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RELATIVE PRICES IN PLANNING FOR ECONOMIC DEVELOPMENT

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Relative Prices in Planning for Economic Development

Gustav Ranis

The social significance of relative prices in traditional economic theory is closely related to the efficiency of resource allocation in a general equilibrium context. The heart of that relationship consists of ensuring optimality in the Pareto sense through the interaction of relative commodity and factor prices. Given production conditions and consumer preferences, general equilibrium theory aims to show how efficiency can be achieved in a market-related or capitalist system.

When a time dimension is added to the above we obtain the so-called dynamic general equilibrium model in which relative prices once again play an important role. The problem of resource allocation now takes on inter-temporal as well as horizontal dimensions. In addition to relative factor and commodity prices, we have an additional price to deal with, i.e. the rate of interest, which affects the crucial decisions as between consumption and saving. The central interest of traditional theory remains, how does the market or capitalist system simultaneously bring about an efficient horizontal as well as inter-temporal allocation of resources.

Another extension of our static general equilibrium theory in which relative prices play a prominent role is in the space dimension, usually called international trade theory. