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INDIA AND PAKISTAN:

THE EFFECT OF DEVELOPMENT STRATEGY ON GROWTH, EFFICIENCY, EQUITY AND POLITICS

by

Gustav F. Papanek

To be Presented at the Torremolinos Conference of the
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Gustav F. Papanek

India and Pakistan: The Effect of Development Strategy on Growth, Efficiency, Equity and Politics

A comparison of India and Pakistan** deals with countries that were one until 1947, and still have similar economies, institutions, and people. The effect of differences in development strategies and policies can, therefore, be seen more clearly than in comparisons of countries with little in common.

Differences in strategies were most pronounced during the 1960's when Pakistan achieved a rate of growth approximately 50 percent higher than India's, although the rate of investment in the two countries was not significantly different. The reasons for this difference in the efficiency of capital use of the two economies during this period are probably the most interesting lessons that can be drawn from their experience. It was also this period which sheds the most light on one of the crucial questions of economic development: the extent to which the achievement of a high rate of growth is compatible with or

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*The statistical legerdemain for this paper was performed by Susan Cowan Jakubiak and Nancy Hammett. I am grateful for the comments and help of Walter P. Falcon, Morton C. Grossman and Hanna Papanek.

This paper is, to a considerable extent, an updating of the pioneering effort by E. S. Mason comparing the two countries. ("Economic Development in India and Pakistan," Occasional Papers in International Affairs, No. 13, September 1966, Center for International Affairs, Harvard University.)

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**This paper was originally prepared in 1969 and revised in 1971. It covers the period to 1969/1970, before the serious events of 1970/71 which led ultimately to the breakup of Pakistan. Since it focuses on a comparison of India and Pakistan, it largely ignores the intra-country differences and conflicts in both countries, which played such a large role in Pakistan's disintegration.

What is now the country of Bangladesh is referred to as "East Pakistan," its name during the period under review.

in conflict with the objectives of greater equity. It is difficult to reach any definite conclusions on this question because data are simply not available, but some analysis of the problem is possible. Other, somewhat less illuminating, contrasts can be drawn during the 1950's when India's growth rate was substantially higher than Pakistan's.

Since an analysis of all these periods inevitably rests on comparisons of time series, one needs to be concerned with the reliability of available statistics and with their comparability. These issues are examined later in this paper and in a lengthy statistical appendix.

I. Growth and Efficiency

Overall Growth and the Curious Effect of Weighting

Given the usual caveats about the reliability of satistics, overall growth was substantially higher in India in the 1950's and substantially higher in Pakistan in the 1960's.

Table 1

Growth Rates in the Gross Domestic Product of India and Pakistan* - 1949 to 1970
(Compound annual rates in percent)

	1949/50 - 1959/60		1959/60 - 1969/70	
	India	Pakistan	India	Pakistan
Agriculture	2.7	1.3	1.7	3.5
Manufacturing**	6.7	20.5	6.9	12.4
Other	4.1	3.2	5.1	6.9
Total product	3.8	2.6	3.8	5.8
Population	1.9	2.3	2.2	2.6
Product per capita	1.8	0.3	1.6	3.1

*For sources and methods of calculation see Statistical Appendix, but note that growth rates for agriculture are trend values, not initial-year/terminal-year comparisons.

**"Large scale" only

Part of the difference in overall growth rates during the 1950's was due to a statistical structural effect, which may be of importance in comparisons of growth among other countries as well. Obviously if two countries achieve identical growth rates in all sectors, but start with a different sectoral structure they will have different growth rates in national product. A simple comparison of total product growth rates may, therefore, indicate very little about the extent and efficiency of the effort made by the two countries. Almost universally, less developed countries have found high rates of growth easier to achieve in industry than in agriculture. The country with a higher proportional contribution to its national product from industry will then show a higher overall growth rate, even if the growth rates of every sector in the two countries is identical.* A significant part of India's higher GDP growth rate than Pakistan's in the

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* To quantify the importance of this structural factor requires some assumptions. So-called large scale manufacturing, (defined as units employing at least 20 workers and using power) was 6% of India's GDP at the beginning of the 1950's, only 1% of Pakistan's. The question then is: what would have been the likely rate of growth in Pakistan's GDP if it had started from an economic structure like India's. Clearly if Pakistan's manufacturing sector had been 6% of GDP like India's, that sector would have grown more slowly than it did in fact, given its miniscule base. One can assume that Pakistan's industrial growth in the 1950's from a 6% base would have been at the 12% rate which it in fact achieved in the 1960's, when manufacturing did reach 6% of the national product. If Pakistan's growth rate in large scale manufacturing had been 12% instead of 20%, but the base had been 6% instead of 1% of GDP, its overall GDP growth rate would have increased from 2.6% to 3.1% a year; this without taking account of the impact of the higher contribution of industry to growth in such sectors as transport, commerce, and services. Nearly half of the difference in overall growth rates between India and Pakistan would be "explained" by the differences in structure in the base year.

1950's should not be ascribed to differences in development strategy, but to a stock of capital at Independence which included a higher investment in manufacturing. Other reasons for differences in growth will be discussed below, in connection with the analysis of agricultural development.

Investment, Defense and Savings

While part of India's higher growth rate in the 1950's can be ascribed to a different economic structure from Pakistan at Independence, a substantial part of Pakistan's higher growth in the 1960's has been ascribed to more ample foreign aid. The contribution of aid will be discussed after considering investment and savings.

With respect to investment the similarities between the two countries are most striking. Both succeeded in rapidly increasing the rate of investment as a percentage of the domestic product in the fifteen years between Independence and 1964/65 - nearly doubling in India more than quadrupling in Pakistan; both devoted a very large proportion of available resources to non-consumption uses (investment and defense) in the 1960's - between one-fifth and one-quarter of national product. After 1965 the effect of their war, of two years of bad harvests and of sharply reduced foreign aid are evident in a substantial reduction in investment as a percentage of domestic product.

These facts are interesting in the light of some controversies about the development process. First the very rapid increase in the rate of investment in both countries was not accompanied by any deterioration in the efficiency with which the investment was used, according to most observers. A limited absorptive capacity for capital or for foreign aid does not seem to have been a real problem in either country. Second, these very poor countries were able to divert a substantial proportion of their total product from consumption to investment and defense. Their ability, and willingness to do so, is even clearer when a realistic exchange rate is used. Third, and contrary to a good deal of recent analysis, investment generally increased (or decreased) by about as much or more as the increase (or decrease) in foreign resources, mostly aid.* In other words, foreign aid did not seem to substitute for, but to be at least additive to, domestic savings.

Investment as a percentage of GDP seems to have been slightly higher in India in the 1950's and in Pakistan in the early 1960's, but the differences are small in both cases and not much greater than the likely margin for error. Clearly Pakistan expanded its investment more rapidly than India, but the difference in investment rates is simply not significant enough to explain the higher growth rate in Pakistan in the 1960's.

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*There is one major exception: between 1959/60 and 1964/65 India's import surplus increased by 2.5% of GDP but investment by only 1.6%. This was the period when India, after two military defeats, stepped up defence expenditure by nearly 2%.

Table 2

Investment, Defense, Savings and Aid**

(in percent of GDP at adjusted current prices)

		1949/50		1954/55		1959/60		1964/65		1969/70	
		India	Pak.	India	Pak.	India	Pak.	India	Pak.	India	Pak.
1.	Defense	1.5	4.0	2.0	3.8	1.9	3.6	3.7	3.1	3.2	4.2
2.	Investment	11.7	5.3	13.3	10.1	16.4	13.5	18.0	22.0	13.8	15.5
3.	Total non-consumption	13.2	9.3	15.3	13.9	18.3	17.1	21.7	25.1	17.0	19.7
4.	Import surplus* (mostly aid)	0.5	2.5	0.2	0.6	2.0	4.1	4.5	10.6	0.9	5.5
5.	"Savings" (3 minus 4)	12.7	6.8	15.1	13.3	16.3	13.0	17.2	14.5	16.1	14.1
6.	Savings (2 minus 4)	11.2	2.8	13.1	9.5	14.4	9.6	13.5	11.4	12.9	9.9

Sources: See Statistical Appendix.

* In nearly all years the import surplus was almost wholly financed by aid. Foreign private investment made a minor contribution. In 1949/50 Pakistan financed its import surplus by drawing down sterling balances. India drew on its sterling balances in the 1955-58 period.

** These figures have a wide range of error. The probable error has been increased by adjusting various magnitudes to provide for comparable foreign exchange rates for both countries. The whole import surplus was calculated at the accounting rates; defense and investment were adjusted upward to take account of their import component. The absolute percentages above have little validity, but should be roughly comparable.

Defense expenditures should not be neglected in inter-country comparisons, though they almost always are. If the issue is the extent of a country's sacrifice of consumption, military expenditures are relevant, since they involve foregoing consumption, as much as investment. On the other hand, if the issue is the respective development effort, defense, of course, represents simply a diversion of resources. Since the Indian economy was more than four times the size of Pakistan's, the latter's attempt to approach India's military strength meant a much larger relative defense burden.

Pakistan always devoted substantially more resources to defense than India, except for the period from 1963 to 1965 when the military regime of President Ayub Khan kept defense expenditures down for some years and India increased hers after the fighting with China. In other years India's defense expenditures have been twice or thrice those of Pakistan in absolute terms, but in relation to GDP, Pakistan averaged about twice India's. The strain on Pakistan resulting from military expenditures can be seen by the fact that they often totaled one-quarter or more of the expenditure on investment.

These facts can be cited either as evidence that the figure for investment alone is inappropriate to indicate the burden borne by Pakistan's economy in order to support both growth and independence, or that Pakistan's investment was reduced more than India's by the demands of the former's international policies.

The changes in savings in the two countries over time suggest that five factors influenced the savings rate: the previous rate of growth; the availability of foreign exchange; the structure of the economy and especially the size of the manufacturing sector; the ability and willingness of government to collect revenues; and the availability of consumer goods,

especially for the wealthier groups. These factors probably played a role in India's higher rate of savings.

The two periods during which savings declined in Pakistan and the one period when it declined in India all followed years of low growth. From 1954/55 to 1959/60 Pakistan's per capita income at best stagnated. After the 1965 war, the bad harvests of 1966/67 and the reduction in foreign aid which followed the war, both countries went through something of a recession, when growth in the economy was substantially less than it had been earlier in the 1960's. One would expect an effect on savings according to most theories on the subject, and in fact savings did decline. On the other hand, at the end of Pakistan's most rapid period of growth in 1964/65, savings reached their peak.

The effect of growth on savings is difficult to disentangle from the effect of foreign exchange availability, since in general, periods of high growth and of a somewhat relaxed foreign exchange constraint coincided. The problems which caused a setback in growth for both countries after 1965 also reduced the foreign exchange available. The period from 1959 to 1965 when both countries were growing most rapidly was also the period when both received their maximum of foreign aid. Although it is difficult to disentangle the effects of growth on savings from the effects of foreign exchange availability, it is plausible that both were significant. Both countries labored under a serious balance of payments constraint for much of the period under review. Whenever foreign exchange for imported capital goods was particularly difficult to obtain, some savings probably were used for capital flight rather than investment, and therefore did not appear in the savings/investment statistics. Under the same circumstances, some resources would also be used for consumption, rather than saved.

Both these factors would largely produce variations in savings rates

over time in both countries. The third factor, the structure of the economy, in addition to influencing savings over time, may partly explain the higher rate of savings in India throughout most of the period.

At independence, the modern manufacturing sector constituted about six times as high a proportion to the national product in India as in Pakistan. A very rough guess for Pakistan, made elsewhere*, was that industrialists received about one-third of value-added and saved about two-thirds of their returns. If India's industrialists saved at the same rate as Pakistan's, their contribution to savings would explain a significant substantial part of the difference between total savings in the two countries.

The Indian government, for a variety of reasons was more effective in collecting taxes. Government revenues rose from about 8% of GDP to 10% over the 1950's and to an average of about 14% by the mid-1960's. The comparable figures for Pakistan were 6.5% to 9% over the 1950's and an average of less than 12% in the mid-1960's. Largely as the result of greater revenue collections, government savings played a somewhat larger role in India than Pakistan.

Finally, it is plausible (as argued elsewhere)* that savings rates are substantially influenced by the availability of the consumer goods desired by the higher income groups. In the mid-1950's Pakistan largely eliminated the imports of most luxury and semi-luxury goods. The production of such goods was negligible. The savings rate increased very sharply and in the mid-50's, the proportion of the national product devoted to consumption was about equal in the two countries. In India, consumer

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*Papanek, G.F. Pakistan's Development - Social Goals and Private Incentives, Harvard University Press, 1967

goods were more readily available during this period, and savings rose more slowly. By the mid-1960's, Pakistan's austerity had been relaxed, but India had tightened up. Savings in India exceeded those in Pakistan.

The savings comparison between the two countries suggests, even more strongly than the growth rate comparison, that simple quantitative indices of "self-help", or dedication to development, can be quite misleading. Savings are not the only non-consumption use of resources. Defense may need to be taken into account if sacrifice is to be measured. More important, all countries with a largely subsistence peasant agriculture have found it difficult to mobilize agricultural savings. Those with a larger manufacturing sector - or profitable exports - therefore find it easier to achieve a high savings rate. The rate of growth in an earlier period and the severity of the foreign exchange constraint can also affect the rate of savings which can be achieved.

The Role of Aid

It is clear from Table 2 that Pakistan's import surplus was, as a percent of GDP, consistently more than twice India's. For both countries, that surplus was almost wholly financed by foreign aid. In the late 1950's and early 1960's, yearly aid to Pakistan was running at about $250 million. It rose subsequently to a maximum of $650 million in 1964/65, but declined after the 1965 war. The Indian aid figures over this period were quite roughly double those of Pakistan in absolute amounts. Given an Indian GDP which was 4-5 times that of Pakistan, aid made a much greater contribution to Pakistan's resources than to India's.

There were three reasons why Pakistan's aid was significantly higher beginning in the late 1950's: (i) the large country effect. Aid donors have

simply not been willing to provide the huge sums necessary to provide really large countries the same amount per capita as smaller countries; (ii) the closer political relations between Pakistan and the U.S., the principal aid donor for both countries; (iii) Pakistan's better economic performance (i.e.: higher growth rate) in the eyes of the Western aid Consortium. The large country effect was applicable throughout. The political factor, however, changed in the 1960's as U.S. relations deteriorated with Pakistan and improved with India (especially after the 1962 fighting with China). The great increase in aid to Pakistan came between 1959 and 1965 despite this deterioration in political relations. It is, therefore, quite reasonable to ascribe much of the increase in aid to Pakistan during this period to its economic performance, its improved economic policies and programs. There was a beneficent cycle - increased aid was a consequence of improved economic performance, and in turn encouraged and permitted steps that led to further improvement.

The question remains: to what extent can differences in growth between India and Pakistan in the 1960's be explained by differences in aid on the one hand and differences in development strategy on the other.

Aid magnitudes affected the rate of investment, the severity of the foreign exchange constraint on current imports, and the policies adopted by the two countries. These effects will be examined in turn.

The contribution of aid to investment needs to be measured in local currency. However, translating aid dollars (or pounds) into rupees creates problems since the exchange rates of the two countries have differed more than the purchasing power of the respective rupee. To translate aid dollars into rupees at 4.75 to the dollar for Pakistan and 7.5 for India to reflect official exchange rates would understate the aid contribution to the former. By using the higher Indian exchange rates for both (and an average of the 1954/55 and 1964/65 rates for 1959/60) one gets more comparable data and at the same time reflects,

somewhat imperfectly, the accounting price which would be reasonably appropriate for both countries. The result is a synthetic estimate, but one that provides for a more accurate comparison. Such a synthetic estimate, shown in Table 2, indicates that the contribution of aid to investment was at least twice as great for Pakistan as for India.

It is likely that if India had received, proportionately to GDP, as much aid as did Pakistan, its rate of investment and growth would have been higher, and vice versa if the aid to Pakistan had been at India's level. In that sense a substantial part of Pakistan's higher growth rate in the 1960's was possible only because of the higher aid receipts. The Indian ratio of investment to output during the 1960's seems to have been around 4.5 to 1.* At that investment/output ratio a more than twofold increase in aid would have increased the growth rate by less then 1% per annum. The main point, however, is that the rates of investment in the two countries were quite similar. It is therefore quite accurate to say that greater aid for Pakistan enabled that country to reach a rate of investment comparable to India's with a lower rate of savings. With similar rates of investment, Pakistan achieved a higher rate of growth. The different investment/value added ratio between the two countries is not explained by the effect of differences in aid receipts on the rate of investment.

But aid had another effect as well: it allowed Pakistan to operate industrial investment at higher capacity, by financing additional imports of raw materials and intermediate products. In the absence of aid Pakistan's industrial output would have been reduced, but it is unlikely that the magnitude of maintenance aid explains Pakistan's higher growth rate. Despite aid, the lack of maintenance imports seems to have been at least as much a constraint on Pakistan as on India. Between 1950/51 and 1964/65 India's maintenance

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*If the foreign exchange component of investment is valued at an accounting price and the average of the investment rates in 1959/60, 1964/65 and 1969/70 is used.

imports (consumer goods, raw materials and intermediates, except for those going primarily to investment) increased nearly 30% in dollar terms, while between 1949/50 and 1964/65, Pakistan's decreased by 15%.* By the mid-1960's Pakistan had greatly relaxed its restrictions on consumer goods imports, so the difference is hardly explained by differences in austerity. To be sure, part of the explanation lies in the higher growth of import substituting industries in Pakistan. But the difference in trends is too great to support the conclusion that, as a result of aid, Pakistan suffered from a less serious foreign exchange constraint on maintenance imports than did India. Furthermore, at least one analysis concludes that Pakistan actually faced a more serious balance of payments constraint.**

The third effect of more ample aid flows to Pakistan was on government policies. The groups within the Pakistan government who argued that government intervention in the economy should take the form of indirect measures (taxes and subsidies) rather than direct controls (licenses, permits, prohibitions) undoubtedly found their hand strengthened by the availability of program aid designed precisely to support such a shift. Comparable groups in India could not count on the same strength of support. If, as argued elsewhere,*** government intervention was more efficiently accomplished by using the market mechanism than by direct controls, Pakistan was helped to make the policy shift by the availability of more aid than available to India.

In short, the widespread contention that Pakistan's substantially higher growth rate in the 1960's is largely explained by its higher aid receipts, seems to have little basis as far as one can tell from these data. Clearly aid permitted Pakistan to have a higher growth rate than Pakistan would have had with less aid. At lower aid levels

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* Total Indian imports in 1949/50 were not much different from 1950/51, so the difference in initial years should not affect the comparison.

** A. Strout and P. Clark, Aid, Performance, Self-help and Need, AID Discussion Paper No.20, Agency for International Development, July 1969.

*** Papanek, op. cit.

. Pakistan would have faced the choice of stepping up its savings or accepting a lower rate of investment (and defense), and less adequate operation of installed capacity. It is also likely that with less aid Pakistan would not have improved its policy package to the extent it did. But, despite higher aid flows, Pakistan had neither a higher rate of investment than India nor a clearly less serious foreign exchange constraint on operation of existing capital. Therefore, a large part of the explanation for the higher growth rate in Pakistan in the 1960's will have to be found outside the provision of more aid. Three activities need to be prominent in any analysis of the lower output/investment ratio in Pakistan than in India: agriculture, manufacturing and exports.

Agriculture

It is clear that the major cause of differences in overall growth was the higher growth rate of Indian agriculture during the 1950's, and the reversal of that situation in the 1960's. Statistical problems are, of course, particularly serious with respect to comparisons of agricultural output, but that these differences existed does not seem to be in doubt. A number of factors played a role.

After Independence neither country used its best administrators and technicians to deal with agriculture. Pakistan was particularly cavalier about agriculture and particularly insistent on industrial development since the areas that became Pakistan had been major agricultural centers with little industry. (In pro-Pakistan publications they were elegantly called "Hewers of wood and drawers of water.") In addition, the disruption of Partition was more severe for Pakistan's agriculture since a much higher proportion of its cultivators, irrigation officials, processors, and so on were new to their work or were refugees who had to adapt to new circumstances and, in many cases, new technology. The departure of Hindu landlords and technical personnel also disrupted Pakistan agricultural infrastructure.

As a result of neglect and disruption, agriculture in Pakistan lagged more than in India. A change in attitudes began earlier in Pakistan (by the mid-1950's), not because of greater wisdom but because of greater crisis. It came as a real shock to Pakistanis, with an image of their country as the breadbasket of the subcontinent, to find that they faced a severe food shortage. India on the other hand was lulled by relatively satisfactory agricultural progress and was, therefore, less willing to try

new policies. During India's Second Five Year Plan public expenditure on agriculture, irrigation and related activities was about 15 percent of the total development program. In Pakistan the corresponding figure was about 30 percent.

Though attitudes had begun to change earlier, far-reaching changes in policy began in Pakistan only in 1959. In the 1950's Pakistan's agricultural policy package and programs were less effective than India's, in the 1960's the reverse was true. However, part of Pakistan's better relative performance was due to inherited advantages, not better management, and the high agricultural growth rate was limited to West Pakistan. Six factors largely explain the reversal of the relative growth rates in the two countries in much of the 1960's (by the end of the decade yet another reversal seems to have begun):

(a) In Pakistan, relative prices for some major agricultural products were stabilized and at a higher level than in India. The government abolished restrictions on foodgrain shipments from surplus to deficit zones, which had kept prices low in the former and had led to more extensive price fluctuations; established a buffer-stock and price stabilization program for wheat and rice; and reduced and eventually eliminated export duties on agricultural products. India actually imposed a more rigorous zoning system in 1965, did not guarantee foodgrain prices and persisted with export duties longer than Pakistan. Higher, more stable prices in Pakistan facilitated the use of inputs (water, fertiliser, seeds) and encouraged a shift from subsistence crops to higher value cash crops.

(b) Pakistan provided heavy subsidies for some agricultural inputs. For fertilizer the subsidy ranged around 50 percent while there was no subsidy in India over much of this time. As a result the price ratio in Pakistan between fertiliser and such crops as wheat was among the most favorable in the world. For India it was quite unfavorable.* There is evicence that cultivators will more readily accept the risks of a new practice if there is a substantial difference between costs and expected benefits. Clearly Pakistan encouraged the use of inputs more than India.

(c) The internal distribution system in West Pakistan was substantially improved, by abandoning the virtual monopoly of government and the cooperatives for the handling of fertiliser and sinking of wells. Neither institution had proved terribly effective in carrying out either operation, which had, of necessity, to be highly decentralized. In the 1960's private investment in tubewells was freely permitted, imported components became readily available and the cost benefit ratio was improved by higher output prices. In India, by contrast, restrictions on private tubewells continued to be effective until the mid-1960's. As a result, the increase in tubewells was much greater in Pakistan. In the Indian Punjab capacity went from over 3,000 cusecs to some 23,000 cusecs from 1956/57 to 1965/66. In Pakistan's Punjab the increase was from less than 2,000 cusecs capacity to about 40,000 cusecs.** This meant not only more water but also more reliable water. Private wells

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*W. P. Falcon and C. H. Gotsch, "Agricultural Policy and Performance in the Punjab: A Comparative Study of India and Pakistan," Asian Review, July 1968.

**Ibid.

were available when crops needed irrigation. With public surface water from major irrigation projects there was always the risk that administrative difficulties, incompetence or venality would deprive a particular cultivator of water just when he most needed it.

Fertilizer distribution was improved in Pakistan in the early 1960's by permitting small shopkeepers and other private firms to handle it. Greater availability plus the excellent cost/benefit ratio led to a sharp increase in fertilizer use in West Pakistan. In East Pakistan, poor procurement policies, inadequate credit institutions and high risk resulted in very unsatisfactory progress. While Pakistan adopted policies that spurred demand and had an effective distribution system, it did not provide enough fertilizer to take full advantage of these assets. In India the cooperative movement and government had always been a bit more effective in distribution so a change in the system was less imperative. Moreover, in the mid-1960's India did a better job than Pakistan of obtaining the fertilizer necessary to meet demand.

(d) The development of public irrigation projects was strongly pushed in India. As a result surface water supplies increased more rapidly than in Pakistan. Between 1955 and 1960 India added about 25 percent to its irrigated acreage, Pakistan about 6 percent. Both countries discovered that many large scale public irrigation projects were high cost, had a long gestation period and took an even longer time to come into effective use. The payoff on India's heavy investment in such projects will come only over time.

(e) The Rural Works Programme, an imaginative effort to use under-employed labor for development of the rural infrastructure by relying on highly decentralized management, was successful only in East Pakistan. It was the one bright spot in an otherwise quite dismal picture of development in that Province. It provided a basis, beginning in the mid-1960's for a rapid expansion of cooperatively owned irrigation pumps.* The corresponding effort in India, the Intensive Agricultural Districts Program was much more highly centralized and relied more on traditional extension methods--demonstration and farm planning. It seems to have had little success.**

(f) Beginning in the mid-1960's technological change, and particularly the availability of new seed varieties, had a startling effect on output in some areas of both countries. But the new technology was limited to some crops, most notably wheat and some types of rice, and to areas with a suitable environment, particularly an assured water supply. West Pakistan was in an excellent position to benefit from this technological change. Its agriculture is based largely on irrigation, and half of the value of its output of major crops is contributed by wheat and rice. Large areas of India (as well as East Pakistan) were simply not in as favorable a position. This is yet another example of the

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*Cf. John W. Thomas, "Rural Public Works and East Pakistan's Development," in Development Policy II - The Pakistan Experience, W. P. Falcon and G. F. Papanek (eds.), Harvard University Press, Cambridge, Mass. 1971.

