but who have nevertheless to be taxed for the purpose of raising tax revenue and restraining consumption expenditure. The virtue of the sales tax, it is usually argued, is that it widens the tax base, restrains consumption and falls on spending rather than on income and saving.<sup>20</sup> Under the 1951 law this tax was paid by owners of industrial enterprises for goods produced inside the country, by wholesale traders for goods sold by them, by importers for imported goods and exporters for some exported goods.<sup>21</sup> Comparing excise duties and the sales tax, it is not difficult to notice that they are rather similar. The difference between them was, firstly, that the sales tax embraced a wider range of goods (exempted from it were only goods entered into a special list) and, secondly, it was not only levied at the place of production but also in the sphere of commodity exchange. Besides, it was not levied on goods produced at small enterprises.<sup>22</sup> The standard sales tax rate in the 1950's stood at the level of 10 %.<sup>23</sup> The share of this tax in the ordinary revenues of the centre and the provinces reached 9—10 %.

If in the 1950's the bulk of the ordinary revenues came from customs duties, in the following decade their fiscal role declined, as demonstrated earlier. In these circumstances the ruling circles turned their attention to other indirect taxes and, first and foremost, excise duties and the sales tax.

In 1959, fiscal needs compelled a revision of tax rates with respect to a number of prime necessities. Thus, a rather high tax was imposed on soap, some varieties of butter, footwear, leather articles, and other goods. As a result, in the first half of the 1960's the share of the sales tax in ordinary revenues rose up to 16 % on average.

In the second half of the decade certain changes appeared in sales taxation. In particular, a decision was taken to combine it with the excise duty in taxing a number of goods.<sup>24</sup> This made it possible to impose the excise duty along new lines, on the basis of the estimate of production capacities, which in turn stimu-

lated their fuller operation. At the same time, in the second half of the sixties the ruling circles, eager to mitigate social tensions in the country, announced the lifting of the sales tax from a series of consumer necessities, in the first place food products: the cheapest brands of bread, meat, fish, ghee, some spices, pulses and cereals, rice and rice flour, etc. This was the main cause which led to the fall of the share of the sales tax from 16 to 10 % of ordinary revenues.

In this way, an increasing portion of the national income was redistributed with the help of indirect taxation: 4.9 % in 1949-50, 6.5 % in 1961-62 and 8.9 % in 1968-69. This shows that indirect taxation played a decisive role in mobilising internal resources for financing Five Year Plans and other needs.

The main types of direct taxes in Pakistan were income tax on physical and juridical persons and the land tax.<sup>25</sup> Income tax on juridical persons levied on the incomes of companies or corporations is known as corporation tax. The tax imposed on incomes of physical persons is income tax proper.

During the 1950's the untaxed minimum income increased steadily from Rs. 2,500 in 1948-49 to Rs. 5,000 in 1957-58. In the 1950's income tax rates tended to fall: from private incomes of less than Rs.5,000 income tax was exacted at the rate of 6.2 % of the total income in 1948-49 and 4.7 % in the following years; for incomes between Rs. 5,000 and Rs. 10,000 the tax rate diminished from 12.5 % in 1948-50 to 9.4 % in 1956-57, and for incomes between Rs. 10,000 and Rs. 15,000 it fell from 22 to 18 % respectively.<sup>26</sup> In the first half of the decade there was also a considerable reduction in the tax on super— profits.<sup>27</sup>

In the second half of the 1950's Pakistan's economic position deteriorated considerably. Crop failures compelled the government to increase food imports, which led to the contraction of imports of industrial goods. At the same time, the revenue expenditures of the central budget continued to grow. This was particularly true of outlays on defence services. In these circumstances the

Pakistan government repeatedly raised the rates of income and super-profit taxation. The share of income tax rose as a result up to 13 % compared with 8—10 % in the previous years. This step aroused the profound discontent of the middle strata and the urban bourgeoisie, which, as Soviet economist S.A. Kuzmin points out, "was one of the causes that facilitated the coup of October 1958".<sup>28</sup>

In keeping with these changes in the taxation policy in 1958—62 the rates of direct taxation were lowered and the income tax maximum was fixed at 75 % for private persons (compared with 87.5 % prior to 1958) and 60 % for companies (compared with 85.5 % before). The earlier introduced untaxed minimum was also fixed at the amount of Rs. 6,000 for physical persons. An important aspect of the new taxation was that income tax was imposed not on the whole income drawn by private persons or companies, but only on the part that remained after deduction of the numerous tax-exempt sums. These changes had the effect of lowering the share of income tax in ordinary revenues to 10 % in 1959—60 and 9 % in the first half of the 1960's.

The ruling circles viewed direct taxes as a great obstacle to economic growth and, in particular, to capital formation. (At the same time, fiscal interests required considerable receipts and in these conditions their main source was indirect taxation). This policy of direct taxation was also pursued in the 1960's. The minor changes introduced into the existing legislation did not upset the tendency indicated.

The policy of utmost support for the private sector pursued by the government in the 1950's found its reflection in the taxation system as well, especially as regards industrial enterprises. Thus, new industrial enterprises built in the first half of the 1960's were completely exempted from taxation for four to eight years (depending on the geographical position). For the existing enterprises the income tax rate was fixed at 55 % compared with 60 % earlier. There were also rebates for depreciation deductions.<sup>29</sup>

All this predetermined the decline in the share of the income and corporation taxes in ordinary revenues. The rise in the share of one tax and the other in 1969—1970 was connected with the raising of their rates, which indicated the government's recognition of the inadequacy of the taxation policy of the 1960s in the sphere of direct taxation.

In the 1950's, the share of land tax increased but during the following decade it tended to fall: while ordinary revenues increased 3.2 times the land tax increased only 1.4 times, mostly during the second half of the decade. It should be said that the land tax constituted an insignificant proportion of the value added in agriculture: 0.8 % in 1949-50, 1.5 % in 1959-60 and 1.1 % in 1968-69. Thus, if in the 1950's the share of revenues from agriculture redistributed with the help of the land tax increased (this was, perhaps, the result not of the rapid growth in the land tax but rather of the slow growth in agricultural production), during the following decade it decreased, even despite a number of surcharges to the base rate (for the aims of development, for aid for refugees, etc.).

On the whole, the proportion of the national income redistributed in Pakistan with the help of direct taxation amounted to 1.2 % in 1949-50, 2.3 % in the early 1960's and 2.7 % at the end of the decade. In other words, the share of direct taxation receipts in the national income was still smaller than the share of the public sector revenues. The ruling circles did not want, as we have already pointed out, to increase the role of direct taxes in public finances, believing that this would adversely affect the activity of the private sector. On the other hand, indirect taxation steadily increased, and this was reflected in price rises and the rising cost of living and led to a reduction in real wages and salaries.

However, the role of the taxation system in the redistribution of the national income increased insignificantly. Below we give a comparative table of the share of taxes in the national income of a number of Asian

countries (%):<sup>30</sup>

	1958	1963	1968
India	8.6	13.4	12.1 (1967)
Japan	14.7	15.7	15.9
Pakistan	8.9	8.8	11.6
Philippines	8.4	11.3	11.8
Sri Lanka	18.3 (1959)	19.6	18.4
Thailand	13.2	13.6	15.4

As can be seen from these data, Pakistan was behind most of the Asian countries in the share of taxes in the national income and occupied one of the last places in this group of countries. At the same time, after tax redistribution and inclusion in the budget of revenues from public sector enterprises and property the state became the owner of fairly large funds, especially compared with the initial distribution of the national income. Through the taxation system and in the form of public sector revenues the state received about 8 % of the national income in 1949-50 and approximately 17 % in the second half of the 1960's. In other words, ordinary revenues made the state the owner of quite considerable resources.

## Notes

1. J.R. Andrus and A.F. Mohammed, *Trade, Finance and Development in Pakistan*, Karachi, 1966, p. 215.
2. Yu. M. Osipov, "Tretiy mir": *inflyatsiya i ekonomichesky rost (kritichesky analiz)* (*The Third World: Inflation and Economic Growth. Critical Analysis*). Moscow, 1975, pp. 43-44.
3. A. Maddison, *Economic Progress and Policy in Developing Countries*. New York, 1970, p. 79.

4. Yu. M. Osipov, "Tretiy mir": *inflyatsiya i ekonomichesky rost (kritichesky analiz)*, p. 49.
5. V.I. Lenin, *Collected Works, Engl. ed., Progress Publishers, Moscow, Vol.5, p.336.*
6. E.I. Urazova, *Turtsiya: problemy finansirovaniya ekonomicheskogo razvitiya (Turkey: Problems of Financing Economic Development)*. Moscow, 1974, p. 69.
7. S.A. Kuzmin, *Nalogovaya sistema Pakistana (Taxation System of Pakistan)*, "Brief Communications of the Institute of the Asian Peoples", No. 79. Moscow, 1964.
8. V.Y. Belokrenitsky, *Nalogovaya politika Pakistana (Taxation Policy of Pakistan)*, "Pakistan's Economic Development (1960's)". Moscow, 1974.
9. A.I. Zablotskaya, *Finansy Pakistana (Pakistan's Finances)*, "Finansy razvivayushchikhsya gosudarstv" (*Finances of Developing Countries*). Moscow, 1965;  
S.A. Kuzmin, *Gosudarstvenniye finansy Pakistana (Pakistan's Public Finance)*, "Gosudarstvenniye finansy nesotsialisticheskikh stran Azii" (*Public Finance of Non-Socialist Asian Countries*). Moscow, 1965;  
G.G. Fyodorova, *Gosudarstvenny kapitalizm i razvitiye promyshlennosti v Pakistane (State Capitalism and the Development of Industry in Pakistan)*. Moscow, 1968.
10. Stephen R. Lewis, Jr. Sarfraz Khan Qureshi, *The Structure of Revenue from Indirect Taxes in Pakistan*. "Studies on Fiscal and Monetary Problems". Ed. by Swadesh R. Bose. Karachi, 1970, p. 99.
11. Since the subject of this chapter is the study of financial redistribution of the national income rather than public finances as such, we add up the revenues of the central and provincial governments everywhere, and further on (unless a reservation is made) by taxes and revenues we mean aggregate

