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NOTES ON INDUSTRIALIZATION AND INCOME DISTRIBUTION IN PAKISTAN

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Stephen R. Lewis, Jr.*

Introduction

These brief notes are divided into four parts. First, there is a short discussion of the mechanism of economic growth which causes per capita income to rise and which, in the course of economic growth, raises the incomes of lower income groups. Second, there is a discussion of facts, or artifacts, of industrialization and industrial growth policies in Pakistan as they relate to the distribution of income in that country. The question of why concern with the distribution of income has recently emerged as a major issue in Pakistan is also raised. Third, there are some observations on the major issues in income distribution as they relate to industrialization and industrial policy, at least as they are seen by one economist. Finally, there are some concluding comments on concerns about the future.

I. Why Does Per Capita Income Rise?

Since an implicit or explicit model of economic growth is important to the way I think about the distribution of income, it is well to sketch that model briefly so that those reading the interpretations later in this paper will understand the frame of reference. In aggregate terms, per capita income rises during the course of economic development because of (i) a

* An earlier version of this paper was presented to the Conference on Economic Growth and Distributive Justice in Pakistan, held at the University of Rochester, July 1970. Comments by Paul Clark have been helpful in revisions.

rise in the level of physical capital used with each laborer, (ii) the education of each member of the labor force, and (iii) technical change which is not directly attributable to either capital or labor.[1] In more disaggregated terms, there are two major sources of rising productivity of labor and of per capita income.

First, there is rising productivity of labor in each sector of the economy, particularly in the agricultural sector in those countries which are predominantly agricultural. This rise in per capita production in each sector comes about not only from an increase in reproducible capital per worker and from improved forms of reproducible capital, but also from a more educated labor force and from "pure" technical change in each sector.

Second, there is a transfer of labor from sectors and sub-sectors where the productivity of labor is low (much of agriculture, small-scale industry, and large portions of the service industries) to modern sectors of the economy in which the productivity of labor is much higher (large-scale manufacturing industry, modern services, and parts of agriculture). In this process of resource transfer and capital and technological accumulation, lower income classes in the economy participate in economic growth both through becoming educated and employed in rising-productivity parts of traditional sectors, and especially through participation in the shift of the labor force from low productivity to high productivity sectors of the economy.[2]

The basic model underlying much of the structure transformation of economies as they have moved from underdeveloped to more developed states is, in my view, best expressed in the two-sector model outlined by W. Arthur Lewis, and based on the classical models of Adam Smith, Ricardo and Marx.[3]

The mechanism of the two-sector model emphasizes the shift of the labor force from low productivity uses in the traditional sectors (particularly agriculture) to the high productivity uses of labor in the modern sectors. Wages paid in the modern sector are related to the productivity of labor in the traditional sector, though modern sector wages are generally somewhat above those in the traditional sector. The difference between value added and the wage bill in the modern sector is profit (or "surplus"), which is assumed to be saved and reinvested in very large proportions. As the modern sector grows relative to the rest of the economy, therefore, the share of profits, and the share of saving, in income rises. As saving and investment rise, the overall rate of growth of the economy increases.

The reason one can be "sure," in terms of the model, that the profits' share (and, therefore, the savings share) in income will rise is that labor is not bid away from the traditional sector but moves freely, since it is in relative surplus in the traditional sector. This mechanism, as emphasized by Arthur Lewis in his original and in subsequent articles, works regardless of whether the capital in the modern sector is owned publicly or privately. The labor force is absorbed into the modern sector at higher wage rates than they had been enjoying in the traditional sector, so that despite a rising <u>share</u> of profits in total income there is also a rising <u>total</u> wage bill, and a rising wage rate per laborer throughout the economy, due to the shift of labor from low to high wage sectors. As the share of the labor force in agriculture (and other traditional sectors) falls, average productivity, and average wage rates in the traditional sector will also rise. Since modern sector wages are related to average productivity in the traditional sectors, the shift of the labor force from low to high productivity uses pulls along productivity in the traditional sectors, even if no efforts are made to raise productivity there as well.[4]