**Dorris Brown, Agricultural Development in India's Districts - The Intensive Agricultural Districts Programme, Harvard University Press, 1970.

danger of mistaking overall growth rates for conclusive evidence on development effort or sensible development policies: areas fortunate enough to benefit from massive technological advances may achieve high growth almost regardless of their own actions.

In comparing growth one has to remember that a higher proportion of Pakistan's than of India's agriculture was able to benefit from the new seeds. Part of the difference in their agricultural growth rates since 1965 is due to the fact that over 10 percent of the value of Pakistan's total agricultural output was contributed by West Pakistan's wheat and rice, the primary beneficiaries of the new technology. However, since the new technology became of importance in the late 1960's, its effect explains only a small part of the difference in growth of crop production between the two countries, as measured by regression analysis.

But the importance of regional differences goes beyond technology. The Punjab, the agricultural center of West Pakistan, has traditionally been peopled by able farmers, more open to new influences than other areas of the subcontinent. The Punjab's land-tenure pattern and other institutional aspects are also relatively favorable to growth. There were other areas of the subcontinent with a favorable human and institutional environment for agricultural development, but Pakistan probably inherited more of them than India. An examination of the two comparable areas in the two countries--East and West Punjab and East and West Bengal--provides some indication of the importance of this inheritance factor as against the effect of differences in policy or strategy.

The two parts of the former province of Bengal showed quite similar fluctuations in rice production during the 1950's, due to

weather. No significant upward trend was noticeable. However, between 1961 and 1966 rice output in East Pakistan (or East Bengal) increased over 30 percent; in West (Indian) Bengal only 15 percent.* Agricultural data in East Bengal are notoriously unreliable. In West Bengal they have reportedly become less reliable in the last few years, as this food deficit state, governed by the opposition to the central government, tried to improve its claim for food from surplus areas. The differences in growth of rice output must therefore be treated with some reserve, though they are quite striking, when charted, between common stagnation until about 1958-59 and more rapid growth in East Pakistan thereafter. Some confirmation is provided by an index for the production of all major crops (jute, sugarcane, rape, mustard and gram in addition to rice). With the average value of output in 1952/53 through 1958/59 or through 1960/61 as a base the increase in average production from 1959/60 (or from 1961/62) through 1965/66 was about 15 percent in West Bengal, about 25 percent in East Bengal. The rate of growth in agricultural output in East (Pakistani) Bengal in the 1960's seems to have been definitely higher than in West (Indian) Bengal.**

Total crop output in the West (Pakistan) Punjab grew at about half the rate of the East (Indian) Punjab from 1953-54 to the end of the decade. However, in the 1960's the growth rate in the Pakistani Punjab shot up sharply. The year 1965-66 was a poor one for both areas, 1967-68 an excellent one. Over the period 1959-60 through 1967-68,

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*John W. Thomas, "Rural Public Works and East Pakistan's Development," (Ph.D. thesis), Harvard University, 1968, pp. 173-175.

**Statistical Appendix for details.

both areas had a growth rate of about 4.5 percent per year.* This represented a modest increase for India, a doubling for Pakistan compared to the 1950's.

The picture is reasonably clear and convincing: in the two areas that were quite comparable in the two countries--Bengal and Punjab--growth in crop output accelerated more on the Pakistan than on the Indian side of the frontier in the 1960's. Since the two Bengals had shared stagnation in the 1950's, and growth in the Indian Punjab was actually higher during this period, it is reasonable to argue that that two areas in Pakistan did not benefit from any unusual endowment which would explain the acceleration of growth in the 1960's.

The comparison ended in 1966 or 1968 before the new seed varieties had spread widely. It is therefore unlikely that differences in the applicability of the new technology was a major factor. Differences in policies and programs provide a large share of the explanation for the higher growth rates on Pakistan's side of the frontier in both Punjab and Bengal in the 1960's.

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*Regressions: West (Pakistan): 4.3 percent (Corr. $R^2 = 0.72$)

East (India): 4.5 percent (Corr. $R^2 = 0.54$)

In short, growth in agricultural output in Pakistan was below India's in the 1950's, in part because of the greater effects of Partition; in part because of greater neglect; in part because such inefficient policies as government restrictions on the distribution of inputs and outputs and depressed output prices, were carried further than in India and were even less appropriate in Pakistan with its weaker governmental and cooperative machinery.

In the 1960's, agricultural growth in Pakistan was significantly higher than in India. In part this was due to Pakistan's better inheritance, in the form of larger land areas than in India where the new, seed-based technology was appropriate. This became a factor after the mid-1960's when the new seeds became available. In large part, however, the higher growth rate was due to Pakistan's more effective policy package -- a better relationship between the prices of outputs and inputs, including stabilization of output prices; a more effective distribution system for some inputs and some investments as the result of permitting private, as well as public, initiative; and the development of infrastructure in East Pakistan through the Rural Public Works Programme. On the other hand, India provided more fertilizer in the mid-1960's and invested more in surface water development. Indian strategy placed heavy reliance on government distribution, on centralized decisions, on the educational and inspirational effort of community development and extension services, and on large scale irrigation projects. The benefits of extension services and major irrigation, however, were often not commensurate with their costs, at least over the short run.

Manufacturing

Strategy in manufacturing was partly dictated by the base from which both countries started, and was partly a matter of conscious choice. India had an extensive consumer goods industry, Pakistan had no industry to speak of. As a result, India had experienced industrialists, some accustomed to operate on a large scale, Pakistan practically none. India had both iron ore and coking coal, Pakistan had neither. India had a market nearly five times that of Pakistan and could therefore establish plants of an adequate scale in many more industries than Pakistan, which was limited initially to mass consumption goods. The Indian tendency towards self-sufficiency was

reinforced because its exports were a smaller proportion of GDP than in Pakistan and, in the 1960's, by the government's inability and reluctance to rely as heavily on aid as did Pakistan.

As a result of these factors, any Indian government would have placed less emphasis on consumer goods and more emphasis on capital goods than any Pakistani government. But the Indian government was also influenced, especially in the 1950's, by two dominant and related themes espoused by some parts of the development fraternity: the importance of so-called heavy industry, mainly steel production and steel processing (e.g., machine tools) and the difficulties of expanding export earnings, due to secularly declining terms of trade. Both notions also had their advocates in Pakistan, but never became firm government policy, as they did in the second Indian Plan. This difference was partly due to Pakistan's different objective circumstances, in part perhaps to a more pragmatic attitude, and also to the greater influence of some professional economists. As a result, Pakistan delayed substantial investment in steel and machine tool production to the mid-1960's and experimented earlier than India with a successful program to expand exports of manufactures.

In addition to its greater emphasis on heavy industry and industrial self-sufficiency, the Indian government also gave higher priority to public investment. In 1965/66 30 percent of assets in Indian industry were held by public sector enterprises. The comparable figure for Pakistan in 1959 was only 12 percent and it probably did not change much by 1965/66.* In both countries public enterprises had low returns.** No doubt low profit rates for some public enterprises can be justified on perfectly good economic grounds. However, the fact remains that low or negligible returns for the public sector as a whole reduce the resources available for re-investment and growth. This was a more serious problem for India with its much larger public industrial sector.

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*Indian data from Mr. Grossman, typescripts based on published reports of the Ministry of Finance. Pakistan data calculated from Papanek, 1967.

**India's public enterprises had profits of 10 crores in 1965/66 and losses of 33 crores in 1967/68. (M.Grossman citing data from the Bureau of Public Enterprise for 1965/66 and from the "Economic Times", March 4, 1969, for 1967-68). Pakistan's Industrial Development Corporation showed a gross rate of return for 1960-63 of only 6 percent in West Pakistan. Comparable rates for private enterprise were above 13 percent of assets. (Papanek, 1967).

India also had a less favorable climate for its private investors, at least until 1968. Industrialists were shrewd enough to know that the differences in rhetoric between the two countries were greater than the differences in action. But still, the emphasis on a socialist pattern of society in India, as against the insistance on pragmatism - for which read modified capitalism - in Pakistan meant that it appeared more risky to invest in India.

In addition to atmosphere, the actual actions of the Indian government also made life more difficult for its industrialists. India, somewhat earlier and more consistently than Pakistan, put restrictions and obstacles in the way of those of its industrialists who had the largest holdings in order to reduce concentrations of wealth and power. Yet these were sometimes industrialists with great ability, as well as technical and capital resources. India also pursued a more effective policy of dispersing investments among the States, which had its cost in several smaller, less well sited plants, rather than fewer and therefore larger and more efficient factories. Above all, India retained a more extensive direct control system than Pakistan. Both countries were strong on government controls over industry, but in the 1960's Pakistan began to substitute taxes and subsidies for licences and prohibitions. For instance, beginning in 1959, the Pakistani industrialist could always obtain the odd spare part he needed or take a trip to visit his customer under the export bonus scheme if he was prepared to pay a legal premium of 100-200%. In the mid-1960's he could also import a wide variety of raw materials and intermediate goods and he could undertake some investments with much less delay and difficulty than in India where complex controls remained more pervasive.

India's effort to protect and subsidise traditional small-scale industry, especially hand-spinning and weaving, also went much further than Pakistan's. The cost of subsidies was a relatively minor aspect of the burden to the economy of these efforts. Restrictions on textile factories were of greater importance. That industry, often a leading sector in early growth and a large user of cheap, semi-skilled labor, was by far the most important source of growth, employment and savings in Pakistan. Together with jute manufactures it provided the bulk of Pakistan's manufactured exports. India had a well-established textile industry, with experienced management and labor, but it was handicapped

by restrictions imposed to protect its more costly human-powered competitors.*

As a result of all these factors, Pakistan saw the hothouse growth of private consumer goods industries, with a short gestation period, high profits and high saving rates. When production exceeded domestic demand and the government effectively devalued the currency (see below), there was a rapid increase in manufactured exports. India, on the other hand, found that it took a long time to achieve reasonably efficient operation of the complex capital goods industries it had favored. Since a higher proportion

* V.M. Dandekar and Nilakantha Rath, Poverty in India, Indian School of Political Economy, Bombay, 1971.

of India's manufacturing output was in lines where quality is important, it took longer to develop demand for exports, especially since India lagged in subsidizing them. The unprofitable government sector was more of a drag on Indian industrialization. Direct controls and more effective locational policies introduced inefficiences in India and discouraged industrial re-investment.

The Indian approach had draw-backs for growth in the short-run, but it was designed in part to achieve objectives other than growth and it did provide important experience in the management of complex, capital-goods industries. As of 1970 India had suffered through a decade of learning how to operate sizeable steel, steel-using and other complex industries. It had established export markets for the output of some of these activities. An intelligent strategy to take advantage of these assets could enable India to grow in the future with lower aid levels. Pakistan, on the other hand, faced the difficult prospect of maintaining growth by further expansion of exports of such industries as textiles and by a more rapid development of import-substituting industries with a difficult technology.

In short, the pattern of development in industry was dictated in part by resource endowment and in part by India's more highly developed consumer goods industries at the time of Independence. But ideological factors also played a major role in the great emphasis which India placed on "heavy" (generally capital goods) industries, on public enterprise and on import substitution. The result was that returns were delayed and were less per unit of investment than from

Pakistan's consumer goods industries. Industrial exports also grew much more rapidly in Pakistan.

Exports

In few fields were differences between the two countries as dramatic as with respect to the growth of exports. In the 1960's and especially in the first half of that decade Pakistan had one of the highest export growth rates among less developed countries that were not oil rich. India was among countries with slowly growing exports, with export earnings not keeping up with growth in the National Product.

Table 5

Export Earnings

(annual compound rate of growth -- percentages)

	1949/50 to 1959/60		1959/60 to 1964/65		1959/60 to 1969/70	
	India	Pakistan	India	Pakistan	India	Pakistan
Primary products	3.7	0	4.0	5.0	0.9	1.3
Manufactures	0.1	Infinite*	6.4	8.7	6.5	12.5
Total commodities	2.0	3.6	5.0	6.2	3.6	5.9
Invisibles	5.3	11.5	0.5	12.9	2.3	9.0
Total earnings	2.6	4.5	4.1	7.4	3.3	6.4

* started from zero.

N.B.: The Pakistan rate is almost certainly overstated in the 1950's, partly reflecting improved statistical coverage. In 1969/70 political disturbances damaged real exports and caused export earnings to be underreported, as exporters moved capital out of the country. Therefore the growth rate between 1964/65 and 1969/70 is almost certainly understated and affected by political factors.

Both countries had a severely overvalued exchange rate for much of the period since independence and restricted imports by direct controls. The elaborate licensing system they used inevitably produced inefficiencies, corruption, windfall profits and the tendency to substitute capital and imports for labor and domestic products. Inevitably it also fostered import substituting industrialisation rather than production for export and turned the internal terms of trade against agriculture. These problems have been well documented elsewhere* and are therefore not treated extensively here. Other sections of this essay discuss the effect on industrial growth and efficiency of Pakistan's gradual shift away from direct controls. This section deals with the impact on exports of the overvalued exchange rate and of steps to mitigate it.

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*For India see especially Jagdish N. Bhagwati and Padma Desai, India: Planning for Industrialisation, OECD and Oxford University Press 1970.

For Pakistan see Papanek, (1967) and R.S. Lewis, Jr., Pakistan: Industrialisation and Trade Policies, OECD and Oxford, 1970.

As in other instances, India followed slightly more effective policies during much of 1950's. A devaluation of 44% was carried through at the time the U.K. took the same step in 1949. In fact, Pakistan's failure to follow suit made some sense in the short term, since Pakistan exported only standard raw materials, quoted in pound sterling, and with a rather inelastic supply. But even over the course of a few years Pakistan's overvalued exchange rate encouraged the production and use of substitutes for jute, Pakistan's principal export, and the growing of jute in other countries. Exports of manufactures increased slowly until Pakistan devalued in 1955.

Both countries gradually developed a whole arsenal of devices which involved some de facto subsidy or devaluation: tax rebates, import duty rebates, and entitlement to imports for the production of exports. In addition both countries experimented with export quotas, exhortation, government export promotion offices and so on. The effects of all this paraphernalia were modest. First, the subsidy or de facto devaluation was generally small, not enough to induce industrialists who usually had a comfortable, protected home market, to venture into the risky and difficult business of exporting. Second, there was a great deal of red tape involved in obtaining many of the subsidies. Third, the subsidies were quite uncertain, since the government could, and often did, change them from one month to the next. Finally, for some commodities the governments never really made up their minds that the encouragement of exports had priority over the revenues collected from export duties or the

needs of the domestic consumer. Export duties on tea, for instance, provided revenues and kept prices low for the domestic consumer of this important item in lower income consumption, but discouraged production.

In 1959 India began to change the effective exchange rate more rapidly, using the devices previously mentioned. Over the next seven years the effective devaluation seems to have raised the rate for many exports from the official 4.7 rupees to the dollar, to 6-7 rupees to the dollar.

Also in 1959 Pakistan introduced its export bonus scheme, resulting in an effective initial devaluation of 30-40% for covered exports. Eventually the scheme meant an effective devaluation of nearly 80%. As a result of the bonus scheme alone, an effective exchange rate of 8,5 rupees to the dollar applied to about one quarter of exports by value by the mid'1960's. Other incentive programs raised the effective rate further. The export bonus scheme involved no red tape, no need for bribes or wasted time: the exporter received a bonus voucher together with his export proceeds and could freely sell it on the stock exchange. The scheme was also guaranteed for one or more years in advance. The premium on the vouchers fluctuated with supply and demand and permitted a continuous effective devaluation over time. It was therefore far superior to the indirect measures used earlier.

The major impact of Pakistan's effective devaluation was on the export of manufactured goods with well established and easily measured quality standards, goods that required a minimal sales effor and with a highly price elastic demand (e.g.: cotton yarn, gray cloth

and jute manufactures). This is as one might expect. But there were two other interesting developments. First, invisible earnings showed a very high growth rate. With a very favorable exchange rate, legal remittance from Pakistanis abroad increased sharply as did income from such items as shipping and other services. Second, the introduction of the export bonus scheme was such a dramatic step that businessmen and industrialists became very export conscious. Their response, like that of cultivators, seems not to have been in the form of an altogether continuous function. At low rates of subsidy some did not bother to explore the possibility of unconventional exports, but they reacted once the profitability of exporting became quite obvious. All sorts of minor exports were the result: pharmaceuticals, paper products, soap, carpets, cement, machinery, fans, clothing and shoes, even frozen shrimps and frog legs. Exporters of these goods, which totaled about 15% of manufactured exports in 1965/66 to 1968/69, had to break into foreign markets, but once established found it easier to export in the future.*

Two other factors entered the export picture in both countries after 1965. Both suffered recessions and setbacks in the production of some export crops. In addition India devalued her currency, to Rs. 7.5. to the dollar, but simultaneously withdrew some other measures favoring exporters. The effect of the recession was similar to the consequences in some developed countries: when domestic demand declined manufacturers were pushed into exports, often selling near their marginal cost. Between 1965/66 and 1966/67 the value of Pakistan's manufactured exports other than jute goods increased by 25% as such exports as leather,

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*(Footnote on page 31a)

*Evidence that Pakistan's more rapid export growth rate was not due to demand factors is provided by a study which compares Indian with Pakistani annual rates of export growth between 1960 and 1967 for the same commodities. (Benjamin Cohen, "The International Development of India and Pakistan", Discussion Paper 67, Economic Growth Center, Yale University, June 25, 1969). For every relevant commodity, except for oil cakes, and for most major markets, Pakistan's exports grew more rapidly.

cotton fabrics, machinery, clothing and shoes increased substantially. The process in the India took somewhat longer, both because devaluation did not come until 1966, and because the potential for expanded exports was more in large capital items (e.g.: electric transmission towers, rails and machinery) which require time-consuming market penetration and, in some cases, manufacture to order. By 1968 Indian exports of these items was increasing. The other development in both countries, the setback in the production of such crops as cotton, naturally affected exports.

The impact of Indian devaluation in 1966 was widely regarded as disappointing, and, it was sometimes argued, demonstrated the price inelasticity of exports. Yet Pakistan's exports seemed to be quite responsive to price incentives. The inconsistency is more apparent than real. Pakistan's exchange rate for exports under the bonus scheme was Rs. 8.5 to the dollar, India's was only Rs. 7.5. Moreover, India's industrialists generally bought their traded inputs at Rs. 7.5 to the dollar, while Pakistan's often could obtain their inputs at Rs. 4.76 to the dollar. They therefore benefitted from a much greater subsidy. When it devalued India also abolished many of the de-facto subsidies which had existed before 1966. Pakistan continued with same powerful further stimuli even after its 1959 introduction of the export bonus scheme. Finally, some largely temporary effects made the impact of the 1966 Indian devaluation appear small: the setback in export crop production and the fact that many potential export commodities involved a long lead time. Indian policy was therefore more effective than it appeared.

On the other hand, Pakistan's system of multiple effective rates produced distortions. It sometimes led to such heavy subsidies for particular commodities that the country actually lost foreign exchange on some exports. Pakistan's policies therefore were less effective than its export growth rate suggests.

In short, exports in both economies proved responsive to economic incentives. Pakistan moved earlier and more radically in effectively devaluing its currency and achieved a 7.5 percent increase per annum in total foreign exchange earnings in the early 1960's, with manufactured exports and invisible earnings increasing even more rapidly. India's effective rate for exporters was devalued more slowly and its export earnings grew at half Pakistan's rate.

Efficiency - Exports and Industry

It has been argued that the high rate of growth in Pakistan's exports and manufacturing was attained at a very high cost in terms of inefficiency (and inequity, discussed later). Some analysts have gone so far as to imply that a lower growth rate might have been preferable. A comparison with India, whose growth rate in both respects was less, should be instructive.

Various studies of both countries show that attempts to encourage exports sometimes led to serious distortions, as a result of the multiplicity and inconsistency of incentives. Some exports were obtained at a disproportionate cost in resources. In a few cases even the foreign exchange costs exceeded the foreign exchange benefits. Such unfortunate results were almost inevitable given a multiplicity of incentive schemes and rates, which both countries persisted in substituting for a uniform subsidy (or devaluation) or for a limited number of subsidy rates. The multiplicity of incentives and rates combined with numerous different rates of protection on inputs made it difficult to determine the effective subsidy for a

particular commodity and impossible to avoid inadequate subsidies on some commodities, excessive ones on others. There is probably little to choose between the two countries in this respect. Pakistan's Export Bonus Scheme and other devices probably meant some very high levels of subsidy, but at least that scheme only used a limited number of rates. India may have had a less serious problem with especially high rates, but also had a greater variety of rates more subject to the whims of the bureaucracy.

It is equally difficult to compare the relative efficiency of the two industrial sectors. A number of studies have shown that many industries in Pakistan were very inefficient in economic terms.* They were able to develop only because of high protective tariffs and to export only with high subsidies. This, of course, is what one might expect to result from hothouse forcing of industrial growth in a country which had essentially no industrial background. Management and labor were inexperienced, the infrastructure was inadequate and high profits were required to bring forth the necessary entrepreneurship. The consumer paid for the high rate of industrial growth in prices that were often way above the price of comparable imports.

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*E.g.: 1) R. Soligo and J. J. Stern, "Tariff Protection, Import Substitution and Investment Efficiency," Pakistan Development Review, Summer, 1965. 2) S. R. Lewis, Jr. and Stephen Guisinger, "Measuring Protection in a Developing Country: The Case of Pakistan," The Journal of Political Economy, Nov./Dec. 1968. 3) G. C. Hufbauer, "West Pakistan Exports: Effective Taxation, Policy Promotion and Sectoral Discrimination," in Development Policy II - The Pakistan Experience, W. P. Falcon and G. F. Papanek (eds.), Harvard University Press, 1971. This study is concerned also with the erratic nature of the export control system.

If a greater proportion of industry had been in government hands, much lower profits would have been feasible with desirable effects on income distribution. However, efficiency would probably have suffered further since the publicly owned industries in both India and Pakistan were not notorious for great efficiency.

Comparable data on the efficiency of India's industry is more limited. Studies of the effective rates of protection indicate that some Indian industries also received prices way above those prevailing in the international market. But it would not be surprising if India's well-established industry, growing much more slowly than Pakistan's proved to be more efficient. Such evidence as exists on physical productivity with respect to jute goods and cotton yarn suggests that within a given industry this was indeed the case, but that Pakistan's efficiency had increased rapidly and was catching up with India.* Again this is what one would expect.

There were two compensating factors that made for inefficiency in Indian industry: the composition of investment and the nature of government intervention. Mention has already been made of the Indian emphasis on complex,capital-intensive industries and the difficulties experienced in running them efficiently. The greater Indian commitment to direct controls has also been mentioned. There is good evidence from both countries that the extensive system of permits and regulations, highly centralized, highly bureaucratic and extremely detailed, made for errors, corruption and waste.*

Data are simply inadequate for any judgment on whether Pakistan would have been better off with a slower rate of industrial growth. It is not clear whether less rapid growth would have improved industrial efficiency.

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* cf. Papanek (1967).

It is clear that both countries made some serious economic mistakes in encouraging or carrying out investments in some industries when the same resources would have given a higher rate of return in other industries and in some agricultural activities. (The expansion of sugar production and processing, and of cotton yarn exports in Pakistan were examples. If the same resources had been used to expand fertilizer imports or cotton production they would have given greater returns). Again it is not clear whether either country made fewer mistakes than the other. It is quite probable that both countries have made fewer mistakes in resource allocation than most other less developed countries.

One can advance a variety of quantitative information as evidence that one country or the other operated with a higher degree of efficiency. Overall, Pakistan had the higher output-capital ratio in the decade of the 1950's, a distinctly lower one in the decade of the 1960's. (See Table 2 in Chapter 1) The contrast between an Indian ratio of 4 for the 1960's and one for Pakistan of 2.7 provides evidence of a more efficient use of capital in the latter. But, as already noted, much of the difference was due to differences in the productivity of agriculture. Such data shed little light on the efficiency of the manufacturing sector and the closely related issue of the costs of export incentives.

With respect specifically to the manufacturing sector the effective rate of protection can give an indication of efficiency, it is sometimes suggested. Most of the studies cited earlier, which conclude that the Pakistan manufacturing sector is highly inefficient, are based on calculations of some variant of effective protection.

Unfortunately rates of effective protection are, at least as yet, not very reliable indicators of relative efficiency in the two countries, largely because of their very defective statistical base.

In highly controlled, heavily taxed economies like India and Pakistan, manufacturers have a strong incentive to exaggerate their costs, and especially their foreign exchange requirements and to understate their output. Thereby they reduce income and profit taxes, obtain more import licenses and escape heavy excise and sales taxes. At the same time, of course, they greatly understate the rate of growth in industry and the true value added, and lead economists to reach erroneous conclusions about value added at world market prices. Evidence that the understatement is not minor was provided by S. R. Lewis, Jr. for the cotton-cloth industry in Pakistan. His data lend themselves to the interpretation that even if there was no understatement of output in 1959/60, his base period, reported output less than a decade late was perhaps only half of actual output.*

Bhagwati and Desai** have cast further doubt on the usefulness of effective rates of protection as measures of efficiency. They show that for India the rates are highly sensitive to the treatment of non-traded goods. (See Table 6) For instance, the index of protection varied from + 1,395 to - 6,093 for sewing machines and from + 4,963 to - 807 for electric lamps depending on how non-traded goods were handled. Furthermore, it can change quite radically from one year to the next. Between 1961 and 1962 the index for matches, for instance, changed from an average of roughly + 75 to one of - 500, that of iron and steel from + 350 to - 300.***

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*See Stephen R. Lewis, Jr., "A Note on the Consistency of Pakistan Cotton-Cloth Statistics for Recent Years," Pakistan Development Review, Winter 1969. He suggests that, given population growth and income elasticities, cloth consumption and production should have risen between 35 to 60 percent at constant prices and that the fall in the relative prices would imply an additional increase of 20 percent or more. Reported consumption instead dropped by 20 percent.