- taxes and receipts of the centre and the provinces.
12. S.A. Kuzmin, *Nalogovaya sistema Pakistana*, "Brief Communications of the Institute of the Peoples of Asia", No.79, Moscow, 1964, p. 113.
  13. J.R. Andrus and A.F. Mohammed, *Trade, Finance and Development in Pakistan*, p. 211.
  14. J.R. Andrus and A.F. Mohammed, *Trade, Finance and Development in Pakistan*, p. 210.
  15. J.R. Andrus and A.F. Mohammed, *Op. cit.*, p. 212.
  16. "Karachi Commerce" *Karachi*, July 4, 1959.
  17. "Pakistan News Digest" *Karachi*, July 15, 1959.
  18. "Finance and Industry", *Karachi*, Vol.i, No. 8, p. 67.
  19. V.Y. Belokrenitsky, *Nalogovaya sistema Pakistana*. "Economic Development of Pakistan (1960's)", p. 98.
  20. Ghulam Mohammed Radhu, *The Rate Structure of Indirect Taxes in Pakistan*. "Studies on Fiscal and Monetary Problems". Ed. by Swadesh R. Bose. Karachi, 1970, p. 136.
  21. *Studies on Fiscal and Monetary Problems*, p. 137.
  22. V.Y. Belokrenitsky, *Nalogovaya politika Pakistana*. "Economic Development of Pakistan (1960's)", p. 95.
  23. G.M. Radhu, *The Rate Structure of Indirect Taxes in Pakistan*. "Studies on Fiscal and Monetary Problems", Karachi, 1970, p. 137.
  24. Thus, in 1967-68 the excise duty and sales tax were combined with regard to yarn and cotton fabrics and by 1969-70 this applied to 11 items.
  25. There were also other types of direct taxes (which played a secondary role compared with these two taxes): tax on inheritance, tax on gifts and wealth, tax on profit from capital realisation. But in view of their insignificant role in redistributing the national income they are not dealt with separately but are included in income tax.
  26. See: Taxation of Income and Concessions to Industries in Pakistan. Karachi, 1960, pp. 16-21, 35-37.



27. S.A. Kuzmin, *Nalogovaya sistema Pakistana*, "Brief Communications of the Institute of the Peoples of Asia", No. 79, pp. 116-118.
28. S.A. Kuzmin, *Nalogovaya sistema Pakistana*, "Brief Communications of the Institute of the Peoples of Asia", No.79, p.116.
29. For more details see: V.Y. Belokrenitsky, *Nalogovaya Politika Pakistana*, "Economic Development of Pakistan (1960's)", pp. 110-114.
30. "Statistical Yearbook for Asia and the Far East, 1969", Bangkok, 1970.

## FIVE

### NATIONAL PRODUCT EXPENDITURE

The national product expenditure is based on its structural division into consumption and saving. The main point of this structural division is that of segregating from the total national product that portion which is not ultimately consumed during a given year and is used to recover and increase the capital assets utilized by a society for a number of years to come, often decades and sometimes centuries to come. As consumption is a major part of the national product, it consists of that part of the annual commodity product which is completely consumed by society in a given year, and, since the production and consumption of services coincide, the sum total of the annual services rendered. The extent of accumulation and consumption depends, firstly, upon the size of the national product and, secondly, upon the proportion the above mentioned parts assume after product division.

In an effort to heal the wounds inflicted by the recent colonial past and to achieve the maximum

possible growth rate, Pakistan, like many other developing countries, has been striving hard to increase the saving rate during the past quarter of the century. To accomplish this, the country tried to reduce the share of the national product consumption expenditure, to channel the maximum share of its growth into investment and to attract as many means as possible from abroad for this purpose. Has the strategy of Pakistan (other developing countries included) been correct in this respect and what was the content of the national product division into consumption and saving in terms of the economic development prospects?

In the early postwar years R. Harrod and E. Domar constructed one of the first economic growth models in an attempt to calculate the growth rate on the basis of the definite economic factors made mathematically dependent upon one another. The Harrod—Domar model made the growth rate directly proportional to the saving rate, and inversely proportional to the capital co-efficient. The model, however, was soon viewed with increased disfavour. The researchers indicated the dependence of the growth rate not only upon the saving rate, but also upon many other factors such as climatic and geographical conditions, mineral resources availability, the number of the population and the level of its employment, the scientific and technological development level, production engineering, etc. These factors became increasingly numerous, and they were divided into two groups: the extensive or quantitative and the intensive or qualitative ones. Finally, a large number of models began to appear. Their authors tried to take into account as many growth factors as possible and to find a mathematical connection between them.

Moreover, the new studies on the problem increasingly stressed the decisive significance of the intensive growth factors, i.e. technological progress, production engineering, and especially ‘human investments’.

However, considering the conditions obtaining today in the developing countries, whose economy

suffers from an acute deficiency of the means of production and tremendous superfluous manpower, the extensive factors of growth are still of great importance. According to the estimates by A. Maddison, in Pakistan the share of the quantitative factors of growth rate amounted to 96 % in 1950-1965 (including labour input 46 % and that of capital one -- 50 %), while the share of the qualitative factors equalled 4 % only.<sup>1</sup> The quantitative growth factors acquired their importance mainly due to the fact that they could be influenced in a more rapid and effective way. This is especially true of the saving rate. One of the basic problems in the economic growth strategy of the developing countries the increase in the rates of savings and industrial investments, received highest priority in the long-term plans during the fifties and sixties.

In colonial India, as in other colonial and dependent countries the saving rate was extremely low. Exploitation of the country as a colony, a source of raw materials, and as a sphere of foreign investment, resulted in the outflow of enormous wealth to the parent state. It was out of the question that the impoverished and hungry working people should accumulate any savings. The Indian landlords, merchants and usurers who received high profits and incomes by exploiting small peasants and artisans, just frittered their money away. Most of their savings was either taken out of the country into the developed capitalist economy (thus financing the latter's development), or were squandered on jewellery, i.e became immobilized. Insignificant savings were made by the indigenous industrial bourgeoisie, private foreign capital and the colonial authorities. However, the investment made by foreign private capital and by the colonial authorities helped expand and strengthen the exploitation of India, especially as the greater part of them were not used either in industry or the economy (for example, defence expenditures).

Table 22 shows that the share of consumption was very high and amounted to more than 95 % of the

**Table 22**  
Expenditure on the Gross Domestic Product\* ( in % )

	1950-52	1957-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Gross Domestic Product, billion rupees	21.6	28.2	31.5	34.8	36.5	38.7	41.4	46.2	50.7	57.1	60.8	66.6	72.0
Private final consumption expenditure	88	82	84	85	83	83	81	82	79	82	81	82	80
Government final consumption expenditure	8	11	7	6	6	6	7	6	9	7	7	7	8
Gross fixed capital formation	5	10	9	12	14	14	16	17	15	14	14	13	14
Increase in stocks			2	1	1	1	1	1	1	2	1	1	1
Exports of goods and services (net)	-1	-3	-2	-4	-4	-4	-5	-7	-4	-5	-3	-3	-3

\* Compiled from: *Economic Survey of Asia and the Far East, 1961*, Bangkok, 1962, p. 17. *25 Years of Pakistan in Statistics, 1947-1972*, Karachi, 1972, pp. 296-297, 304.

national product in the fifties; in the sixties it dropped to 90 % of the national product. The increase in the saving rate was significantly higher than the decrease in the national product consumption rate: in the fifties it rose from 5 to 10 % and in the sixties to 16 % of the national product. Therefore, the saving rate grew more than threefold within two decades, which was indicative of appreciable and decisive gains in the country's economic development. This trend was not, however, a stable one and the growth of the saving rate was periodically interrupted by such unfavourable factors as those related to external economic ties, natural calamities, etc.

In the first few years after Pakistan won its independence, savings were made up only of domestic sources mainly from agriculture. The partition of India was achieved in such a way that Pakistan was formed of regions endowed with agricultural raw commodities, and the manufacturing industry remained in India. These conditions were responsible for a significant growth in the profit rate in industry which began to attract both private and public investments. Mass investments in the construction of the manufacturing industries were made by merchants and usurers. The reinvestment in this industry took the lion's share (up to 80 %) of the industrial profits.<sup>2</sup> The Government also made large investments in setting up industrial enterprises.

Table 23 shows that the internal saving rate persisted at a low level (about 6 %) throughout the fifties. The working people living in abject poverty actually took no part in the process of capital accumulation. In these circumstances the government of Pakistan decided to have recourse to deficit financing aimed at increasing the saving rate. The deficit financing was resorted to for the first time in 1953-54 reaching Rs. 50 million, although it was in full swing in 1956-58. By the beginning of the sixties budget revenues from the excess paper money totalled nearly Rs. 2 billion.<sup>3</sup> This led to inflation with all its serious implications for the economy and for Pakistan's population. At the

beginning of the sixties this made the government of M. Ayub Khan disown the use of a printing-press in future.

**Table 23**  
**Structure of Savings in Pakistan\***

	1949-50	1954-55	1959-60	1964-65	1969-70
Gross National Product at Constant Factor Cost of 1959-60, million rupees	24,466	27,908	31,439	41,266	52,986
Savings / GNP ratio	4.6	7.9	10.9	18.3	13.5
Including:					
Internal resources	4.6	6.8	5.9	11.7	9.7
External resources	-	1.1	5.0	6.6	3.8

\* Compiled on the basis of: *The Third Five Year Plan (1965-1970)*, Karachi, 1967, pp. 4-7. *The Fourth Five Year Plan (1970-1975)*, Islamabad, 1970, p. 42. *Economic Survey of Asia and the Far East, 1972*, Bangkok, 1973, pp. 32-34.

During the Second Five Year Plan the government sought to increase the internal saving rate mainly by raising ordinary receipts, in particular indirect taxes. When the government headed by M. Ayub Khan came to power a substantial increase was noted in the revenues from central excise and sales tax. This was one of the main reasons for the increase in internal savings during the first half of the sixties from 5.9 to 11.7 % of the national product. A liberal imports policy had a favourable effect upon the internal savings growth and led to the reduction of customs for equipment imports.

A steady growth was observed in the flow of external resources into the country. As a member-state of the military blocks, Pakistan began to receive great military and economic assistance from the United States and other developed capitalist countries. Most of this aid was used to finance capital investment and led to a growth in the saving rate.

During the period in point the flow of private foreign capital into the country was small, equalling Rs. 46 million in the first half of the fifties and rising

to Rs. 700 million in the Third Five Year Plan period.<sup>4</sup> The small size of the private foreign investments is accounted for by the general situation in the developing countries following the disintegration of the imperialist colonial system by the national forces coming to power, foreign property nationalization or its transfer to nationals; etc. Under these conditions private investors were not prepared to risk investment in the countries of the Third World. Although circumstances in Pakistan as viewed by private investors were much more stable and safe, the situation mentioned above was, to a great extent, true of that country, too.

The foreign aid given to Pakistan in 1950-1968 is shown in the table below:\*

	1950-55	1955-60	1960-65	1965-66
Total, million US dollars	371	990	2377	1770
Including, %				
grants	67	58	14	6
loans	33	42	86	94

\* J.J. Stern, W.P. Falcon, *Growth and Development in Pakistan, 1955-1969*, Cambridge (Mass.), 1970, p. 28.

As can be seen from Table 23, the external sources of savings gained a significant increase during the First Five Year Plan and rose to almost the same level as the internal resources at the end of the fifties. The plan estimates envisaged that about 40 % of the total expenditures should be covered at the expense of foreign aid and loans.<sup>5</sup> At the same time, such great dependence upon foreign credits and assistance (including the weakness of her own savings capability) was one of the main reasons for the failure to fulfil the plan targets. Mahbub-ul-Haq calculated that the revenues from the external sources of savings accounted for only Rs. 3.3 billion as compared with the planned Rs. 4.2 billion.<sup>6</sup>

During the first half of the sixties the importance of external savings continued to grow and their proportion



was equivalent to 6.6 % of the national product. In this period, however, a significant change occurred in the structure of the aid. If during the fifties more than half of the subsidies were made up of foreign aid, then in the sixties the greater part thereof was attributed to loans and credits, which added to the considerable growth of the public debt. In this connection, mention was made in the Third Five Year Plan of Pakistan that "foreign assistance, as such, played quite a decisive role in accelerating the rate of investment in the economy and in raising growth rates. Most of the foreign assistance in the first ten years became available in the form of either grants or loans repayable in rupees. After 1960, however, almost all the foreign assistance . . . has assumed the character of loans repayable in foreign exchange. As a result, the debt servicing liability of the country has increased rapidly from Rs. 80 million in 1959-60 to about Rs. 300 million in 1964-65".<sup>7</sup> As a result of the considerable reduction in the net foreign aid, the share of external savings dropped to 3.8 % of the national product in the second half of the sixties.

A sizable increase in public savings from both internal and external sources enabled the Pakistan government to achieve an absolute and relative rise in the share of public investment in the total amount of investment. If in 1949-50, 1954-55 the share of public investment remained at 28 % (Rs. 310 million and Rs. 610 million out of the total investment of Rs.1,120 million and Rs.2,200 million respectively), then in 1959-60 it had already risen to 50 % and stayed at this level for the years to come.<sup>8</sup>

As can be seen from Table 24, a larger portion of the investments was made in industry, although with time it gradually went down (from 28 % in the First Five Year Plan to 25 % in the Third Five Year Plan). During the fifties it was mainly the industries processing agricultural and mineral raw materials, that were developing, while in the next decade large-scale industry received priority for the development of the export-oriented industry and for the establishment of the import subti-

**Table 24****Industrial Origin of Investments,\* %**

	1955-60	1960-65	1965-70
Agriculture	11	15	16
Irrigation and Power	20	19	17
Industry	28	27	25
Transport and Communications	17	18	20
Others	24	21	22
Total	100	100	100

\* *The Third Five Year Plan*, pp. 6, 41.

tuting industries. The further development of industry, especially in the second half of the sixties required that the production of the means of production should be organized to meet the country's growing needs in machinery and equipment.

Irrigation and power including land improvement came second after industry with regard to gross investments during the three five year plans. In fact, it was only the state that made investments in these projects, particularly in drainage and irrigation works. If these expenditures, are added to the investments in agriculture, which rose from 11 % of the total investment at the end of the fifties to 16 % at the end of the next decade, then it becomes obvious that agriculture received the major share of the total investment. This share was especially high during the sixties. It should be noted that the power generation capacity has grown significantly during the three five year plans. In 1971, the country's first atomic power-station was commissioned.

A steady growth was characteristic of the investment made in transportation and communications from 17 % in the second half of the fifties to 20 % of all the investments made during the Third Five Year Plan. But if in the fifties the major part of investment was spent on repairs and reconstruction (of the rolling stock, highways and ground roads), then in the next decade high priority was given to the construction of

new roads, to the development of water and air transportation and to the greater efficiency of railways. During the Third Five Year Plan attention was focussed on the reconstruction of the ports of Karachi and Chittagong and to turning the anchorage at Chalna into a port, including the development of a national merchant marine.

x                    x                    x

As can be seen from Table 22, the share of consumption expenditure in the national product during the period under review remained rather high and averaged 96 % at the beginning of the fifties and 88 % by the end of the next decade. If private consumption here somewhat decreased (from 88 to 80 %), then the government consumption expenditure remained practically the same, averaging 7 %. On the whole the consumption expenditure was increasing more slowly than the Gross National Product. Naturally this can be attributed to the quicker growth in the savings fund. At the same time, we cannot but note the accelerated growth rate in government consumption expenditure which amounted to 6.8 % as compared to the private consumption expenditure rate averaging 5.2 % in the period of 1960-61 to 1969-70. The outrunning growth of the government consumption expenditure is related to the greater defence expenses, to a swollen management mechanism on the one hand, and to the intensified economic and administrative activities of the state, on the other hand; the latter was aimed at increasing allocations for health, education and other fields whose development significantly affects the advancement of people, who are a major productive force in society.

A number of factors determine both the volume of consumption, as a whole and the structure of private consumption expenditure. As well as the level of personal incomes, they include the size of the population, its social composition, level of culture, especially religion etc. Of late the factor known as the "demonstration effect" has been acquiring a growing importance. Expanding their trade and cultural links with the deve-

loped capitalist states, the countries of the Third World are experiencing the ever growing impact of the former's way of life. As well as the desire to imitate their way of life (which is only possible for the high income groups) this has given rise to a number of new material and social requirements in the developing countries which affect the distribution and redistribution of the national income produced there. In the long run this process takes a paradoxical form in which the law of overemphasizing the needs discovered by the founders of the Marxist-Leninist theory, manifests itself in the specific conditions of the Third World. The structure of personal consumption may be markedly affected by the level and dynamics of the prices of the goods entering into the consumption fund. The crop failures in the second half of the fifties led to the rapid rise in the price of foodstuffs which in turn checked expenditure on victuals. At the same time, the food consumption rate of most of the country's population was so low that its further decrease was just impossible. In these circumstances, the price rise on foodstuffs led to the limited consumption of other goods by the working people.

The lion's share of private consumption expenditure consists of the personal consumption which is the cost of buying consumer goods and services for the household. Direct calculation of the personal consumption expenditure is difficult since it has taken many decades for it to develop in the developed market economies, whereas in the developing countries of Asia it has not yet taken shape. This depends upon the fact that such calculations should take into account the current expenses of millions of mainly illiterate people. Neither state accounts of these expenses, nor statistical data on trade at home are available in Pakistan at the moment.

The data in Table 22 show that the share of private consumption in the Gross Domestic Product averaged 84 % in the fifties, and 81 % in the next decade, which shows a slight reduction in twenty years. The prevalent share of private consumption expenditure in the natio-

Table 25

## Composition of Private Consumption Expenditure in Pakistan for 1960-61\*

	Rural		Urban		Total	
	Rs. million	%	Rs. million	%	Rs. million	%
<b>Total</b>	<b>22647</b>	<b>100</b>	<b>5751</b>	<b>100</b>	<b>28398</b>	<b>100</b>
Including:						
Food, beverages and tobacco	15920	70	3629	63	19349	68
Clothing and personal effects	1695	7	507	9	2202	8
Rent, rates and water charges	805	3				
Fuel and lighting	1178	5	705	12	4640	16
Furniture, furnishing and household equipment	162	1				
Household operation	1754	7				
Personal care and health expenses	863	4				
Transportation and communication	277	2				
Recreation and entertainment	33	0.1	910	16	2243	8
Education and miscellaneous	158	0.7				

\* Computed on the basis of M.A.H. Khandkar, *An Estimate of the National Expenditure of Pakistan, 1960-61, Middle Eastern Studies in Income and Wealth, London, 1965, p. 77.*

nal product with its low total absolute size and the low average per capita income do not, of course, testify to the welfare of the country's population. In Pakistan one can observe a common trend for developing countries: the higher the level of the income, the less it is utilized to satisfy primary needs. Inversely, when the income is low, a considerably larger part of the family budget is spent for this purpose.

As can be seen from Table 25, the major part of the personal expenses (70 % in rural and 63 % in urban areas) is spent on food. "The very high proportion of the total family budget spent on food is an unmistakable sign of the population's poverty; in the rest of Asia this proportion is seldom less than 60 % and often more than 70 % and even 80 % of the total expenses".<sup>9</sup>

A case study undertaken in Pakistan in 1965 shows that food expenses averaged 65 % of all the expenses in the villages and 51 % in the urban areas (Table 26).

**Table 26**

**Distribution of Household Expenditure in 1965,\* %**

	Rural	Urban
Food and drink	65.3	51.0
Clothing and footwear	7.7	8.7
Personal effects	0.6	1.0
Rent	7.1	10.9
Fuel and light	6.2	4.9
Furniture and utensils	0.7	1.3
Taxes	0.3	0.9
Miscellaneous	12.1	21.3

\* *Statistical Yearbook for Asia and the Far East, 1969, Bangkok, 1970, p. 302.*

Although the data in Tables 25 and 26 are compiled on the basis of case studies and are therefore to a certain extent less accurate, they do on the whole reflect a trend in lower outlays on food, both in the rural and urban areas. The absolute expenditure on food has also gone up which not only indicates a greater amount of foodstuffs consumed, but also a change in the quality of the food ration i.e. more high calorie foodstuffs are

consumed. It should, however, be taken into account that here consumption is averaged, which considerably evens out the acute nonuniformity in the distribution of consumer outlays between the high and low income groups.

Similar changes occur in the demand for the second group of essential consumer goods such as clothing, footwear and other personal effects. With reference to durables, tables 25 and 26 show that their share is increasingly growing. This is especially true of the high income groups. It should be noted though that many Pakistan economists regard this phenomenon as undesirable, since it inhibits the capital formation and lowers the saving rate.

Regardless of the greater importance of industrial goods and services in the consumption by higher income groups, the priority in the composition of their consumption belonged to food (especially among middle and low income groups) which is distinguished for less elasticity with regard not only to price, but also to its possible replacement by other goods. Considering the dynamics of the demand for foodstuffs, and also the growth rate of the economy and personal consumption in Pakistan, one may assume that the share of food in consumption at the end of the sixties and at the beginning of the seventies averaged not less than 50 %, both in urban and specifically in rural areas.

Low incomes could undoubtedly be accounted for by the poverty of the Pakistan working people who were the first to suffer from malnutrition and hunger. In 1964, speaking at the closing meeting of the population growth control seminar, East Pakistan Minister of Health Mr. Biswas said that "now in Pakistan there are two thirds of the population suffering from malnutrition. At present we provide about 2,000 calories for a person per day."<sup>10</sup> During the sixties this level went up to 2,260 calories in the middle of the decade and to 2,350 calories per person per day at the beginning of the seventies.<sup>11</sup> The food ration calorie level established by FAO for the developing countries is about 3,000

calories per day.

The government consumption includes the government expenditure on revenue account the whole sum of the budget expenditure minus public investments. Ordinary budget however, very often includes part of the capital expenditure (at the same time the capital budget contains part of the noncapital expenses). The current or ordinary budget is made up of traditional government expenditures (mainly for defence, civil administration and social and cultural needs), and the sources from which the expenses are covered are, as a rule, ordinary incomes.

As follows from Table 27 nearly all the government consumer expenditures represent outlays that either had no economy effect on the country's development, or had limited effects, such as subsidies to the provinces.

**Table 27**

**Federal Government Consumption Expenditure,\* %**

	1949-50	1954-55	1959-60	1964-65	1969-70
Defence expenditure	73	54	57	46	54
Civil administration	16	20	20	16	13
Debt Services	4	8	11	16	18
Subsidies to provinces	2	5	2	1	1
Miscellaneous	5	13	10	21	14
Total	100	100	100	100	100

\* *Pakistan Economic Survey, 1972-73, Islamabad, 1973, Statistical Section, pp. 114-115.*

These were primarily defence expenditures that made up the major part of all the expenses by the federal government (over 70 % in the first years after winning independence and over 50 % in subsequent years). Civil administration expenditures were another type of essential expenses that amounted to 20 % of all the current expenses. Such a large proportion of this type of expenditures indicates that Pakistan is a state with a highly developed bureaucratic machinery.



**Table 28****Expenditure of the GDP in Some Countries of Asia,\* %**

	Consumption			Saving			Exports of goods and services (net)		
	1950-52	1957-59	1968	1950-52	1957-59	1968	1950-52	1957-59	1968
India	86	84	85	14	19	18	—	-3	-2
Indonesia	93	94	96	7	6	9	—	—	-5
Japan	70	68	60	29	32	39	1	—	1
Pakistan	96	93	88	5	10	16	-1	-3	-4

\* *Economic Survey of Asian and the Far East, 1961*, Bangkok, 1962, p. 17. *Yearbook of National Accounts Statistics, 1970, Vol. II, International Tables*, New York, 1972, p. 35.

It is most conspicuous that during the years of independent development the debt services expenditures have sharply gone up in the country, from 4 % at the beginning of the fifties to 18 % at the end of the next decade. This was caused by the increase in the government debt which was, in its turn, due to the changed structure of assistance.

Referring to the government consumption expenditure, it should be borne in mind that part of the government expenses are carried by the province and local authorities' budgets, especially those on social and cultural needs. According to "Pakistan Economic Survey" data for 1972-73 the expenditure on social and cultural needs averaged 21 % in West Pakistan and 13 % in the east province during the fifties and sixties.<sup>1 2</sup>

To conclude, we shall compare the expenditure of the national product in Pakistan with the same in other Asian countries (Table 28).

If Pakistan has somehow succeeded in decreasing consumption during the period under review, then in India it has remained on almost the same level and in Indonesia its proportion went up from 93 % at the beginning of the fifties to 96 % of national product during the next decade. When referring to the saving rate, one cannot help but stress the rather high growth of saving rate in Pakistan as compared with some other Asian countries. If during the fifties and sixties the saving rate in Pakistan went up from 5 to 16 %, then during the same period in India it rose from 14 to 18 % and in Indonesia from 7 to 9 % only. True, in comparing saving rates internationally, it should be taken into account that the various Asian countries make use of different calculation procedures which hampers comparison of the volume and rate of savings.

## Notes

1. A. Maddison, *Economic Progress and Policy in Developing Countries*, New York, 1970, p. 53.

2. *The Third Five Year Plan (1965-70)*, Karachi, 1967, p. 7.
3. See: Gosudarstvennye financy nesotsialisticheskikh stran Azii (*Public Finances of the Nonsocialist Countries of Asia*), Moscow, 1965, pp. 251-52.
4. *Pakistan Trade*, May 1957, p. 40; *The Third Five Year Plan*, pp. 90-91.
5. *The First Five Year Plan (1955-60)*, Karachi, 1958, pp. 135-137.
6. Mahbub-ul-Haq, *The Strategy of Economic Planning, A Case Study of Pakistan*, Karachi, p. 142.
7. *The Third Five Year Plan*, pp. 7-8.
8. *Ibid.*, p. 5.
9. Pierre Gourou, *Azia (Asia)*, Moscow, 1956, p.53.
10. *Morning News*, 17-III, 1964.
11. *The State of Food and Agriculture*, 1971, Rome, 1971, p. 218.
12. *Pakistan Economic Survey, 1972-73*, Islamabad, 1973, Statistical Section, pp. 120-123.

## GROWTH RATE OF NATIONAL PRODUCT

There was no calculation of the growth rate in colonial India. The parent state was only concerned with pumping out maximum resources and other benefits from the country, so that such calculations were not in the interests of the colonizers.<sup>1</sup> Now things are different in Pakistan and the Indian Union. The national liberation movement has put an end to the long colonial oppression and opened up a new era of national renaissance. The latter has been based on economic development, the building up of modern industry, power engineering, and transportation; and the restructuring of agriculture to eliminate hunger and poverty. One of the most generalized parameters of progress in the economy is the growth rate. Computing the size of the national product on a constant basis makes it possible to calculate the growth rate regularly.

As can be seen from Table 29, the size of national produce in the period under review kept on changing insignificantly and the annual growth rate amounted to about 2.7 %.<sup>2</sup> The growth rate of the value added in agriculture hardly exceeded 1 % per year on average,

Table 29

GNP Growth Rate in 1949-50 to 1954-55\*

	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55
Gross National Product at current prices, Rs. billion	19.2	20.7	22.5	21.8	21.8	21.1
Gross National Product at 1959-60 prices, Rs. billion	24.5	25.4	25.4	26.1	27.8	27.9
GNP growth rate, %	—	3.7	0.1	2.9	6.3	0.4

\* Computed from the basis of: *Pakistan Economic Survey, 1967-68*, Islamabad, 1968, Statistical Section, pp. 2-3.

which actually meant that the per capita agricultural product was on average even less. The situation was aggravated by a number of difficulties Pakistan had to face in the first half of the fifties, and probably one of the most grave problems was food. Except for the good crop in 1953-54 (due to greater agricultural production the GNP growth was 6.3 % unlike the preceding year), food and agricultural commodities production in 1950-1955 remained almost on the same level and could not meet the needs to the growing population. In 1951-53 many regions of the country were suffering from hunger and the prices of foodstuffs shot up 3-4 times.<sup>3</sup>

In 1952-53, the Korean boom led to a sharp increase in the demand for and the world prices of agricultural commodities, especially jute. This resulted in the higher growth of gross value added in agriculture and the total national product, whose growth rate was 2.9 % in 1952-53 as against 0.1 % in the preceding year. But in 1953-54 after the end of the war in Korea the prices of Pakistan agricultural commodities fell significantly: jute by more than 50 %, and cotton 40 %. As a result, although the export volume continued to grow, its value decreased almost twofold. The foreign currency flow sharply declined and the national product rose by 0.5 % in 1954-55 as compared with the preceding year.

Economic growth during this period was mainly sustained by the enterprising activities of the private sector in industrial engineering and trade, the credit system and services. As was noted in these years, the private sector with the help of government policy of state capitalism, began to make intensive investments in highly profitable jute and cotton projects. As a result, in that five-year period the growth rate in large-scale industry shot up high, averaging 24 % annually. A rather high growth rate was registered in the mining and quarrying (annual average of 11 %), in construction (annual average of 12 %) and in some services.