The mechanism of growth outlined in the Arthur Lewis model will fail to function if the rate of saving and the rate of investment in the economy do rise as the transfer of resources from traditional to modern sector uses takes place. This failure of the saving rate to rise can occur either because wage rates paid in the modern sector rise too rapidly and absorb the profits that would have been saved, or because the profits' share is not saved but rather is consumed.[5] If capital in the modern sector is publicly owned, the major danger to the mechanism of growth is that wage rates will rise in the modern sector relative to the traditional sector and that insufficient profits or surplus will be left at the hands of the public sector for reinvestment purposes.[6] If there is private ownership of capital in the modern sector, then the mechanism of growth might fail for any one of three reasons: first, there may be upward pressure on wages due to social legislation or union pressures which keep the share of profits or surplus (and therefore saving) from rising; second, even if the profits' share stays high, the private capitalist may choose to consume rather than reinvest, which keeps the saving rate from rising; or third, the development of a more wealthy class of capitalists in the modern sector with obviously high levels of income and luxury consumption may be politically intolerable. (If the government could induce private capitalists to continue to make high profits while the government taxed away virtually all of those profits and reinvested them themselves, the mechanism could continue. This option should be pushed much further than it has been in Pakistan.) In any case, if the mechanism of growth in the two-sector model does fail to function, one must face up to the question: what are the alternative ways of providing for capital accumulation and the rising share of saving and investment in total income.

II. Artifacts of Industrialization in Pakistan

The basic description and interpretation of industrial growth in Pakistan has been written up widely and will only be referred to briefly here.[7] It should be pointed out that we are mainly concerned with large-scale manufacturing industry, which could be equated roughly with the modern sector as understood in the two-sector model. Pakistan has enjoyed an extremely rapid rate of growth in the modern or large-scale sector for the past twenty years, though there has been substantial deceleration within the last five years for a variety of reasons. At the same time that there was rapid industrial growth, however, there has been relatively slow growth in the rate of per capita income, with per capita income virtually unchanged in the decade of the 1950's, and a 2 to 3 percent a year increase in per capita income in the 1960's. The increased growth in the 1960's was due primarily to an increase in the growth rate of agriculture. The share of both investment and saving in national income did rise over the last twenty years, and undoubtedly a large part of the increased saving ratio was due to a rising share of profits in income. There was heavy import substitution in manufacturing, and there has been a substantial expansion of manufacturing exports as well. The rising share of profits in income was heavily influenced by government policies which used a set of exchange controls, over-valuation of the currency, and import licenses, as well as tariffs and indirect taxes, to turn the terms of trade domestically against the agricultural sector. These policies resulted in a very substantial transfer of income from agriculturists to industrialists and import traders.[8]

In terms of the distribution of income, it was undoubtedly people who were already in the upper end of the income distribution who received most of the benefits from the industrial policies that were followed (in terms of large profits going to import licensees or to producers of goods in highly protected markets domestically). It is not at all clear what range of income classes suffered in the agricultural sector from the transfer of income out of agriculture. In West Pakistan, since most marketings are done by relatively larger farmers, and since the adverse terms of trade would only affect those who were heavily in marketing of agricultural produce, it is likely that the size distribution of income, in terms of the share going to the lowest classes of the population, may not have been adversely affected by industrialization and trade policies. Indeed, to the extent that food grain prices were kept relatively low all over the country, many smaller farmers who are net purchasers of food grains undoubtedly benefitted from this type of policy. In East Pakistan the situation is much less clear, since the distribution of land ownership is much more even in East Pakistan and many small farmers are heavily engaged in marketing of commercial crops, particularly jute. Therefore, the indus- policies which affected agriculture undoubtedly had a more adverse effect on the size distribution of income in East Pakistan.

The industrial policies also affected the distribution of income between East and West Pakistan, a subject which is too broad to be more than raised here. Certainly there was a major transfer of income from East to West Pakistan, particularly in the 1950's. I would only observe in passing, however, that the regional income transfer from East to West Pakistan seems to have been largely a question of the transfer of income from agriculture to manufacturing, so that its intentions, at least, were not as insidious as might be supposed from the existing artifacts on the size of that regional transfer of income, though other evidence points to considerable conscious discrimination against East Pakistan per se by policy makers.[9]