**Jagdish N. Bhagwati and Padma Desai, India: Planning for Industrialization, OECD and Oxford University Press, 1970.

***The index was calculated as incremental value added divided by value added at international prices. The averages given are just orders of magnitude, since there is a wide dispersion due to treatment of non-traded goods.

If further demonstration of statistical weaknesses be needed, it can be obtained by a comparison of several authors' studies of the same industry. Several of the articles previously cited concluded that a number of industries in Pakistan had negative value added: the cost of inputs at international prices exceeded the value of output at international prices. However, another, and very careful, study of eight industries turned up no case of negative value added.*

Clearly it would be "heroic" in the extreme--to use the conventional terminology for broad conclusions based on feeble data, though foolhardy would be a better word--to use data of such low reliability and stability to draw conclusions about the relative efficiency of manufacturing in India and Pakistan. Furthermore, if one were to be "heroic" one would have to conclude that the differences in efficiency between India and Pakistan were not significant. Little, Scitovsky and Scott, among the firmest defenders of effective protection calculations, show average rates of 313 for India and 271 for Pakistan.**

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*Board of Economic Inquiry (Punjab), an untitled, undated study of exports by H. A. Syed.

**In I.M.D. Little, T. Scitovsky and M. Scott, Industry and Trade in Some Developing Countries, OECD and Oxford University Press, 1970. India is for 1961, Pakistan for 1963/64. If one believed these figures, Pakistan's manufacturing sector is the more efficient one, especially if, as is likely, rates have been increasing in both countries.

A comparison of effective rates of protection for particular industries leads to equally inconclusive results. (See Table 6)

Table 6

Effective Rates of Protection for Selected Industries in India and Pakistan

	Pakistan 1963/64		India			
			1962		1961	
	Belassa*	Corden*	Belassa*	Corden*	Belassa*	Corden*
Soap	-178	223			372	278
Matches	11	9	-443	-531	88	58
Sewing machines	138	82	269	215	-5,638	1,395
Rubber products	-555	525	127	104	73	65
Plastics	-669	335	372	224	75	60
Paper products	376	144	302	162	716	258

Sources: Pakistan from Lewis and Guisinger, op. cit.; India from Bhagwati and Desai, op. cit.

*According to the definitions used by these two authors.

It is likely that the product mix of an "industry" varied between the two countries. Not much significance therefore should be attached to the comparison. However, there does not appear to be any clear tendency for rates to be higher in either India or Pakistan.

Finally, it has by now been frequently pointed out that high rates of effective protection can mean gross inefficiency, or high profits or both. In India and Pakistan both factors were undoubtedly involved, though it is unclear in what proportions. The Punjab Board of Economic Inquiry study

previously cited calculated the average cost of earning a rupee of foreign exchange for eight industries. An unweighted average for these industries was four rupees of domestic cost per rupee earned, but only slightly more than two rupees when profits were excluded. The actual figures have little meaning, because they suffer from all the statistical problems previously discussed plus the likelihood that profits are especially seriously understated, but they do provide further evidence that high rates of effective protection may be due as much to high profits as to inefficiency.*

In short, comparisons of effective rates of protection for manufacturing in the two countries are not a useful approach to the question of relative efficiency. That the subject has nevertheless been treated at some length is partly because others have used effective rate calculations to argue that industry in one of the countries was highly inefficient, and second because it is relevant to a later discussion of the reliability of national accounts data. However, there simply are no satisfactory data on the relative efficiency of industry in the two countries. Nor is it clear whether a lower rate of growth would have affected efficiency. All one can say is that there is no good case to be made at present for greater industrial efficiency in either country.

II. Equity

In appraising the development strategies of the two countries one needs to look at their impact on equity, as well as on growth and efficiency. In both India and Pakistan two aspects of equity were paramount: regional and class (or group) income distribution. Given the size and heterogenity of both countries the regional distribution of costs and benefits was bound to be an important issue. With a low average per capita income, and its slow rate of growth, the classes or groups which bore the costs and received the benefits of development was likely to be another matter of considerable concern.

Income Distribution

Much of the recent writing on Pakistan has implicitly or explicitly advanced the following arguments:

(a) the deterioration in equity which accompanied more rapid growth in the 1960's, was a major factor - in some arguments the major factor - in the political upheavals of 1969 to 1971 and the eventual break-up

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* See also Papanek (1967) for indirect evidence on very high profit rates and on physical efficiency.

of Pakistan;

(b) in some analyses it is contended that the most crucial aspect of equity was income distribution by classes, and specifically the relative deterioration in the position of the lower income groups and the concentration of income and wealth in the hands of "22 families".

(c) the deteriortation of equity was an inherent and inevitable result of the development strategy followed by Pakistan.

In India the concern with equity has been more widespread and of longer standing than in Pakistan, both in the pronouncements of the political leadership and in professional writings. The Indian discussion, however, seems to be based on the implicit assumption that while major improvements in equity are important, they do not pre-suppose a basic change in strategy, but only a more vigorous pursuit of some ongoing policies: more far-reaching land reform, nationalisation and social welfare measures.

There seems to be less difference in the factual situation of the two countries than there is in the perception of the situation by analysts (and politicians).

As far as concentration of income, wealth and power is concerned, it is in the nature of the case that the industrial structure in both countries showed a high degree of concentration. Statistics on concentration of control are highly suspect, but the data that do exist suggest that the 7 largest family houses in Pakistan controlled 20% of total industrial assets and the 6 largest family houses in India controlled 20% of assets in the corporate industrial sector.* However, the differences between the two countries are greater than these data would suggest. Government enterprises controlled roughly one-third of the total assets of India's industry and nine out of the ten largest companies by asset size were government firms. These companies provided a price yardstick in many of the capital goods industries where large units are the rule. In addition in the 1960's the Indian government exercised more control over its industrialists and Indian industrialists exercised less control over the government than was true in Pakistan. As a result, the few dominant business families had less influence on

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* Papanek (1967), p. 68 and Grossman, H.C. (unpublished manuscript).

investment, price and similar decisions in India than in Pakistan. Differences did exist between the two countries, but they were almost certainly less than the differences that were widely believed to exist.

On class income distribution, the poor overall data that are available lead to the conclusion that income distribution was more egalitarian in Pakistan than in India and that over time income distribution has become more egalitarian in Pakistan, less so in India. On closer examination there are good reasons for these results.

TABLE 7

INCOME DISTRIBUTION
(Gini Concentration Coefficient)

	Total	Rural	Urban
A. Consumption			
Pakistan 1966/67	.337	.307	.397
Indian (Average '51-55)	.371	.330	.368
Indian (Average '55-60)	.392	.327	.371
B. Income			
Pakistan 1963/64	.381	.356	.445
Pakistan 1966/67	.365	.334	.436

Source: Jawaid Afzar, "The Income Distribution in Pakistan before and After Taxes: 1966-67," (Unpublished Ph.D. dissertation, Harvard University, November 1971).

The Gini coefficient for India is 10-15 percent higher than for Pakistan, indicating a significantly less egalitarian distribution of income in India. While the comparison is for different years, this need not invalidate it, since Indian inequality seems to be increasing, so that by the mid 1960's, the year for which Pakistan data are available, the disparity between the two countries might well have increased. On the other hand income disparities seem to have declined in Pakistan between 1963/64 and 1966/67.

Of course these figures are subject to all the usual doubts about data on income distribution and the differences between the two countries and over time could simply be due to statistical error. However, the basic sources for the two countries, their national sample surveys, share a common ancestry and approach, and the data are likely to be more comparable than those for other countries.

In any case, there are some quite obvious, and probably correct explanations for most of the differences. The basic reasons for a more egalitarian income distribution in Pakistan are: (1) that Pakistan

is a less urbanized society than India and in most countries it is in the cities that the great inequalities in income occur, (ii) the rural areas of Pakistan had a more egalitarian income distribution than India's. There were large areas, most notably all of East Pakistan, but also major areas in West Pakistan, where small and medium holdings predominated. (According to Azfar, the 1966/67 Gini coefficient was .320 in rural East and .334 in rural West Pakistan).

A greater inequality of income in Pakistan's cities is reflected in that country's higher coefficient for urban areas. This is what one might expect. Given Pakistan's lower rate of urbanisation and industrialisation, its lower level of per capita income and of education it almost certainly had a smaller middle class. The urban population consisted, more than in India, of casual, service, and industrial workers at the lower end of the income scale, of businessmen, industrialists, senior civil servants and well-paid professionals at the upper end. India's cities probably had a higher proportion of small traders, middle income professionals, teachers and clerks.

The decline in Pakistan's coefficient may not reflect, according to an impressive analysis by Azfar, an improvement in real income distribution. Food and other agricultural prices rose especially sharply in 1966/67 as a result of unfavorable weather. The money income of lower income groups may have risen more rapidly than the money income of the rich, producing a lower Gini coefficient. But if, at the same time, the cost of living of the poor also rose more rapidly, because of the higher proportion of food and other agricultural products in their budget, the relative position of the poor in terms of

real income could have remained stationery or even deteriorated.

However, these rather poor overall figures do contradict the contention that Pakistan's income distribution, as a result of its development strategy, was less egalitarian than India's or that it has become increasingly less egalitarian over time. They do suggest that urban income distribution was somewhat less egalitarian in Pakistan than in India.

Workers Real Wages and Income Distribution

Some further evidence on income distribution and on the effect of growth on the lower income groups is provided by scanty data on real wages. Again these are not terribly reliable and are especially sketchy for India. There are quite sharp fluctuations in real wages in both countries, largely as the result of changes in food prices due to weather fluctuations. Therefore it is better to use averages rather than single year comparisons.

Table 8

REAL WAGES IN INDIA AND PAKISTAN

Pakistan							India		
Years	Rural workers (index) East (a)	Years	Textile workers (Rupees) (b)	Years	Industrial workers East (Rupees) (c)	Industrial workers West (Rupees) (c)	Years	Wage earners (index) (d)	Factory workers (index) (d)
1949&50	110	50-54	950				50-52	104	106
				54-56	713	1015	54-56	107	121
1958&59	95	55-59	974	57-59	632	973	58-60	100	115
				60-62	745	1079			
1963&64	130	60-65	1170	63	787	1032	62&63	113	
1965&66	108	64&65	1208						
1966	100	66&67	1021						

Sources: (a) Swadesh R. Bose, "Trend of Real Income of the Rural Poor in East Pakistan, 1949-66", The Pakistan Development Review, Autumn 1968.

(b) Money wages in perennial textile firms deflated by the cost of living indeces for four cities (1959/60 = 100), all from the Statistical Yearbook, 1967.

(c) Azizur Rahman Khan, "What Has Been Happening to Real Wages in Pakistan?" The Pakistan Development Review,

(d) Wage earners: J.N. Sinha and P.K. Sawhney, Wages and Productivity in Cotton Textile Industry in India, Institute of Economic Growth, Delhi, 1968.
Factory workers: Planning Commission, "Report of the Committee on Distribution of Income and Levels of Living" ("Mahalanobis Commission"), February 1964.

That the data are consistent although drawn from a variety of sources somewhat increases one's confidence in their reliability and usefulness. Changes in real wages are highly correlated with changes in prices of food and other wage goods, even if averages of two to three years are used. During the 1950's real wages stagnated or declined as agricultural production increased slowly in Pakistan and both countries built up an elaborate system of protection for consumer goods industries, which raised their prices. The decline was particularly severe in East Pakistan: 11 percent for industrial workers, 15 percent for rural workers from an already low base. In that region the per capita availability of food declined, unemployment increased rapidly and industrial development was slow. In India the good harvests of the mid-1950's meant higher real wages, the poor harvests late in the decade resulted in lower real wages, but given India's relatively satisfactory increase in agricultural production, the changes were not too drastic.

In the early 1960's real wages in both countries increased, as the prices of manufactured consumer goods dropped with increased competition and as agricultural output grew more rapidly. In Pakistan, where the increase in both agricultural and consumer goods production was greater than in India real wages increased especially rapidly. In the course of three to four

years real wages increased between 10 and 35 percent.*

'The increase in East Pakistan was particularly great and notable, since it occurred despite the absence of effective trade unions and despite a great reservoir of unemployed. Clearly money wages are quite sticky, at least in the short term, and real wages do rise if increased output results in lower prices.