In May 1956, a draft report on the First Five Year Plan was published in Pakistan, which was twice revised,

the final version appearing in 1958. In introducing long-term planning on the basis of a five-year development plan, Pakistan followed, like many other developing nations, the Soviet five year plans which was recognition of their significance for the economic development of the Soviet Union. Pakistan's First Five Year Plan was worked out when the country's economy was still suffering from the continuing serious consequences of the partition of colonial India in 1947. Therefore, the eradication of these grave consequences was the main aim of the plan. At the same time, the plan and its implementation was to lay the foundation of a lengthy process of restructuring the colonial economy, of industrial development and raising the living standards of the population.

The first version of the plan provided for a 20 % increase in the national product over the five-year period, i.e. by 4 % annually.<sup>4</sup> But in the middle of the five-year period, when it became clear that the growth rate could not be attained (in the first three years the national product growth amounted to only 6.5 % or slightly more than 2 % annually), it was decided to revise the targets. The final version of the plan envisaged an increase in the GNP by 15 % during the five years or about 2.9 % in terms of the average annual growth rate.<sup>5</sup>

The sum total expenditure according to the plan estimates should amount to Rs. 10.8 billion. Industry had top priority in the plan both in terms of investment volume and growth rate: its proportion in the total expenditure was 28 % while the plan targets envisaged a 60 % growth in the manufacturing industry.<sup>6</sup> The share of agriculture amounted to 11 % of all the investments, and the average annual growth rate of value added was planned at 2.5 %.<sup>7</sup>

During that five-year period the national product growth actually was 11 % and was lower than the revised target for 1958 (15 %). Therefore the average annual growth rate amounted to 2.4 %. It was primarily due to the considerable failure in the implementation of

the planned targets for agriculture, whose growth rate was 1.4 %<sup>8</sup> (compare with the planned rate of 2.5 %), i.e. they stagnated at the level of the first half of the fifties. This was the outcome of a number of crop failures in the country. The crop failure in 1955-56 resulted in a 3.4 % decrease in agriculture. In consequence, that year the national product went down by 0.3 %. The next year 1956-57 was a successful one and the output went up by 7.5 % which was followed by an increase in the product by only 6 % (see Table 30).

In view of the worsening food situation during the crop failure years, the government had to increase food imports, and the ensuing reduction in imports of industrial goods by one third, affected the development of industry. According to the First Five Year Plan, the total amount of industrial investments was set at Rs. 3 billion, while they actually amounted to Rs. 2.4 billion. If the private investments in industry were in keeping with the plan estimates, then the government investments reached only 50 %.<sup>9</sup> Thus, the planned growth rate of 12 % for large-scale industry was not achieved and only amounted to 9 %.

Regardless of the economic difficulties, the Pakistan government bound to the military blocks with external political commitments, continued to gradually raise defence expenditure. If in 1957-58 military expenses accounted for 23 % of the total government expenditure, then the following fiscal year they rose to 27 %.<sup>10</sup> To reimburse those and other expenditures by the government, deficit financing was widely used which had covered nearly 20 % of the government expenditure in the First Five Year Plan.<sup>11</sup> As a result of a sharp increase in the consumption expenditure, the public sector was not able to utilize revenue accounts to the planned amounts (Rs. 730 million), although the actual revenue from additional taxation (mainly indirect) exceeded the plan targets by almost 80 %. Because of the enormously high military and administrative expenditures only 13.3 % of the government consumption expenditure in the First Five Year Plan were covered



**Table 30**  
**GNP Growth Rate in 1954-55 to 1959-60\***

	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60
Gross National Product at current prices, Rs. billion	21.1	22.7	26.7	28.4	28.0	31.4
Gross National Product at 1959-60 prices, Rs. billion	27.9	27.8	29.5	29.7	30.1	31.4
GNP growth rate, %	—	-0.3	6.0	0.8	1.4	4.3

\* Compiled from: *Pakistan Economic Survey, 1967-68*, pp. 2-3.

by revenue accounts.<sup>12</sup> The bulk of the government investments was financed through state credits and more than 50 % of the government expenses were covered by foreign loans and subsidies.<sup>13</sup>

Analysing the reasons for the failure to implement the First Five Year Plan, the outstanding economist Mahbub-ul-Haq pointed out that the government of Pakistan had been able to mobilize only 70 % of the internal savings,<sup>14</sup> therefore the plan target for the saving rate at the level of 7 % had not been accomplished.

In the fifties the growth rate on the whole averaged 2.5 % annually.

M. Ayub Khan administration, which came to power in Pakistan in October 1958, had no alternative but to stabilize and restructure the country's economy. The emergency measures in economy taken by the government in its first years in power (renunciation of deficit financing, campaign against speculation and smuggling, control over the prices of some foodstuffs, limiting the size of trade and industrial profit, etc.) had been exhausted and they began to break down rapidly since they had not been supported with the appropriate economic transformations (e.g. the national product growth in 1958-59 unlike the year before was only 1.4 %). In 1959 and in the previous years, therefore, the ruling circles gave top priority to measures aimed at the speedier development of capitalism in the country, removing all obstacles in its way and stimulating national industries.

We have already discussed the measures taken by M. Ayub Khan government in agriculture, industry, the taxation system, etc. "The new economic policy" of M. Ayub Khan administration was embodied in the Second Five Year Plan for 1960-65. It envisaged the rather high growth rate during the five-year period 20 % (compared with 15 % in the First Five Year Plan), or 3.8 % on average annually. The Second Five Year Plan provided for an increase in agriculture by 14 % and in industry: a large-scale one by 60 % and a small-scale one by 25 %.<sup>15</sup> It was planned to raise the investment

in the national product from 10.5 to 20 %, almost two-fold. The total investment was envisaged at the level of Rs. 19 billion, which should be covered by the internal savings to an amount of Rs. 11 billion and from foreign assistance to Rs. 8 billion; thus, the share of foreign loans and grants needed to finance the country's economic development plan rose to 42 %.<sup>16</sup> The Second Five Year Plan developed like the first one without taking into account the price rise. It was, therefore, revised to increase the planned allocations from Rs. 19 to 23 billion.

As seen from Table 31 in the first half of the sixties, unlike the fifties, the growth rate was significantly higher than the plan targets. If the Second Five Year Plan envisaged a 20 % increase in the national product, then its actual growth was more than 30 % and the average annual growth rate was 5.7 %. In some years of this five-year period Pakistan managed to gain very high growth rate. For example, in 1963-64 the national product rose by 8.2 % as compared with the preceding year, as a result of the high, 6.2 %, growth rate in agriculture in the same year. On the whole, in the first half of the sixties considerable progress was made in the output of agricultural production, which was one of the major factors in the general increase in the growth rate. The agricultural production rate also rose steadily in this period and averaged 3.4-3.5 % annually.

The measures taken during the Second Five Year Plan to expedite industrial growth (such as change in the customs policy, income taxation benefits, etc.) yielded tangible results: if in the second half of the fifties the growth rate in the manufacturing industry reached 5.7 % per year on average (including large-scale industry 9.3 %, small-scale 2.3 %), then during 1960-65 the rate rose to 10 % (and large-scale to 15 %, small-scale to 2.6 %).

An important factor contributing to a higher growth rate during that five year period was the increased foreign aid which was to a large extent used to finance ind-

**Table 31****GNP Growth Rate in 1959-60 to 1964-65\***

	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65
Gross National Product at current prices, Rs. billion	31.4	34.8	36.5	38.6	41.3	46.1
Gross National Product at 1959 prices, Rs. billion	31.4	33.1	35.0	36.3	39.3	41.4
GNP growth rate, %	—	5.2	5.9	3.5	8.2	5.3

\* Computed on the basis of: *25 Years of Pakistan in Statistics*, pp. 297-301.

ustrial development. For example, in 1964-65 foreign assistance accounted for 6.3 % of the total national product (as compared with 1.1 % in 1954-55 and 5 % in 1959-60).<sup>17</sup>

The experience gained in implementating the preceding plan showed to what extent financing the budget deficit at the expense of the excessive issue of paper money contributed to the growth of public credits and higher capital construction costs, and interfered with the capital accumulation process. Therefore, deficit financing was in full swing during the Second Five Year Plan, resulting in a moderate rise in prices: retail prices went up by 2-3 % on average, and wholesale ones by 1.6 %.<sup>18</sup>

In 1965, Pakistan began to implement the Third Five Year Plan, drawn "in the light of the achievements and shortfalls of the previous two plans".<sup>19</sup> The plan envisaged an increase in the national product over five years by 37 % at an average growth rate of 6.5 % (as compared to 2.4 % in the first plan and 5.7 % in the second one). Such a high growth rate was planned at the expense of a rapid increase in agriculture (on average of 5 % per year), in industry by 10 % per year and in other sectors by 7.1 %.<sup>20</sup>

As can be seen from the Table above, although it was planned at a level of 37 %, the national product only reached 29 % and was, even so, considerable in the given five-year period. The average annual growth rate equalled 5.1 % during the Third Five Year Plan. It was primarily an outgrowth of increased agricultural production. It has been pointed out that the second half of the sixties was marked by the adoption of a new strategy in agriculture, i.e. from that time on Pakistan began to introduce highyielding varieties of wheat and rice and modern sophisticated agricultural technology. This effort contributed to a significant increase in average rice and wheat crops in the areas where they were grown.

At the same time, at the beginning of the third plan implementation the country ran up against some

**Table 32****GNP Growth Rate in 1964-65 to 1969-70\***

	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Gross National Product at current prices, Rs. billion	46.1	50.6	57.0	60.7	66.5	72.0
Gross National Product at 1959-60 prices, Rs. billion	41.4	43.6	45.0	47.6	49.8	53.0
GNP growth rate, %	—	5.4	3.3	5.6	4.7	6.5

\* Computed on the basis of: *25 Years of Pakistan in Statistics*, p. 297, 301.

difficulties, which prevented it from achieving the planned growth rate. The Indo-Pakistan conflict led to a sharp rise in military spending in 1965, when large sums were channelled into nonproductive ends: the share of defence expenditure rose from 21 % in 1964-65 to 38 % in the next fiscal year.<sup>21</sup> It immediately told on the growth rate, which was 3.3 % in 1965-66 as compared to 5.4 % in the following one.

Besides, that period saw a considerable reduction in the flow of foreign assistance: the amount of finances from the external sources turned out to be Rs. 3.5 billion less than was expected. The direct implication of the fact was a shortage of finance for the country's economic development (the total expenses in the public sector were Rs. 22 billion instead of the planned Rs. 30 billion, i.e. 27 % less). Because of the reduction in foreign aid, the share of investments in the national product went down from 22 % in 1964-65 to 16 % in 1969-70.<sup>22</sup> As a result of the decrease and difficulties to supply industry with imported raw materials, the growth of large-scale industry slowed down from an average of 15 % per year in the first half of the sixties to 10 % in the second half. The growth rate of industry envisaged in the Third Five Year Plan at an average of 10 % per year actually only reached a level of a little more than 7 % (Table 33).

**Table 33**

**Sectoral Average Annual Growth Rates, \* %**

	1949-50- -1954-55	1954-55- -1959-60	1959-60- -1964-65	1964-65- -1969-70
Agriculture	1.3	1.4	3.4	4.5
Mining and quarrying	10.8	9.2	13.3	6.2
Manufacturing industry	9.1	5.7	10.0	7.8
large-scale	23.7	9.3	15.1	10.0
small-scale	2.3	2.3	2.6	2.7
Construction	11.8	9.4	24.2	0.3
Electricity, gas water and sanitary services	7.3	17.9	21.5	10.4
Transportation, storage and communications	5.1	3.2	5.5	5.2
Wholesale and retail trade	2.7	2.4	6.9	5.8
Banking and insurance	7.6	15.1	9.8	11.1
Ownership of dwellings	2.4	2.6	2.6	2.6
Public administration and defence	3.2	1.4	6.1	7.8
Other services	3.7	3.6	3.8	3.7

\* Computed on the basis of: *Pakistan Economic Survey, 1967-68, pp. 2-3.*  
*Pakistan Economic Survey, 1972-73, pp. 2-3.*

In December 1961, the Sixteenth Session of the UN General Assembly declared the sixties a "United Nations Development Decade", one of whose major goals was to achieve a level of at least 5 % for the average annual growth rate in the developing countries by 1970.<sup>23</sup> The following table illustrates the growth rate in some countries (%) (Economic Survey of Asia and the Far East, 1972. Bangkok, 1973, pp. 16-17. Yearbook of National Accounts Statistics, 1970, Vol. II, International Tables, New York, 1972, p. 78.):

	1950-1960	1960-1970
Britain	2.5	3.0
Canada	3.0	5.1
India	3.5	3.8
Iran	—	7.9
Pakistan	2.5	5.4
Philippines	4.0	5.7
South Korea	5.2	9.2
Sri Lanka	3.0	4.5
Thailand	6.4	7.9
USA	2.9	5.1

The table shows that in the sixties Pakistan like many other developing countries of Asia succeeded in reaching and even exceeding the growth rate set forth by the United Nations Development Decade. "Economic Survey of Asia and the Far East" submitted to the Twenty Fifth ECAFE session at Singapore in 1969 wrote that the growth rate mentioned had been achieved due to the adoption of a new strategy in agriculture aimed at using modern agricultural techniques and technology.

In the sixties the developing countries had growth rate far superior to that in the previous decade and often to that of the developed capitalist countries. Such were the economic results of the disintegration of the imperialist colonial system, the outcome of the national liberation movements and revolutions, social and economic transformations and the activities of the



national governments.

A country's <sup>\*</sup> growth rate is one of the important <sup>\*</sup> indicators of a society's work and vital activities <sup>\*</sup> although the per capita income growth rate is still more important. A high national product growth rate may be completely devoured by a high population growth rate. Therefore, the per capita income is a more precise averaged parameter of the economic development level achieved by a country and a more accurate indicator of the progress being made by a given society.

Meanwhile, the population growth rate has become one of the most essential economic, social and political factors in most developing countries over the last few decades. Over the past centuries the high birth rate in these countries was set off by a high death rate. Consequently, the total population growth rate in the developing countries, which made up two thirds of the world's total population, stood at the same level which was very low if any. Continuous hunger and unsanitary living conditions were the reason for all kinds of serious diseases. No effective measures were taken to combat diseases, so that the death rate persisted at a level of about 25-30 people per thousand.

The infant mortality rate was especially high so that during their first year from one third to half the infants died.

The second half of the twentieth century witnessed a sharp reduction in the death rate as a result of the advent of modern medical science in these countries, which led to a sharp increase in the population growth rate. The annual population growth rate in colonial India was less than 1 % during the first two decades of the twentieth century, but it was already 1 % in the twenties and 1.4 % in the thirties; during these decades alone the population grew by 83 million people.<sup>24</sup> The population growth in the areas of colonial India that later acceded to Pakistan, is given in Table 34 for the last seven decades of the twentieth century.

Table 34

## Growth of Population in Pakistan\*

Year	Pakistan		East Pakistan		West Pakistan	
	million	growth	% million	growth	% million	growth
1901	45.4	—	28.9	—	16.6	—
1911	50.9	11.2	31.6	9.3	19.4	16.9
1921	54.4	6.9	33.3	5.4	21.1	8.8
1931	59.2	8.8	35.6	6.9	23.6	11.8
1941	70.3	18.8	42.0	17.9	28.3	19.9
1951	80.5	14.5	43.8	4.3	36.7	29.7
1961	101.5	26.1	55.4	26.5	46.1	25.6
1971**	136.0	34.0	73.1	31.9	62.9	36.4

\* Compiled from: *Population Census of Pakistan, 1961, Karachi, 1961; Population Census of Pakistan, 1972, Provisional Tables, Islamabad, 1972; Pakistan Economic Survey, 1967-1968, Islamabad, 1968, Statistical Section, pp. 2-3. Pakistan Economic Survey, 1974-1975, Islamabad, 1975, Statistical Section, p. 2. F.A. Trinich, Bangladesh, Moscow, 1974, p. 47. T.M. Khan, A. Bergan, Measurement of Structural Change in the Pakistan Economy: A Review of National Income Estimates 1949-50 to 1963-64. The Pakistan Development Review, Summer 1966, pp. 199, 201.*

\*\* In the period 1947-1971 there were two Censuses taken in Pakistan in 1951 and 1961. The number of Pakistan's population in 1971 was calculated here on the basis of the 1972 Census and the estimate of the number of population in Bangladesh in 1971.

Table 34 shows that a large growth in the country's population during the thirties was followed by a comparatively modest growth within the next decade. The low population growth in East Pakistan is accounted for mainly by the fact that in 1943 after a severe crop failure in the preceding year India was struck by hunger that caused an outbreak of cholera and dysentery. In Bengal, which suffered most, the number of the dead was estimated to be 3.5—4.5 million people.<sup>25</sup> Besides, the demographic and economic situation in the country was aggravated by a mass influx of refugees after 1947. By 1951, the total number of refugees who came from India to Pakistan was 7.2 million, including 6.5 million in West Pakistan and 0.7 million in the east province.<sup>26</sup> Whereas the number of people who left Pakistan for India was 8.4 million, including 5.5 million from the West and 2.9 million from the East. Therefore the number of non-Muslim emigrants exceeded the Muslim refugees by 1.2 million people; the population of Pakistan was reduced by the same number owing to the flow of refugees.

The non-Muslim population that emigrated from the areas in Pakistan after 1947 was mainly skilled workers, technicians and intellectuals, and for many years to come almost all sectors of the economy suffered greatly from a shortage of skilled labor. The non-Muslim refugees from Pakistan also included industrialists, traders and usurers and other moneyed owners, so that the country was drained of capital and material wealth. Most of the Muslim refugees from India were poor and illiterate; this is why the refugee flow led to serious economic difficulties. These migrations and other consequences of the partition of British India into two states slowed down the population growth in West Pakistan during the forties. In the period between the Censuses in 1941 and 1951 the growth was about 10 million people and 1.5 times less than during the thirties.

From 1951 to 1961 the population of Pakistan increased by 21 million, or 26 %. The population growth was considerably higher in the East than in the

West, but it is noteworthy that in the preceding decade the population of West Pakistan grew more rapidly than that of East Bengal. This is the result of both different growth rates in the two parts and internal migration (especially after 1947). Back in the colonial period there were a number of irrigation projects established in Punjab and Sind to water large areas of fertile land. The standard of living in West Pakistan was higher than in East Bengal which meant that were attracted to West Pakistan people from East Bengal. The civil servants from the central government bodies moved to West Pakistan, too. A great contingent of Bengal soldiers and officers served in the western part as well. In 1970, the total number of Bengalis in West Pakistan was estimated to be not less than 400,000 people.

The sixties saw a more considerable growth in Pakistan's population from 101.5 million to 136 million people or 1.4 times. In this period the population grew more quickly in the western part of the country than in the East. If in the forties the annual population growth rate was practically equal to zero, then in the fifties it amounted to 2.4 %, and in the next decade to 2.8 %. It was still greater in the western part: 2.6 % in 1941-1951, 2.4 % in 1951-1961 and 3.2 % in the next decade. The annual population growth rate for the whole country for the above decades was 1.4, 2.4, and 3.0 % respectively. The sharp increase in the population growth rate during the sixties resulted from the low death rate and the very high birth rate (50 per a thousand).

The rapid population growth after 1947 led to a significant increase in Pakistan's population density (man per sq.km)\*:

	1951	1961	1971
Average population density the whole country	85	107	143
East Pakistan	311	393	518
West Pakistan	45	57	78

\* Computed from: Table 34; *Pakistan, Reference Book, Moscow, 1966* p. 5.