The industrialization policies also benefitted some workers, since manufacturing wages were relatively high compared to agricultural wages, and those who were fortunate enough to find employment in manufacturing participated in the growth process through a sectoral transfer of labor, as described in the two-sector model above.[10] However, the available data suggest that during the 1950's only about 5 percent of the increase in labor force was able to be absorbed by large-scale manufacturing, and while this figure is undoubtedly somewhat larger in the 1960's (though data are not yet available), it is clear that value added in large-scale manufacturing industries has grown much more rapidly than has employment in those industries.[11]

The real wage rate in the modern sector has stayed relatively low (at least until recent events), as A. R. Khan has shown. It should be clear from an analysis of the two-sector model, however, that real wages in the modern sector "should" have stayed low, if we are to believe economic analysis at all. Productivity of labor in agriculture was not increasing to any marked extent over this period, and therefore the opportunity cost of labor to the modern sector was not increasing, leading one to suggest that wages should not have increased. A few more comments on wage increases appear below.

The other important fact, or observation, about industrialization, especially beginning in the early 1960's, was the large concentrations of wealth that were becoming extremely obvious in all the major cities of East and West Pakistan. These concentrations of wealth were undoubtedly fostered by the trade and industrialization policies which tended to raise profit share in total income well above what they would have been under free market conditions. The higher visibility of extreme wealth in the cities, the lack of rapid growth of the labor force in the modern sector, the continuation of the income distribution problem between East and West Pakistan, and the social and political stresses between "old" agricultural and "new" modern industrial people and families in the economy all undoubtedly contributed heavily to the political importance of the income distribution issue in the late 1960's, and they will undoubtedly have a major effect on economic policies for the 1970's.

III. Issues and Observations

1. It should be mentioned at the outset, though it is often forgotten in polemics on income distribution, that Pakistan is an extremely poor country in terms of the average level of income. It is even poorer in terms of the income of the average person (median income). Thus, while there is great wealth in some parts of the country, and extraordinarily high incomes for a very small percentage of the population, a perfectly even distribution of income would leave everyone in the country in a state of abject poverty, rather than having only 75

percent of the population in that state. There would undoubtedly be substantial gains in the level of material well-being for the people at the very bottom of the income distribution, since, according to Bergan's figures for 1963/64, the per capita income of the poorest 20 percent of the population could be tripled or quadrupled by re-distributing to it the income received by the top 5 percent of the population, though it is unrealistic to think of redistribution on such a scale.[12] It is clear that the rich in Pakistan are not doing their share for the development effort or for supporting government services;[13] it should also be clear that a more even distribution of income would certainly not help reach the millenium in the short run.

2. It should also be pointed out that the magnitude of the "maldistribution" of income that has been brought about by industrial policies is relatively large when compared with domestic saving, but rather small when compared with total income. In 1964/65, value added in large-scale manufacturing industries amounted to a bit more than 7 percent GNP. Based on data for 1959/60 census, approximately two-thirds of that, or perhaps 4-1/2 percent of GNP, would have been profits, depreciation, interest, and rent. Therefore, gross profits of manufacturing enterprises could hardly have been more than 4 percent of GNP, a figure which, though large relative to the small percentage of individuals who owned most of the large-scale manufacturing industry, was relatively small compared with the rest of national income. Since a substantial portion of gross profits were either taxed or were saved, the industrial sector probably contributed over 20 percent of gross domestic saving and 5 to 10 percent of government revenue through corporate taxes in the mid-1960's.[14] Despite the fact that the manufacturing share in saving is larger than in GNP, it should also be clear that the relative size of manufacturing is such that agricultural policies

with respect to distribution of income and the generation of saving will continue to be much more important than industrial policies for sometime to come, in terms of the quantitative impact on the economy.[15]

3. It is important to recognize that there will be inequality in the distribution of income, due to variations in skill and education, relative shortages of certain kinds of labor and in certain areas of the country, even if there were equality in the distribution of property income (which there is not). The question that has to be faced by government officials, politicians, economists, and civil servants is how much inequality, for what purposes, and how to shape economic policies affecting the distribution of income. Even in the major Socialist countries that have experienced economic development there have been rather substantial differentials in wages and salaries, and this will continue to be the case, in my view, for the foreseeable future. This fact, or artifact, is partly due to the necessity of wage differentials in order to allocate scarce resources efficiently.

Also, to the extent that the government is committed to a basically private-property-oriented development policy (and to depart from this would entail not only economic changes but major social and political upheaval as well) there will be a distinct relationship between the distribution of income and the size of the saving rate in the economy, since most studies of saving indicate that there are different substantially marginal propensities to consume out of different types and size distributions of income. Therefore, in thinking about distributional policies as they relate to industrialization for the 1970's, or in evaluating the performance of the economy over the last two decades, we would all do well to concentrate not on the fact that there has been or will be inequalities in the distribution of income, but rather on the effects of various policies on the size distribution of income and the effects of those same inequalities on such variables as the efficiency of resource allocation, the geographic distribution of economic activity, and the mobilization of resources through private saving and taxation for the development effort that have resulted from those policies and inequalities.

4. It seems quite clear that the industrial policies of the last two decades have aggravated the unequal distribution of income in Pakistan.

They have done so directly through transferring substantial amounts of income from agriculture to the industrial and commercial sectors through the control system, the currency overvaluation, and the import licensing system.[16] In a sense, agriculturists were forced to surrender valuable commodities at well below their real value to the economy in exchange for manufactured goods that were priced well above the prices at which they would be traded internationally. The differential between the prices they paid and the prices they received were in effect a tax on agriculture that went primarily to industrialists and traders who received import licenses to purchase goods at very low cost and were able to re-sell those goods in a highly protected domestic market.

Industrial policies have aggravated the income distribution indirectly through encouraging a high capital intensity of large-scale manufacturing (by making easy access available to cheap imported capital goods) and by discriminating against small-scale industry through the detailed and elaborate licensing procedures for imports of capital goods and raw materials. Both of these indirect effects resulted in a slower rate of growth of unemployment in the relatively high-wage sector of the economy than would have been the case with a similar amount of capital formation allocated differently, i.e., to firms with lower capital/labor ratios. In other words, given the volume of manufacturing investment that took place, if firms had been induced to use larger amounts of labor relative to the amount of capital that they had (by charging higher prices for capital goods and for foreign exchange) the volume of labor absorption into the high wage sector of the economy would have been greater, and the resulting distribution of income in the economy would have been more even, as people moved from low wage employment in agriculture and traditional services into higher wage employment in manufacturing.

Policy changes that would raise the price of capital goods to all users are a vital part of improved policies for the 1970's, if income distribution is to be improved without retarding the rate of growth of output.[17] First, such evidence as exists suggests that small-scale firms, which have not had privileged access through import licenses to imported capital goods at the official exchange rate, have used much higher labor/capital ratios, and lower capital/output ratios, than large-scale, privileged firms. Thus, even within similar industries, higher prices of capital goods would encourage greater use of labor per unit of imported capital. Second, higher prices of capital goods would change the composition of investment by industry away from more capital intensive, toward more labor intensive industries, increasing the employment effects of given levels of investment. Third, since many of the capital-goods industries in the metal-working sectors of manufacturing are more labor intensive than the average manufacturing industry, higher prices for imported capital goods would increase profitability in that industry group, and provide incentives for investment in more employment-intensive industries.

5. Presumably, what irritates people most about the unequal distribution of income is the distribution of profit income. There seems to be much less concern (in political terms) for the unequal distribution of land and of agricultural income, though this is such a large issue that it deserves special treatment of its own. In addition, one hears few complaints about the fact that high level civil servants may earn twenty to thirty times the average family income in the country. Presumably, most of the concern is with people who have fifty or more times the average family income. So, I limit my concern here to profit income, which has the convenient advantage of overlapping very considerably with the industrial sector.

In thinking about the problems of the distribution of profit income, it is important to distinguish between economic profits, which come from successfully taking economic risks, from making more efficient use of resources than do other producers of similar products either at home or abroad, etc., and economic rents which, though accounted for in business firms as profits, really come from exploiting a monopoly position in a protected market, or from privileged access through government policy to licenses to import at well below real costs. Economic profits perform a function in a private enterprise or mixed economy. Indeed, discussions in the last decade in the Socialist bloc countries have pointed to the importance of economic profits in terms of both indicators of efficient resource use and incentives for innovation, risk taking, and technical progress. Profits which occur in the form of economic rents, do not perform any economic function, and are really transfer payments from other sectors of the economy. Worse still, economic rents coming from special privileges or protections make it possible for a firm to show a profit in a bookkeeping sense at a time when their economic profits are negative, i.e., indicate a misallocation or waste of society's scarce resources.