Wages are, however, equally sticky when prices rise. In both countries the bad harvests of 1965-66, the after-effects of the 1965 war and the reduction in aid, meant that prices rose in the mid 1960's and real wages fell quite sharply.

The data on real wages support the conclusion that rapid growth resulted in a decrease in inequality of urban income (or at least not in an increase) while slow growth probably resulted in increasing inequality. Pakistan provides the clearer example because series are longer, data more complete and there have been greater variations in the growth rate. In the 1950's a number of large business and industrial firms developed, whose owners earned very high profits. While this group of nouveau riche expanded rapidly, real wages of workers declined. The 1950's were also a period of rising unemployment, with the greater number of unemployed and casually employed in the cities earning incomes far lower than those of

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* For India, Sinha and Sawhney (op. cit) show a significant, but lower than 13 percent increase in real wages and a 6 percent increase in days worked.

industrial workers. Inequality in urban income therefore almost certainly increased.

In the 1960's, on the other hand, the exceptionally high profits in consumer goods industries were often moderated under the pressure of increasing competition,* while real wages rose until 1965. Urban income inequality probably diminished as a result. In addition, the 1960's saw a decrease in unemployment as a result of more rapid growth, though this improvement was probably limited to West Pakistan. A rough estimate was that unemployment in all of Pakistan dropped from 20 percent of the labor force in 1964/65 to 17 percent in 1969/70. West Pakistan showed a decline from 16 to 5 percent while East Pakistan had an increase from 24 to 25 percent.** Data are available only for the late 1960's, but the decline in unemployment should have been more rapid earlier in the decade, since the growth rate was higher then. With unemployment declining and real wage rates rising in the 1960's the income of workers' families in Pakistan should have increased significantly until 1965, and class income disparities should have declined.

These results contradict the conclusion of most analysts of Pakistan's economy, that real wages have stagnated from the early 1950's to the mid 1960's. The difference results from the time periods used for comparison. Since real wages

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*On profit rates and the growth of a new class of industrialists, see Papanek (1967).

**Joseph J. Stern, "Employment and Wage Policy", mimeographed, undated (circa October 1969), prepared for the Planning Commission.

declined over the early 1950's, then rose to the mid 1960's and then declined again, a comparison of the immediate post-independence period with the period around 1960 or that around 1966 will show stagnation. It ignores the rather rapid rise in real wages between 1959 and 1965, the period of rapid economic growth in Pakistan.

India's rate of growth was, of course, lower than Pakistan's in the 1960's, and food prices increased substantially until late in the decade. This would lead one to expect continued increases in unemployment, stagnating real wages, and an increase in income disparity. The data are spotty, but at least one analysis concludes that Indian income disparities did in fact increase, beginning in the mid 1950's and continued to worsen over the next decade.* Another study shows a further increase in income disparities between 1960/61 and 1967/68, with a definite deterioration in the absolute expenditures of the urban poor.**

In short, the data on real wages tend to confirm the overall income concentration data: Pakistan probably had the more egalitarian overall income distribution as far as class or group incomes was concerned. Moreover, rapid growth was probably favorable for income distribution, while income distribution worsened during periods of stagnation in per capita income.

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*M. Mukherjee and G.S. Chatterjee, "Trends in Distribution of National Income, 1950-51 to 1965-66", Economic and Political Weekly, July 15, 1967.

**Dandekar and Rath, op. cit.

Regional Income Distribution

It is necessary as well to look at regional income distribution, an obviously important source of potential conflict in both countries. The disparity in incomes between East and West Pakistan and the increase in disparity over time, are usually cited as a major cause of tension in that country. In fact, in 1959/60 the per capita income of East Pakistan was 77% of that in West Pakistan. Over the next five years the per capita income of the poorer region grew at a very respectable rate of nearly 2 percent per year. However, since West Pakistan grew more rapidly, in relative terms the per capita income of East Pakistan dropped to only 68% of that in the West by 1964/65. After 1964/65 the growth rate in East Pakistan slowed, though per capita income continued to increase, and the disparity with West Pakistan increased considerably.*

Since there are more than two states in India, the picture is more complex. It is clear, however, that the gap between the richest and poorest states in India was far greater than between the Provinces of Pakistan. While East Pakistan in 1959/60 had nearly 80% the per capita income of West Pakistan, Bihar had only 50% the per capita income of Maharashtra. As a matter of fact even the fourth poorest state had only 72% of the per capita income of the fourth richest state in India.** In other words, of the 15 states of India, the gap in per capita income between the richest four and the poorest four was greater, in most cases substantially greater, than the gap between the two Provinces of Pakistan.

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*Calculated from Statistical Appendix.

**From: National Council of Applied Economic Research, Distribution of Income by States, 1960-61, (January 1965)

The group of the richest and poorest states each had a population of well over 100 million, so that these disparities affected large numbers. In absolute terms the per capita income of the poor states of India grew at about the same rate as or more slowly than East Pakistan's from 1960/61 to 1964/65.* However, the gap between the rich and poor States tended on the whole to remain unchanged or to narrow.

Comparing regional income distribution between the two countries one sees a mixed picture. Clearly the poor Indian States had a greater grievance than did East Pakistan in terms of their poverty relative to the wealthy States. In addition their absolute per capita income did not improve any more rapidly than did that of East Pakistan. However, their relative position did improve during the 1960's. This may have been partly the result of greater ease of migration in India, partly because the political process worked more effectively in assuring that the poor States obtained a fair share of investment and current government expenditures. However, even after that improvement, by 1964/65 the gap between the poorest and the richest States in India was still substantially greater than was the disparity between the two Provinces of Pakistan.

On the face of it, it is not clear that the regional income distribution problem in Pakistan was worse than in India. The degree of disparity was greater in India, the absolute improvement in the poorest States was, if anything, slower

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* For 1964/65 Calculated from : Amiya Chatterji, The Central Financing of State Plans in the Indian Federation, (Calcutta, 1971) quoting the Report of the Finance Commission.

than in Pakistan, but the rich States increased their per capita income somewhat more slowly, so the gap narrowed. But it must be relatively little consolation to the population of the poor States to know that the average income in the rich States which had been nearly double theirs, was only 80% higher four years later.

Equity and Political Developments.

The discussion of equity so far leads to conclusions that seem strange in the light of political developments in the two countries. Pakistan had the more egalitarian class income distribution, which may have become slightly more egalitarian in the 1960's, while India's became less so. Pakistan's workers also benefitted from a greater and, in absolute terms quite substantial, increase in their real wage until 1965. Regional income distribution was also more egalitarian in Pakistan and the poorer Province in that country had a per capita growth rate not inferior to that in India's poorer States. Why then did Pakistan experience serious political difficulties from 1969 onward, leading first to the overthrow of the regime of President Ayub and ultimately to the breakup of the country?

Obviously the reasons for such far reaching changes are complex and it would be on overly simple view of the world to ascribe them to economic factors, much less to income distribution alone. Political factors played a significant role, most notably the disaffection of the Bengali elite of East Pakistan, denied any real share in power for most of two decades. Other political factors were the increasing rigidity of a highly centralised authoritarian regime, whose central figure was moreover quite ill; the increasing dissatisfaction with such a system of a rapidly growing professional and middle class; the loss of a war.

But despite the data advanced above, equity broadly defined was a major factor in Pakistan's political difficulties. Three broad issues, discussed earlier, when looked at from a different perspective, were of significance and defined the differences between India and Pakistan with respect to equity:

(i) the worsening of regional inequity in the latter;

(ii) the greater impact of conspicuous consumption and

(iii) the sharp deterioration in absolute, and probably relative, position of some powerful lower and middle income groups in Pakistan.

(i) The very fact that East Pakistan continued to fall behind West Pakistan in per capita income was a source of discontent as far as the highly politicised and quite broad based elite of that Province was concerned, even if in absolute terms the difference between the Provinces was not particularly great by the standards of other countries, including India. But it seems plausible - and one can do little more than speculate in this area - that the symbolic, psychological and political dimension of disparity were at least as significant as the actual economic deprivation involved. First, they were symbolic of the Province's lack of influence and power, of the national government's lack of concern with its poor region. The poor States in India could, and did, use the political machinery effectively to obtain investment and other resources, while for much of Pakistan's history, the Eastern Province was largely impotent in this respect. The ultimate expression of contempt for East Pakistan's economic problems and needs was the failure of the national government to respond adequately to the cyclone of 1970.

Second, regional disparity was a powerful weapon in the hands of East Pakistan's elite in rallying the population to support that elite's struggle for a role in running the country. It was such a powerful weapon in part because East Pakistan was desperately poor, with much of the population having experienced little improvement between 1955 and 1970. Under the circumstances poverty could be blamed on the national government. In India, regional elites could and did use the political process to gain a share of power. Once they had done so they had to share also in responsibility for doing something about poverty and in the blame for failure to accomplish much.

Surely increasing regional disparities were in themselves a cause for tension in Pakistan, largely absent in India. But the tension was worsened because disparity was a symbol as well of the failure of the national government to pay attention to the poorer Province and of the impotence of the leadership in the Province, and because it permitted all resentment about poverty to be focussed on the national government.

(ii) Similar factors operated with respect to class inequities in income distribution. Conspicuous consumption by the rich was more blatant in Pakistan by the mid 1960's.

The export bonus scheme, so successful in stimulating exports, meant that luxury consumer goods for the rich and machines to produce them were imported in increasing amounts. India retained tighter control over luxury goods in the 1960's than Pakistan, a reversal of the situation in the 1950's. Pakistan's income distribution in the countryside was probably more egalitarian than India's. But the greater inequality in Pakistan's cities, accompanied by more blatant conspicuous

consumption, had the more severe political impact. Great inequalities in income seem to have been tolerated in Pakistan in the 1950's and early 1960's, when the upper income groups saved a large share of their income and when their obvious luxury consumption - big cars, big houses, fancy offices and lavish parties - were severely circumscribed. In India the articulation of populist grievances by parts of the political leadership and the implicit promise that this might lead to an improvement may also have reduced tension.

(iii) In both countries the economic situation deteriorated after their 1965 war, which probably increased the inequity in income distribution. Both countries increased their military expenditures, both received less foreign resources and, above all, both quite accidentally also had poor harvests. However, Pakistan, with the far smaller economy, devoted more resources to the military, and was more dependent on foreign aid. As noted in Table 2 the combined effect of reduced aid and increased military expenditure meant a "loss" of resources to Pakistan roughly equivalent to 6% of GDP, for India of 3% of GDP.

For Pakistan the result was a drastic, a really brutal, decline in the real income of the lower income groups. According to the data in Table 8 real wages dropped somewhere of the order of 15-25% in the course of about a year. (Actually if Bose's 1964 figure is compared with 1966, the decline is nearly 30% for rural workers in East Pakistan). The situation was aggravated by a decline in employment opportunities. The cutback in resources, and especially in aid, resulted in a sharp cut-back in investment, by about 4% of GDP in India, by 6.5% in Pakistan (according to Table 2). The effect on construction,

an important employer was especially great. The resulting decline in income and employment for some groups was a severe shock, especially in already desperately poor East Pakistan. The recession in investment also meant that for the first time in Pakistan's history there might be no jobs for many of the educated, and not just for arts and law graduates, but also for engineers and the products of technical training schools. The decline in real wages for lower income groups and in job opportunities for both them and the educated occurred while there was no slackening in conspicuous consumption. It is no wonder that Pakistan's workers and students were bitter.

Add to this the bitterness in East Pakistan and the only wonder is that it took two or three years for the anger to express itself in widespread strikes, demonstrations and riots. The explanation for the delay is probably more in the realm of psychology and politics than of economics. After the 1965 war the government promised to impose austerity on all, and particularly on the upper income groups, and it promised to give East Pakistan a greater share of power, investment and economic benefits in general. In fact, it not only promised, it also acted, but too little, though not necessarily too late. But its actions in the economic sphere were inadequate and in the political sphere the situation rapidly deteriorated.*

In India, the aftereffects of the 1965 war were probably less great. Real wage data do not seem to be available, but per capita private consumption expenditures in constant prices

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*See David Loshak, Pakistan Crisis, (London, 1971) for one journalist's catalogue of error, from the appointment of thoroughly unpopular Governors, to increasing corruption, failure in decision-making, the treason trial against East Pakistan's most popular leader and the killing of students, culminating in the reaction to the 1970 cyclone.

dropped less than 10% between its high point (for the 1960's) in 1964/65 and its low point a year later.* Moreover, as already noted, the impact of conspicuous consumption was less, and the gap between the States was declining. In addition, action which appeared to improve equity was well publicised. Most steps were primarily cosmetic, with no real effect on equity such as cancelling the Privy Purses of various ex-rulers, or nationalising banks and insurance companies. However, they did demonstrate that the government was responsive to popular mood, that it was concerned with equity. Finally, a procedure existed within the system for changing an inadequately responsive government. Within a short time three neighboring countries - India, Pakistan, Ceylon - brought to power governments with a populist appeal and promises of greater equity. In two countries it proved possible to do this by elections, in Pakistan it did not.