The above data show how diverse the average density was in the two parts of the country. East Bengal, a rice granary and a producer of a number of valuable commercial crops such as jute is situated in the delta of the Ganges and Brahmaputra and endowed with highly fertile soils and favourable climatic conditions for agriculture. The average density of East Bengal population is one of the highest in the world, contributing to higher density in the country. The average population density in the province was an actual reflection of how the country is populated, since sparsely populated areas occupied only 15 % of the total area of a country where most people live in rural areas.

At the same time, the average density implies a rather irregular distribution of the population in the different areas of the country. In the western part it was the south-east and the Karachi region that exhibited the highest level of concentration. A semi-desert south-west province had the lowest density. In East Bengal most densely populated were the central regions located along the valleys of such rivers as the Ganges, the Brahmaputra, the Jamuna and the Meghana, including the south-eastern areas down the Carnaphuli valley. The forest areas in mountainous Chittagong are not very densely populated.

The difference is not so striking if we compare the average agricultural population density in both wings of the country. This is because of the significantly lower relative share of the arable lands in the western part of the country, where much of the territory is occupied by arid deserts and mountains. The population growth was accompanied by a slowly but steadily increasing area of arable and sowable lands. Thus, in 1960-1967 the arable area grew by 12 %, <sup>27</sup> whereas the population increased by 24 % during the period, which led to a significant decrease in the per capita level of arable and sowable areas.

In the first half of the twentieth century the urban population grew from 5.1 % in 1901 to 7.3 % in 1947. <sup>28</sup> The growth was especially high after the 1947 partition.

A considerable portion of the refugees settled in urban areas, particularly in towns and cities in the western part of the country. Since the urban population of West Pakistan was more numerous than that of East Pakistan, in this respect the difference between these two wings became even greater. If the total urban population slightly exceeded 10 %, then in West Pakistan alone it equalled almost 18 % in 1951. Similarly, the figures for 1961 were 13 and 22.5 % respectively. According to the 1972 Census, after the partition in 1971 the urban population of Pakistan was already registered at a level of 26 %.<sup>29</sup> The respective data for Bangladesh are not available, but it may be assumed that in 1971 the urban population did not exceed 4.5 million people (Table 35).

This nearly twofold growth in the total population and threefold rise in the urban population greatly aggravated the employment problem over the two decades under review. The increase in the rural population added to agricultural overpopulation which had already existed, to a considerable extent, in colonial India. Land shortage, lack of interest among the capital owners in investing their money in new land development and increased agricultural production and the ruin of craftsmen drove the excess of the rural population into urban areas. This was only, partial relief for villages, since the cities could only employ a very small portion of the migrants from rural areas. The third plan noted that "almost one fifth of the available manpower, the country's most valuable resource, is wasted every year for lack of opportunities for useful work. In actual numbers, about half the labour force is affected, as unemployment in Pakistan generally takes the form of an under-utilization of at least half of the available manpower".<sup>30</sup>

The rapid population growth further aggravated the employment problem in another respect. The economically active population amounted to 29.6 % of the total population in 1951, 31.4 % in 1961 and 33.5 % in 1971. It should be borne in mind that that the Pakistan statistics included all people over 12 years of age, who work

**Table 35**

The Distribution of Urban and Rural Population by Provinces\*, million

Year	Pakistan		East Pakistan		West Pakistan	
	Urban	Rural	Urban	Rural	Urban	Rural
1951	8.3	72.2	1.9	41.9	6.4	30.3
1961	13.3	88.2	2.8	52.6	10.5	35.6
1971	21.5	114.5	4.5	68.6	17.0	45.9

\* Computed from: *Population Census of Pakistan, 1961*, Karachi, p. 14; F.A. Trinich, *Bangladesh, Moscow, 1974*, p. 50; S.J. Burki, *Rapid Population Growth and Urbanization: The Case of Pakistan*, Economic and Social Review, Autumn 1973, p. 255.

or look for work in any sector of the economy. Since the active population grew equally with the total population, these figures indicated a huge growth of the absolute number of the completely or partially unemployed people. The rapid and accelerated population growth led to an increase in the number of dependants. In 1951, children up to 15 years alone accounted for 42 % of the total population, 45 % in 1961 and 49 % in 1971. The growth of the dependent population in Pakistan's underdeveloped economy hindered the development of society's major productive forces.

The high population growth rate in the developing countries urged their governments to pay ever increasing attention to demographic policy, to the family planning. Pakistan was no exception in that respect. Family planning is aimed at a gradual slowing down of natural population growth by virtue of various means conducive to limiting the birth rate. In 1960, Pakistan initiated its family planning programme, although back in 1953 the Pakistan family planning association had made its first attempts to institute birth rate control measures. They encountered great difficulties involving shortage of the required means, experts, trained medical personnel and the low cultural and educational standards of the population. However, when the government, in implementing its First Five Year Plan, faced serious problems resulting from the accelerated population growth, family planning was declared a nation-wide policy.

The second stage in the programme started in 1965 within the framework of the Third Five Year Plan. The document published on the family planning targets in 1965-1970 noted that the high population growth rate in the country had actually consumed all the results of Pakistan's economic progress achieved in the first 12 years of independent development. If the present low death rate and high birth rate were to continue, then the population would grow at a considerably higher rate in future. The authors of the document pointed out that the task of checking the population growth





**Table 36**

Per Capita Income Growth Rate,\* %

	1950-55	1955-60	1960-65	1965-70	1950-60	1960-70
GNP growth rate	2.7	2.4	5.7	5.1	2.55	5.4
Population growth rate	2.4	2.4	3.0	3.0	2.40	3.0
Per capita income growth rate	0.3	0.0	2.7	2.1	0.15	2.4

\* Computed from: Table 34; *Pakistan Economic Survey, 1972-73*, Islamabad, 1973, Statistical Section, pp. 2-3.

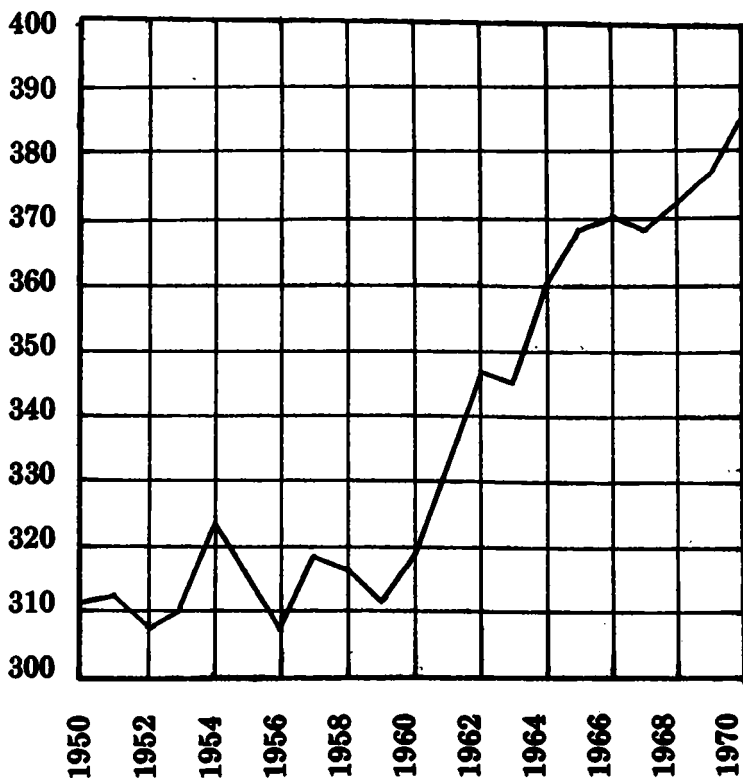
1949-50 and went up to only Rs. 316 by 1954-55.

There was no growth in per capita income in the second half of the fifties. The population growth rate being at the same level, the annual GNP growth rate dropped from 2.7 to 2.4 %. The per capita agricultural output continued to fall, and dropped to 1.1 % per year. There was a sharp decrease in the per capita large-scale industrial production growth rate from 21.3 % on average per year in the first half of the fifties to 7 % in the second half. The per capita income increased only by 2 rupees from Rs. 316 to Rs. 318 during that period.

In spite of the continued population growth, there was a marked jump upwards in the per capita income due to a higher growth rate at a level of 5.7 % which contributed to the per capita GNP growth rate at a level of 2.7 % per year during the first half of the sixties. It was the effect of the rapid growth in all branches of the national economy and particularly in agriculture; the decline of per capita agricultural production ceased in that period. The per capita income rose from Rs. 318 in 1959-60 to Rs. 368 in 1964-65.

The growth in Pakistan's economy somewhat slowed down during the Third Five Year Plan. The population growth rates being 3 % per year and the national product 5.1 %, the per capita income growth rate amounted to 2.1 %. Economic difficulties caused lower growth rates in all sectors of the national economy in terms of per capita production, and primarily in large-scale industry from 12 % in the first half of the sixties to 7 % in the second half. Pakistan, however, was able to maintain a rather high per capita income growth rate thanks to agricultural production growth. The per capita agricultural production was 1.5 % per year (compare with the negative figure of -1.1 % in the fifties) during that period. The per capita income reached Rs. 384 in 1969-70. It should be noted that unlike the fifties, the per capita national product growth in the sixties was more constant and steady. There were no such sharp rises and especially falls like those observed in the preceding decade (see the plot); this can be accounted for

by the stable national product growth.



Dynamics of per capita income growth \*,  
Rs. at 1959 prices.

In conclusion we shall compare the per capita income growth rate in Pakistan with that in other developing countries. As can be seen from Table 37 in the fifties Pakistan occupied one of the last places with regard to the per capita income growth rates. This was not only due to the higher population growth rate, but also because the GNP growth rate was lower than in other countries of Asia.

In the sixties Pakistan overtook some developing countries of Asia in terms of the per capita income growth rate. One should take into account the fact that the data in Table 37 were far lower than the actual

level of the population growth rate; at the same time the GNP growth rate was given at 3.4 %, somewhat higher than its actual average of 2.4 % per year. Even in spite of this, the per capita income growth in Pakistan during the sixties compared to the preceding decade was rather high, while India and Indonesia for example had lower per capita income growth during those years.