In my view, one of the principal problems of Pakistan's industrial development is that much if not most profits were due to economic rents that resulted from government licensing and protection policies. Indeed, economic profits may have been negative for many industries in many years.[18] Thus, while the government policies have influenced the level of saving in the economy, and while they have encouraged capital formation in many urban areas, they have done so at the cost of a manufacturing sector with substantial degrees of inefficiencies in it, and they have contributed to a more uneven distribution of income as well. This set of circumstances is not an inevitable outcome of economic growth through the development of a privately owned large-scale manufacturing sector. Economic policies followed by the government do make a difference. For example, higher prices for foreign exchange and for capital goods, less dependence on import licensing, etc. and more dependence on tariff policy and indirect tax policy could have succeeded in turning the terms of trade against agriculture, and transferring income out of agriculture, but could have transferred more of the income to government and to the labor force in the manufacturing sector (see 4. above) and much less to profits of traders and manufacturers. Such a set of alternative policies would also have helped to promote more efficient use of imported raw materials and capital goods, and of domestic labor.

6. Since many people are gravely concerned about the mal-distribution of income resulting from a high share of industrial profits in income, what should one do about it? I will state categorically that I feel that a policy based primarily on raising wages of industrial workers would be a most unfortunate solution both economically and, with a lag, politically as well. Real wages in manufacturing in Pakistan should be set primarily by productivity in agriculture. Real wages in manufacturing are already, it seems, substantially higher than wages in the agricultural sector.[19] As the agricultural sector increases its labor productivity, real wages in manufacturing will rise also. However, to artificially raise real wages in manufacturing, simply because one is upset at the wealth of industrialists, would create a situation out of which many countries are now trying to extricate themselves.

The literature abounds with references to African and Latin American countries particularly, though not exclusively, where a widening gap between manufacturing wages in urban areas and other activities has led to excessive migration to the cities, wide-spread unemployment in urban areas, and attendant political and social unrest which becomes increasingly difficult to manage in the round of policy decisions that will have to be made five years hence. Also, higher wages for industrial workers, if one holds the rest of the variables in a system unchanged, will tend to make decisions about the capital/labor ratio used in new investments even worse than they have been in the past, and will cut down the rate of growth of employment, further aggravating both the problem of efficient resource use and the problem of income distribution in the country as a whole as well as that of unemployment in the urban areas. That there is large-scale concern for this problem around the world is evidenced by the recent International Labor Organization Conference on the World Employment Program.[20] Regardless of whether capital in the manufacturing sector is publicly or privately owned, real wages in manufacturing should not rise out of line with incomes in agriculture, or there will simply not be enough resources left for saving and re-investment.

If Pakistan continues to have a mixed economy in the manufacturing sector, the incentive system must be straightened out to remove the windfalls going to domestic monopolists and licensees from too low a price for capital and foreign exchange. The answer is not in simply raising wages. In the past, the tax and tariff system has only nibbled at the enormous windfalls that have gone to the industrial and trading sector. In brief, the tax-tariff-licensing system has operated in the following way: the currency is overvalued and tariffs are low; this leads to excess demand for capital goods and raw materials, which are then rationed by the import licensing system; the rationing at low prices results in windfalls and high profits to licensees; the high profits lead to outrage among officials, who impose high tax rates; the rates are so high that evasion is wide-spread and substantial tax concessions are made for many industries, and for all industries in some geographic areas, which mitigates the attempt to tax away the windfalls; higher import duties are resisted because they would "discourage investment." Thus, the system fails both in its attempt to use resources well and in its attempt to improve the distribution of income. Simply raising, or enforcing, corporate profits taxes would have some short-run effect in narrowing the distribution of income but would not improve resource allocation and so would not have the important but indirect effect of improving the employment impact of new investment through better pricing and would be a case, as I have argued elsewhere, for lower corporate income taxes to favor saving and re-investment if these were accompanied by much higher charges for capital goods, raw materials, and other imports, and if one wishes to encourage private saving in such a way.[21] This package of taxes could be combined with a much better enforcement of the existing high rates of personal income taxation, which are on the tax books but which are apparently not enforced or utilized effectively.