Obviously much of this discussion of the consequences of an inequitable distribution of income is highly speculative. But the experience of India and Pakistan does suggest that the actual degree of inequality is only one factor in determining the political consequences of income distribution. A sharp absolute or relative deterioration in the expenditures of some groups, as happened in 1965-67 in both countries, seems more difficult to tolerate than the gradual deterioration which took place in the 1950's. To have concentrated, reasonably well organized and politicised groups like students and workers faced with a deterioration of both income and prospects is a sure prescription for trouble for the govern-

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*Dandekar and Rath, op.cit.

ment in power. The extent to which income disparities are obvious, even flaunted, seems to play a role. The perceived attitude of the government may be an even more important factor. If it seems to care, if it seems to be trying to ameliorate the situation of the poor classes and of the poor regions and to curb the extravagance of the rich, if it provides hope, as India's government was more successful in doing than Pakistan, actual income disparities may be more readily tolerated. Finally, the outlet for the tension created by income disparities, may vary with the governmental system. Dissatisfied Indians were able to affect the political process and economic decisions by pressure within the existing system. Workers could strike, the poor could organise and vote. Dissatisfied Pakistanis took to the streets.

The Effect of Development Strategy on Equity

The development strategy pursued by the two countries affected the degree of equity in the distribution of income. Pakistan's reliance on economic incentives, and especially on profits, as the engine for development, almost inevitably provided especially great opportunities to those already better off. The greater role of government in India sometimes meant that rewards were shared more equitably.

For instance, private tubewells in West Pakistan were developed primarily by cultivators with medium-sized or larger holdings, who had access to capital and enough land to warrant a well. The large-scale surface irrigation projects emphasized in India provided more equitable access to water for cultivators regardless of size of holdings. Similarly, private distribution of fertilizer in Pakistan meant that those with smaller holdings, and therefore poorer access to credit, were disadvantaged, while

distribution through cooperatives in India sometimes eased the credit problem. Pakistan's monetary incentives were of little benefit to small-holders who sold almost nothing in the market. They were less likely to have information about the new technology than in India, with its greater effort in agricultural extension and community development. For industry the likelihood that concentration of wealth and power were greater in Pakistan has already been mentioned.

On the other hand, Pakistan's strategy made for more rapid growth, which had compensating effects on income distribution. More rapid industrial growth meant more jobs, enabling a larger number of the poorest -- landless laborers, casual urban workers and unemployed -- to take the most important step up the income ladder, from long periods of unemployment to a regular industrial job. It also meant increasing competition among producers of mass consumption goods, which resulted in lower prices for cloth, vegetable oils and so on. Pakistan's more rapid increase in agricultural output meant lower food prices. The greatest price declines occurred precisely in the goods which are a large proportion of the purchases of the lower income groups -- foodgrains and clothing -- and which are of small significance in the budgets of the rich.

The development strategy also affected political power and therefore the possibility of influencing income distribution. That Indians could more readily bring about changes within the system, was primarily the result of a more authoritarian regime in Pakistan, not a consequence of differences in development strategy. However, the strategy pursued by Pakistan led almost inevitably to a greater concentration of

wealth and political power. When the sacrifices made necessary in 1966 came to be allocated, the political power of the small group of very rich probably was a factor. It is a fact that the economic sacrifices in Pakistan were largely imposed on some middle and lower income groups. Landowners in West Pakistan with larger holdings and producing rice or wheat benefitted from rapid technological change and high government price supports. The military received additional resources. Some government officials profited via corruption. Some industrialists were helped by reduced competition from imports. Measures to restrict the consumption of the rich were half-hearted and largely ineffectual. India may have allocated sacrifices more equitably, but in any case its dissatisfied groups could make the government aware of their dissatisfaction.

III. <u>The Satistical Basis for Comparison and Conclusions</u>

<u>Statistics and Pseudo Statistics</u>

Before attempting to summarise some of the conclusions that can be drawn from this discussion of development strategies, it would be well to set out clearly that the factual basis for it is very weak indeed. All comparisons, especially of less developed countries, suffer from inadequate and not wholly comparable data. India and Pakistan have a better data base than most and, developed from the same system, their statistical series are often quite similar. Still, there are two special problems for comparative analysis.

First, some statistical series are not really comparable. For instance, India's National Accounts before 1960 are generally on a net basis at 1948/49 prices, Pakistan's on a gross basis at 1959/60 prices. The Indian series in Table 9 show what a difference base years and definitions can make.

Table 9

India's Growth Rates 1960/61 to 1964/65

1)	NNP at 1948/49 factor prices	3.3% per annum
2)	NDP at 1960/61 " "	4.7% " "
3)	GDP at 1960/61 " "	4.9% " "

Source: Based on Central Statistical Office "Conventional" estimates for 1 and "Revised" estimates for 2 and 3.

Also, some seemingly comparable series cannot be directly compared since India officially devalued its foreign exchange rate while Pakistan used direct controls (in the early 1950s) and a special import surcharge/export subsidy system since 1959 to accomplish the same objective.

Second, both countries suffer from the vagaries of weather to a greater extent than nearly all large less developed countries. The weather affects not only agriculture, but the functioning of the whole economy since agricultural output affects exports, industrial production and savings. That the initial and terminal years chosen for comparison have a significant effect on results is shown by Table 10.

Table 10

India's Growth Rates over Slightly Different Periods
(NNP at 1948/49 Factor Prices)

1949/50 - 1959/60	3.0% per annum
1949/50 - 1960/61	3.4% " "
1950/51 - 1960/61	3.7% " "

Source: Based on Central Statistical Office "Conventional" series.

To minimize the effect of statistical incomparability, series were adjusted where necessary and possible (e.g.: India's national accounts were put in terms of GDP, Pakistan's imports were calculated at the same exchange rate as India's). To reduce the effect of weather, the contribution of major crops

to GDP was calculated in terms of trend values, not actuals. In addition, there is, fortunately, some tendency for both countries to experience good and bad harvests in roughly the same years. The Statistical Appendix discusses in some detail the extensive adjustments made in order to produce reasonably comparable series.

Nevertheless, all quantitative comparisons have to be regarded as highly suspect unless the differences are of such magnitude that one can be reasonably sure that statistical artifact is not involved. The adjustments which have been made to render series comparable are, after all partial, unsatisfactory and can introduce additional bias.

There is another serious quasi-statistical reason why only major differences in the growth rate should be regarded as significant. Various analysts have concluded that a high proportion of the value added in manufacturing in both countries, but especially in Pakistan, simply represents a subsidy, principally as a result of protection. If value added were recalculated at world market prices, it would be a small fraction of the value added at domestic prices. Much of the growth in manufacturing, it is argued therefore does not represent "real" growth (in the sense of adding to goods available) but is due simply to an increase in the subsidies, in transfers from consumers to producers. This argument supposedly applies with particular force to Pakistan, since protection was more pervasive there and since the growth in manufacturing was more rapid and therefore had a greater impact on the overall growth rate.

There are several reasons why this argument has only very limited validity with respect to a comparison of development strategies. First of all, there is a very defective statistical basis for claims that much of the value added in manufacturing is due to indirect subsidies. This was discussed earlier.* Therefore, while value added at domestic prices undoubtedly overstates value added at world market prices, the difference is almost certainly not as great as some extreme calculations suggest.**

Second, it is questionable whether the degree of protection or effective subsidisation differs much between India and Pakistan. An earlier section discussed the modest evidence which exists on industrial efficiency, and suggests that there is no clear evidence that the two countries differed much. If value added in manufacturing needs to be discounted nearly equally for both countries, then for comparative purposes the magnitude of the discount will be of less importance.

Furthermore, while Pakistan's manufacturing industry grew more rapidly, India's had the greater weight throughout, so that the contribution of this sector to overall GDP growth was comparable. The adjustment in the GDP growth rate to

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*See pages 36 to 39.

**E.g.: I.M.D. Little, M. Scott and T. Scitovsky in Industry and Trade in Some Developing Countries (OECD and Oxford University Press, London, 1970) suggest that from 1950 to 1966 Pakistan's manufacturing industry contributed not 0.6 percent annually to growth in GDP, as in the official national accounts but only 0.0 percent.

take account of the effective subsidy to manufacturing would therefore affect both countries equally.*

For all three reasons no adjustment was made in the contribution of the manufacturing sector to GDP, to take account of differences between value added at world market and domestic prices. However, this difference is another reason why quantitative comparisons and the conclusions drawn from them have to be treated with caution.

There is an additional factor which makes comparisons of the two countries analytically unsatisfactory -- they are so large and internally diverse that countrywide averages simply hide some of the more important developments. In West Pakistan, for instance, manufacturing grew at over 16 percent per annum from 1959/60 to 1964/65, while in East Pakistan it increased at only 10 percent. Similarly, crop production in the West rose by nearly 8 percent per year (from 1959/60 to 1968/69) while it increased only 2.5 percent in the East. There were similar disparities in India between growth in such areas as the Punjab, Maharashta and Madras on the one hand and Orissa, Bihar and Bengal on the other. Both of the provinces of Pakistan, and some of the Indian States had as much population and varied in geography as much as major European nations. To present averages for India and Pakistan, is therefore like averaging the growth rates of Germany and Italy with those of the U.K. and France.

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*E.g.: In 1959/60 to 1964/65 the contribution of manufacturing (so-called large-scale) to India's GDP averaged 15 percent, to Pakistan's 8 percent. The growth rate of the sector was 6.5 percent and 15 percent respectively. Manufacturing therefore contributed roughly 1 percent to the GDP growth rate of both countries (.15 x .065 and .08 x .15).

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Some Conclusions

An economic comparison of India and Pakistan can stress either the similarities or the differences. Over the whole of the 20 year period under review it is the similarities that are most striking. The rate of growth of both countries averaged somewhere around 4% per annum, with that for India slightly below, that for Pakistan slightly above that figure. On a per capita basis the difference disappears since Indian statistics show a lower rate of population increase. Both countries' per capita growth rate is slightly above 1.5% per annum. In their early years both countries averaged a relatively low rate of investment of around 10% of GDP to the mid-1950's and both were able to step up this rate to reach the very respectable levels of about 20% of a much larger GDP ten years later. Absorptive capacity was not a serious problem for either country.

Both countries also showed somewhat similar patterns of growth. The 1950's were years of gradual advance in GDP, investment and exports. It was in the half-decade to the 1965 war that both showed the most rapid development. These were the years of the greatest aid inflows and the most rapid expansion of exports, as both countries effectively devalued their currencies. The major constraint, foreign exchange, was eased. Combined with improved policies, the result was a higher rate of investment and a more rapid growth of GDP. Neither country is a good example for analyses concluding that "aid has failed".

This period was terminated by the 1965 India-Pakistan war. The war itself resulted in only a minor setback to both countries. However, it produced a tightening of the foreign exchange constraint on development, as aid was reduced and imports of military goods were increased. Bad harvests also occurred at the same time. Growth in both GDP and exports slowed, investment was reduced and the earlier promises of rapid development began to fade.

Economic issues were central in the elections which took place in both countries at the end of the decade. Among the major issues raised in the campaign were regional and class income disparities, unemployment, unsatisfied demands for schools, houses and health services. Both countries voted overwhelmingly for parties that had campaigned for a more equitable distribution of income and wealth, though in Pakistan these parties came to power only after serious conflict and monstrous suffering and the breakup of the country into Bangla Desh and Pakistan.

The similarities in economic performance are the result of four factors. First, both India and Pakistan are among the really poor countries in the world. They are not in the category of many countries in Latin America, and some elsewhere in the less developed world, with an annual per capita income of $200-500. Rather they had a per capita well below $100 at Independence. Neither country is rich in natural resources. Second, both are large countries. They therefore received only modest amounts of outside resources (aid) in terms of GDP,

investment or per capita. Aid to India was $2.5 and for Pakistan $4.2 per head in 1964-66, near its high point. By contrast, in Africa it averaged over $6 per capita; in the Americas the figure would be well above $5, without Brazil and Mexico, which suffered also from the large country effect (Mexico is also on the borderline for aid recipients because of its high per capita income). Third, both had governments concerned with growth, a civil service that could implement government decisions and a political, institutional and social environment which was reasonably favorable to development, when compared with other countries. Their governments, again compared to other countries in the less developed world, were not dominated by an oligarchy determined to prevent change, nor at the mercy of contending groups whose demands had to be met. Both had indigenous businessmen and competent civil servants, a functioning educational system and a relatively adequate transport network. Finally, both economies operated with an overvalued exchange rate and other non-equilibrium prices (some interest and wage rates, as well as some commodity prices), combined with substantial direct government intervention in the form of controls over the allocation of some goods, (rationing) over some prices and over investment.

Low per capita income meant that it was difficult to raise savings rates. The more serious constraint on growth, however, was foreign exchange. Foreign private investment was minimal, largely because there were few natural resources to develop and the market for sophisticated goods was limited by poverty. Aid was relatively low as a result of country size. The size of both economies also contributed to emphasis on import substitution. Despite rapid import substitution, foreign exchange remained a serious constraint, as a result of a low growth rate for exports, low aid levels and negligible foreign investment.

Initial concentration on the domestic market was quite natural. But since rapid industrial growth was to be achieved by a substantially overvalued exchange rate, exports lagged and much of the highly protected industry was costly and inefficient. Only in the early 1960's, when exports increased more rapidly and aid was higher, did both countries achieve reasonably high rates of investment and growth. Undervalued foreign exchange and cheap

capital also encouraged the use of capital and imports, and discouraged the use of labor. The whole apparatus of direct government intervention, designed in large part to cope with distortions resulting from the undervaluation of some factors and some commodities, produced further distortions and inefficiencies. Both countries bore significant costs as a result of trying to operate disequilibrium economies, with a degree of government intervention which was beyond the capacity of their bureaucracies to carry out efficiently.*

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*For a quantification of some of these costs in Pakistan see Papanek (1967).

The similarity in the growth rates of India and Pakistan over 20 years simply demonstrates again that given a halfway satisfactory political and social environment and some outside financial resources, even very poor countries can achieve a noticeable increase in per capita income. However, their experience also suggests that even with governments of considerable competence and concern with development, really poor countries with low resource inflows find it very difficult to maintain a rate of growth above 5% per annum and can ill afford a set of policies which reduce the efficiency of their economies. Both economies also proved highly vulnerable to unfavourable exogenous developments, such as the cost of the 1965 war and the subsequent drop in aid and drought. Economies at a low level of income and of diversification simply cannot readily adjust to major strains.

Planning had widely been regarded as a panacea for all economic ills in both countries. When growth proved slow, equity deficient and the economy ill-suited to dealing with exogenous shocks, planning came into disrepute, though much of the blame should have been assigned to the basic economic problems of really poor countries and the political constraints on economic policy. In India the deterioration in the status and effectiveness of the planning agencies was gradual. In Pakistan it came quickly after the 1965 war, when there was a general deterioration in the economic situation and in the political standing of the Ayub Khan regime.

In the 1950's there were many similarities in the policies and strategy followed by both countries. However, government intervention and the centralization of decisions was carried further in Pakistan. There was, in fact, greater need for government action to deal with the more extensive refugee problem and the sharper reduction in foreign exchange availability. Besides, Pakistan had a smaller and less experienced civil service and therefore tended to leave less discretion to lower echelons. Pakistan's growth lagged in the 1950's since it was less well endowed with capital stock, human and natural resources, suffered more from the effects of partition and followed policies which put a greater burden on a badly overstrained government.

India's policy and strategy gradually changed in some fields. Pakistan underwent a major and rapid change between 1959 and 1965. (Under the shocks of 1965 it returned in part to some of the policies of the 1950's.) Pakistan also received much more aid in the 1960's. The combination of greater resources and a policy framework better designed for growth meant that instead of lagging behind India, Pakistan grew more rapidly. More rapid growth was not just the result of more aid, it also resulted from a better management of resources.

It is precisely the differences in management -- in strategy and policies -- especially over a half decade in the early 1960's which it is most interesting to examine. India relied less on foreign aid partly out of preference and partly out of necessity. It also relied less on market incentives and more on government ownership and direct controls, because

it had a stronger, more competent civil service and because of ideological predilections. Ideology and India's inheritance at Independence, both of natural resources and capital stock, led to a greater emphasis than in Pakistan on investment that was technologically complex, capital intensive and in large units: large dams and capital goods industries as against tubewells, pumps and consumer goods industries. Ideology and confidence in government also contributed to India's emphasis on the extension service, traditional cooperatives and community development in the effort to modernize rural society.

Pakistan stressed economic incentives, the effect of agricultural growth on rural social change rather than vice versa and, in East Pakistan, unconventional ways of combining government assistance and local organization. The use of economic incentives was especially important with respect to foreign exchange and, to a lesser extent, with respect to agricultural inputs and products. While the exchange rate continued to be officially overvalued, in fact an increasing proportion of non-traditional exports and of imports were effectively valued at twenty to two hundred percent more. The prices of some agricultural products were raised and some inputs were heavily subsidised, thus improving the production terms of trade for agriculture. These steps not only provided incentives to increase exports and reduce the use of imports (and capital), but also reduced direct government intervention in the economy, with beneficial effects on efficiency. Pakistan achieved more growth per unit of investment than India in the 1960's. This was partly the result of the composition of investment; partly of Pakistan's greater reliance on economic incentives, on taxes and subsidies, rather than direct government intervention in the economy; partly of an agricultural endowment more favorable for the adoption of the new technology.

The comparison of the two countries shows the danger of simply equating growth rates, whether of GDP or of savings, with "self help," or commitment to development, or good economic management. The increase in both GDP and savings depends not only on the actions of governments but also on natural resource endowment, the structure of the capital stock in the base period

and the extent to which new technology benefits a particular economy. A significant proportion of the differences between India and Pakistan in both 1950's and 1960's can be explained by factors over which neither country had any control.

While Pakistan's strategy in the 1960's, and especially the first half, seems to have been better for growth, its impact on income distribution, and equity more generally, and on political tension is not clearcut. In absolute terms, Pakistan was, if anything, the more egalitarian society, though this may have been largely the result of its being less urban and of the more egalitarian income distribution in rural East Bengal, helped by the exodus of Hindu landlords, traders and money lenders.

Over time, periods of low growth probably worsened income distribution. The strategy pursued by Pakistan in the 1950's and by India for much of both decades involved slow growth, high protection against imports and direct government intervention in the economy. The result was large windfall profits for wealthy and politically powerful groups and regions; increased prices for food and cloth, crucial in the budgets of lower income groups; and lagging wages as unemployment increased. Stagnation, or slow growth, clearly was not good for the poor in either India or Pakistan, even though government intervention was often justified as designed in their interest. The poorer region in Pakistan also suffered more during periods of slow growth and greater government intervention. Economic and political forces combined to assure that it lagged ever further behind the richer region, even when government intervention was supposed to benefit it. In absolute per capita terms its income actually declined during periods of slow overall growth.

On the other hand, periods of more rapid growth almost certainly improved the absolute position of many poorer groups. Prices of food and cloth dropped with greater supply, while money wages continued to rise, quite rapidly increasing real wages. Employment opportunities increased. A labor intensive works program, more adequately financed during periods of rapid growth, created off season jobs in East Pakistan. Even in

relative terms, the poor may have been better off with rapid growth and reduced direct controls. Some rich experienced a decline in windfall profits as the importance of import and other licenses was reduced. Monopoly and oligopoly profits dropped with the saturation of the domestic market. Real wages, and perhaps the proportion employed, in the lower income groups simultaneously increased. One cannot be confident about the effects on income distribution, as long as one does not know the numbers in the various income groups, but if anything the comparison of India and Pakistan tends to suggest that greater growth was not in conflict with greater equity.

Despite Pakistan's higher growth throughout the 1960's, with substantial improvement for its lower income groups until 1965, it exploded, while India emerged into the 1970's with a stronger government and considerable optimism about its economic future. The reasons for these differences are largely in the realm of speculation, especially for an economist, but several factors seemed to be important:

(a) Disparities in income are not visible, not widely known. Only when they are expressed as conspicuous consumption do they cause political tensions. India probably curbed conspicuous consumption -- mainly houses, automobiles and festivities -- more effectively in the late 1960's.

(b) The political effects of inequities may also depend on people's perception of the government's attitude: does it appear to be concerned, responsive and attempting to improve the situation of the poor, or is it indifferent. The Indian government made its concern plain, Pakistan did not. Government in India was dominated by responsive politicians, Pakistan's by a military raised in the tradition of "never complain, never explain".

(c) A sharp deterioration in absolute levels of income and in opportunities is difficult to tolerate in any society. It is clear that in Pakistan there was such a drastic deterioration after 1965. The extent of the Indian setback at that time is less clear. The deterioration in Pakistan affected two potentially powerful groups -- industrial workers and students -- and it came at a time when the conspicuous consumption of the rich was not curbed.

Sharp economic setbacks are especially likely in less developed countries whose economy has neither the flexibility nor the margin of affluence of a developed society. An economic early warning system, flexible policies and some reserves are therefore especially important. Pakistan had none of these.

(d) Its machinery for dealing with discontent was also much weaker than India's. A highly centralised system, not in touch with popular moods, not influenced directly by shifts in the electorate because not elected, simply could not respond to grievances as well as India's more open society.

(e) Regional nationalist discontent was more severe in Pakistan. Economic grievances were simply one, and perhaps a relatively minor, element of this discontent. From Belgium to Nigeria, from Italy to Kenya, from Iraq to Burma, countries have learned that regions - especially if distinct in language, background or origin - that are denied a reasonable share in power will react, however serious or mild their economic grievances. In India, regional elites were able to obtain a reasonable share of political power and economic benefits. In Pakistan, Bengal had a majority of the population, is geographically and culturally distinct and was denied any share in power for over a decade. It also had serious economic grievances. It is therefore not surprising that its reaction was a strong one.

(f) Finally there were a number of important differences between the two countries which were unrelated to their economic strategies. For instance, Pakistan's government did not achieve a principal foreign policy objective (Kashmir) and lost a war, India did achieve its objective and won; Pakistan's leadership faced one of the most difficult problems of national integration in the world and proved politically inept, while India's problems were less severe and its recent leadership has shown great political ability (one only has to compare the reaction to the DMK and the Awami League for evidence on this).

Therefore it is almost surely incorrect to conclude from a comparison of India and Pakistan that Pakistan's higher growth was obtained at the cost of equity and that its inequitable

income distribution was the prime cause of political disaster. Equity did matter, but the relation between growth, equity and political consequences was a good deal more complex than some analysts have suggested.

The differences in strategy between the two countries affected not only growth and equity, but also the prospects for future development. India's greater efforts, at some cost, to develop institutions, to acquire experience with complex processes and to raise the savings rate provided a better basis for future development than Pakistan's more modest efforts in the same areas.

Pakistan caught up with and by 1964/65 surpassed India with respect to the rate of investment, but it relied more heavily on foreign aid and its rate of savings as conventionally defined did not reach 12% of GDP. (That is, without including non-consumption expenditures on defense). It was therefore particularly vulnerable to the decline in aid after 1965. Less reliant on aid in the past, India was also less vulnerable to its decline.

The costs of learning to operate a large capital goods sector and other complex industries were partly behind India by 1970. Pakistan had avoided these costs by concentrating on technologically simple industries. In the late 1960's it was just beginning a major development of its capital goods industry, and expected to accelerate the process as aid continued to decline. Much of Pakistan's learning process in this field was still ahead.

India had also devoted more resources to developing research and credit institutions, and the extension services, required by agriculture (and small scale industry), if rapid technological change is to be widely accepted by small and medium sized units. Both countries could achieve several years of high agricultural growth, if they adapted their policies to exploit the unrealized potential of existing technology. Both countries however had to develop more research capacity, new institutions to provide credit and a better machinery to transmit research results to cultivators to facilitate the more complex changes in technology required in the future. (E.g., to deal with insect and disease attacks on the new crop varieties; to provide credit so that farmers with small holdings can also use cash inputs; to manage water more efficiently as the limits of the supply are reached.) India's greater attention to institutional change gave her a somewhat better start in these respects.

Finally, it was pretty obvious in 1970 that Pakistan had to devote relatively more attention to equity in general and income distribution in particular. Without a good deal of further research, and perhaps not even then, one cannot be confident which of the two countries has done better for its lower income groups both in absolute and relative terms. But it is clear that India, Pakistan and Bangladesh will all need to devote more resources to social objectives in the future. How this will affect growth will depend a great deal on the form: to curb conspicuous consumption is good for both growth and

equity, while government restrictions on modern industry to protect high cost firms can be bad for both.

A historical comparison between India and Pakistan leads to some encouraging conclusions for the three countries of South Asia and for development in general. In these mixed economies the desired economic results generally followed from reasonably sensible and really quite conventional economic policies and programs: exports increased when returns were increased (and domestic demand weakened); a highly favorable cost-benefit ratio led to the adoption of new agricultural technologies; governments sometimes called "soft" managed to quadruple investment over 20 years while improving its efficiency; in short, political, social, cultural and institutional obstacles to growth did not prove insurmountable in countries which pessimists sometimes regard with much discouragement. Nor were growth and equity necessarily conflicting objectives. Given a modest inflow of resources and reasonably effective economic policies both a significant increase in average per capita income and in the income of lower income groups is possible. The problem of the 1970's will be to reattain, at the very least, the growth rates of the early 1960's, while achieving greater equity, despite the prospect of much lower levels of outside assistance.