**Table 37**

GNP, Population and Per Capita Income Growth Rates in 1950-1971, \* %

	1950-60	1960-68	1969	1970	1971
India					
GNP	3.5	3.5	5.3	5.3	4.8
Population	1.9	2.5	2.7	2.7	2.7
Per capita income	1.6	0.8	2.6	2.6	2.1
Indonesia					
GNP	3.3	2.6	6.5	6.3	6.9
Population	2.1	2.4	3.1	3.1	3.1
Per capita income	1.2	0.2	3.4	3.2	3.8
Iran					
GNP	-	8.0	11.1	8.6	10.3
Population	-	2.9	3.2	3.2	3.2
Per capita income	-	4.9	7.9	5.4	7.1
Pakistan					
GNP	2.5	5.6	4.4	6.1	1.4
Population	2.1	2.1	3.5	3.5	3.5
Per capita income	0.4	3.4	0.9	3.1	-2.1
Sri Lanka					
GNP	3.0	4.8	4.7	4.1	0.9
Population	2.5	2.4	2.4	2.4	2.4
Per capita income	0.5	2.4	2.3	1.7	-1.5

\* *Economic Survey of Asia and the Far East, 1972, Bangkok, 1973, p. 17.*

Lower per capita income growth rate in Pakistan during 1971 (-2.1 %) was caused by the country's stagnant economy as the effect of the political crisis in 1971. On the whole during the two decades under review the per capita income growth rate (the national product and population growth rates being 3.9 % and 2.7 % respectively) reached an average of only 1.2 % per year.

## Notes

1. The comparisons recently made by A. Maddison, showed that the annual economic growth rate in India were 1.1 % in 1870-1913 and 1.2 % in 1913-1950 (A. Maddison, *Economic Progress and Policy in Developing Countries*, p. 29).
2. From now on the growth rate and the sectoral growth rates are computed on the basis of statistics on the size and structure of the Gross National Product of Pakistan.
3. *Sixth Year of Pakistan*, Karachi, 1953, pp. 12-14.
4. *The First Five Year Plan, 1955-60 (Draft)*, Karachi, 1956, pp. 7, 69.
5. *The First Five Year Plan (1955-60)*, Karachi, 1958, p. 17.
6. *The First Five Year Plan (1955-60)*, Karachi, 1958, p. 17.
7. Mahbub-ul-Haq, *The Strategy of Economic Planning*, p. 157.
8. W.P. Falcon, C.H. Gotsch, *Lessons in Agriculture Development Pakistan, Development Policy, Theory and Practice*, Cambridge (Mass.), 1968, p. 270.
9. *The First Five Year Plan (1955-60)*, Karachi, 1958, p. 139.
10. Computed on the basis of: *Statistical Yearbook, 1967*, New York, 1968.
11. *The First Five Year Plan (1955-60)*, Karachi, 1958, pp. 139-140.
12. *The First Year Plan (1955-60)*, Karachi, 1958, pp. 139-140.
13. *Ibid.*
14. Mahbul-ul-Haq, *The Strategy of Economic Planning*, p. 142.
15. *The Second Five Year Plan (1960-65)*, Karachi, 1960, pp. 4-5.
16. *The Second Five Year Plan*, p. 31.
17. *The Third Five Year Plan*, p. 8.

18. *Ibid.*, p. 15.
19. *Ibid.*, p. 39.
20. *The Third Five Year Plan*, pp. 31—32.
21. *Statistical Yearbook for Asia and the Far East*, 1969, Bangkok, 1970, p. 304.
22. V.Y. Belokrenitsky, M. A. Sidorov, *Ekonomika Pakistana: problem-i-perspektivy*, *Narody Azii-i-Afriki*, 1973, No. 6, p. 17 (*The Economy of Pakistan: problems and prospects*, *Peoples of Asia and Africa*).
23. *Economic Survey of Asia and the Far East*, 1972, Bangkok, 1973, p. 1.
24. K. Davis, *The Population of India and Pakistan*, Princeton, 1951, pp. 28, 85.
25. K. Ch. Ghosh, *Golod-v-Bengalii (Hunger in Bengal)*, Moscow, 1951, p. 146.
26. About 70 % of all the refugees from India settled in the Punjab making up 25 % of the province's population. *Many refugees settled in South Sind*.
27. *Statistical Yearbook for Asia and the Far East*, 1971, Bangkok, 1972, p. 297.
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29. S.J. Burki, *Rapid Population Growth and Urbanization*, p. 255.
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## CONCLUSION

We have reviewed the main processes and the results of Pakistan's economic growth before the political crisis of 1971. During twenty five years of independent development the nation has been able to accomplish significant tasks: the national product has gone up more than twofold, the colonial structure of the economy has been thrown overboard, and the base of modern industry and the infrastructure has been created. During the first, second and third five year plans the major part of resources was directed into the development of industry and hydropower engineering. In 1950-1970 the industrial output increased almost fivefold and its proportion in the national product grew from 6 to 13 %. Of special significance for the country's economic prospects was the establishment of the manufacturing industry as a means of production. In the second half of the sixties investments in heavy engineering exceeded the resources invested in light industry. The establishment of heavy industries had been initiated in the country.

Progress was achieved in agriculture as a main branch of the economy. Tangible results can be attri-



buted to the mobilization of great resources for agricultural development, irrigation construction and virgin land development, agrarian reforms and the undermining of the feudal system and the "green revolution". The number of landlords and farmers who adopted modern management principles grew significantly. The agricultural output rose more than 1.5 times during the two decades under review. The most outstanding progress in this field was accomplished in the second half of the sixties when the introduction of high-yielding varieties led to a considerable increase in the production of rice and wheat. It is true that because of the rapid growth in other branches of the economy the proportion of agricultural production in the national product declined from 60 % at the beginning of the fifties to 46 % at the end of the next decade.

Highly important for the accelerated economic development of Pakistan was the increase in the saving rate from 5 % in 1949—50 to 16 % in 1969—70. The major part of the savings originated from internal resources and was mainly financed at the expense of capitalizing profits in large-scale industry, trade and the credit system. Compulsory savings made from taxes and deficit financing were no less important. The significant growth in the saving rate facilitated extensive investments, which were mainly made in industry. Industry received about one third of the total investments, hydropower engineering and land improvement one sixth, and transportation and communications about one sixth, too. Investments of the consumption expenditure nature accounted for a quarter to one third of the total investments and declined in the period under review.

In all these achievements the way was led by the government. In Pakistan as in many other developing nations the increased prominence of the state in the economy resulted from the need to get rid of the vestiges of the colonial past, to defend the national interests in the face of neocolonialism; the relationship of the internal class forces and the pressure from below

which made the government make great efforts to speed up growth rate. This has led to the expansion of the public sector in the economy and the government's more active economic policy. The government has assumed the responsibility for the non- or low profitable sectors of the economy and rendered great assistance to the private sector. The significance of the part played by the state in the economy culminated in the development and implementation of the five year plans for the country's economic development.

There were, moreover, a number of factors that impeded Pakistan's economic growth during the period under review. It concerns the erstwhile agriculture is involved here. One of the main reasons for the low growth rate in agriculture was the fact that the agrarian reforms of the fifties only succeeded in modernizing the backward production relations but not in working a radical change. Agriculture is a highly important branch of any economy and especially of one where it supplies half of the national product. The agricultural production should be able to provide food for the growing population and raw materials for the developing industry. When agriculture produces a major share of the export products, it provides for various imports from abroad including industrial equipment and machinery from more developed economies. The growth in labour productivity in agriculture would ensure a supply of labour to industry and other rapidly developing sectors. Finally, the developed agriculture and increased incomes of the rural population ensure a market for the national industry. Therefore, slow progress in agriculture has impeded the development of many other sectors of Pakistan's economy.

The growing inequality in income distribution has had a negative effect on Pakistan's economic development. It has been a nation-wide process which was especially sensitive in the urban areas. There was a decrease in the real wages of industrial, construction and other workers. In most capitalist countries the wage of industrial workers accounted for 40—50 % of the value added

in industry while in Pakistan it was about two times less and dropped from 25 % to 20 % in the sixties. The reverse side of this process was the growth in profit made by industrial bourgeoisie: by the end of the sixties it had exceeded two-thirds of the value added product in large-scale industry. The number of Pakistan bourgeoisie increased and they concentrated huge amounts of capital in their hands. The inequality in income distribution continued to grow in rural Pakistan.

All these economic difficulties in Pakistan were aggravated by the increasingly rapid population growth. If in the first half of the twentieth century the population of the areas which acceded to Pakistan grew on average 1.2 % per year, then in the fifties its growth rate reached 2.4 %. The next decade saw a significantly greater growth in population increasing 1.5 times at an annual growth rate of 3 % on average. This resulted in the slowing down of the per capita income growth as compared to the growth rate. In the fifties the annual growth rate of per capita income was only 0.15 % and in absolute figures it went up from Rs. 311 at the beginning to Rs. 318 at the end of the decade. During the next decade the per capita income growth rate rose to 2.4 % per year on average. The absolute value of the per capita income increased considerably to the level of Rs. 380 in the sixties. It was, however, only a small increase compared with the figures for other countries. In dollars, the per capita income of Pakistan was 152 as against 259 in the Philippines, 365 in Malaysia, 407 in Iran, 2, 163 in Britain, and 4, 799 in the United States in 1970.

So, from 1947 to 1971 Pakistan achieved significant progress in its economic development. At the same time, slow progress in agriculture, growing inequality in income distribution, increased population growth and some other economic factors impeded development, restricted the per capita income growth, and contributed to the very low living standards of the working people. This hampered the development of people as a major produc-

tive force in society, their educational level, special training and general culture. In an effort to appropriate a greater part of the national income the Pakistan bourgeoisie and other exploiter classes hindered the development of this major economic growth factor.

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