7. In devising policies for the 1970's, we should all seek to remember that richness does not imply monopoly control of industries and their prices. Nor does monopoly control imply richness. There has been some confusion on this point in discussions I have heard in the past with respect to the Pakistan situation, and it is important to recognize that policies for dealing with monopoly are generally quite different from those that are necessary to deal with an unequal distribution of income.

IV. Concluding Comments

Since these notes are both brief and partial in coverage, a summary is hardly warranted. I only wish to emphasize one or two points raised earlier and to make a strong plea for candor in discussing the options for the future.

First, major emphasis in discussions of future policy relating to income distribution, or "distributive justice" in Pakistan needs to be given to the distributive aspects of agricultural policy, in view of the fact that agriculture still affects vastly more people and more income than does the manufacturing sector. For example, I would surmise that decisions made about the pricing policy for food grains in West Pakistan, because of a variety of complex interdependent variables, will have more effect on the economic well-being of poor urban people in East Pakistan than any conceivable set of policies related to industrial growth could have in the next five years.

Second, it is important that one keep in mind a major piece of reality: that even a most radical re-distribution of income will not help bring lower incomes up a great deal under present levels of per capita income. Because of basic scarcity of resources and low levels of productivity throughout the economy, one cannot expect to both increase wages and increase employment at higher wages in the short or even the intermediate run. In real terms, resources for short-run industrial wage increases would have to come from some other place in the economy; and to the extent that they did not simply come from luxury consumption, would cut into saving or taxes. In the longer run, of course, real resources for wage increases come from rising productivity and increased capital stock, or the cumulative effects of economic growth.

Third, my principal worry is that the very legitimate and timely concern over income distribution not result in half measures that could make the poorer parts of the population worse off a short time hence by making the income distribution somewhat better now. It would be very easy to fall into this trap by simply raising wages, for example, causing some pockets of higher income at the expense of increased migration, urban unemployment and social unrest.

Finally, real candor is called for in discussing the major policy options that are open. Those who have said that saving, investment, and growth would have been higher with a different set of social and economic policies which did not rely on transferring income into the hands of private capitalists but would have relied primarily on public ownership in the manufacturing sector, re-distribution of land in agriculture, etc. must face up to the reality that, beyond some point, the "reforms" necessary to institute major policy changes constitute not reform but revolution in the political structure and the social fabric as well as in the economic structure.[22] Simply arguing for high taxes on large land-holdings or major land reforms or major changes in the public/private ratio of ownership of manufacturing assets without coming to terms with the political power of large landlords or large businessmen is not only futile; in some instances, particularly when argued by wealthy landed politicians, it is simply dishonest.

FOOTNOTES

1. See Harry G. Johnson's Wicksell Lectures, reprinted as a special supplement to the Pakistan Development Review.

2. See B. F. Johnston, "Agricultural and Structural Transformation in Developing Countries," Journal of Economic Literature, June 1970.

3. W. A. Lewis, "Economic Development with Unlimited Supplies of Labor," The Manchester School, January 1954.

4. This is not, as some have alleged, an argument for neglecting agriculture. Raising agricultural productivity by means other than the removal of labor is an important condition of sustained economic progress. Indeed, if the total labor force grows too rapidly, relative to the non-agricultural labor force, average productivity in agriculture may fall. On this and related points, see B. F. Johnson, op. cit.

5. The assumption, which has considerable empirical justification, is that the marginal propensity to save out of wages is considerably below the marginal propensity to save out of profits.

6. Concern over this aspect of public sector investment has often been expressed in India, for example. There is also the possibility that profits in public enterprises may be low because of (1) general inefficiency in the absence of a profit motive of managers, and (2) a choice of unprofitable lines of investment by public sector corporations. See J. N. Bhagwati and P. Desai, India: Planning for Industrialization, London, 1970 for extensive discussion.

7. See, *inter alia*, G. F. Papanek, *Pakistan's Development*, Cambridge, 1968; S. R. Lewis, Jr., *Economic Policy and Industrial Growth in Pakistan*, London, 1969; S. R. Lewis, Jr., *Pakistan: Industrialization and Trade Policies*, London, 1970; generalizations made in this section come from these three sources, unless otherwise noted.

8. See the illustrative estimates given in S. R. Lewis, Jr., "Discussion: Inter-Relations Between Agriculture and Industrial Development," *Journal of Farm Economics*, December 1967, or the more hypothetical ones given in A.H.M.N. Chowdhury, "Some Reflections on Income Redistributive Intermediation in Pakistan," *Pakistan Development Review*, Summer, 1969.

9. See Chapter VI, "Regional Development and Policy," in Lewis, *Pakistan: Industrialization and Trade Policies*, *op. cit.*, for discussion of this point.

10. Compare, for instance, the data on East Pakistan's rural wages in 1962 and 1963 from S. R. Bose, "The Trend of Real Income of the Rural Poor in East Pakistan," *Pakistan Development Review*, Autumn 1968, which are Rs. 602 (average of 1962 and 1963) with those for large-scale manufacturing in East Pakistan in 1962/63 which are Rs. 1057 for all industries and Rs. 1067 for textiles, as estimated in A. R. Khan, "What Has Been Happening to Real Wages in Pakistan?" *Pakistan Development Review*, Autumn, 1967.

11. See Lewis, *Pakistan: Industrialization and Trade Policies*, *op. cit.*, especially Chapter III.

12. See A. Bergan, "Personal Income Distribution and Personal Saving in Pakistan, 1963/64," Pakistan Development Review, Summer 1967, for the only complete information available, to my knowledge, on the overall distribution of income in Pakistan.

13. This reflects my personal judgment, but I suspect it would be widely shared, as exemplified by the conference at which this paper was presented.

14. See Chapter III of Lewis, Pakistan: Industrialization and Trade Policies, op. cit., where there is an attempt to reconcile a variety of corporate saving estimates given by Papanek, op. cit., Bergan, op. cit., and K. Haq and M. Baqai, "Saving and Financial Flows in the Corporate Sector, 1959-63," Pakistan Development Review, Autumn 1967. The 20 percent figure is one suggested by such a reconciliation.

15. The report and working papers in the study conducted for OSTI, cambridge, Massachusetts by W. P. Falcon and C. H. Gotsch, on Agricultural Price Policy for West Pakistan, contained considerable discussion of the income distribution effects of a wide variety of policies affecting agriculture.

16. For detailed discussion of this mechanism and its effects on industrial growth, see Lewis, Economic Policy and Industrial Growth in Pakistan, op. cit.

17. Numerous people have expressed similar sentiments for many years, with most of the suggestions running into a stonewall of opposition in the business community and among some government servants, who argued that higher capital goods prices would "discourage investment" -- despite considerable evidence of substantial excess demand for capital goods

at the existing levels of exchange rates and tariffs. Voices crying in the wilderness have included M. Haq, The Strategy of Economic Planning, Karachi, 1963.

18. For documentation see S. R. Lewis, Jr. and S. E. Guisinger, "Estimating Protection in a Developing Country: The Case of Pakistan," Journal of Political Economy, November/December 1968, or similar results related by G. C. Hufbauer, "West Pakistan Exports: Effective Taxation, Policy Promotion, and Sectoral Discrimination," Economic Development Report No. 118, Development Advisory Service, Harvard University, 1968, and Nurul Islam, "Comparative Costs, Factor Proportions, and Industrial Efficiency in Pakistan," Pakistan Development Review, Summer 1967.

19. See note 10. above.

20. See the papers of the Conference, especially the summary presentation by W. Arthur Lewis, in International Labor Review, May 1970.

21. S. R. Lewis, Jr., "Aspects of Fiscal Policy and Resource Mobilization in Pakistan," Pakistan Development Review, Summer 1964.

22. I have always thought the article by my close friend K. B. Griffin that aroused considerable interest in Pakistan lacked candor by not pointing out that political and social revolution was probably implied in order to implement the "alternative strategy [for]... mobilization of domestic resources See "Financing Development Plans in Pakistan," Pakistan Development Review, Winter 1965. That such lack of candor can be misleading to others is illustrated by the views presented in A.H.M. Nuruddin Chowdhury, "Economic Policy and Industrial Growth in Pakistan - A Review," Pakistan Development Review, Summer 1970.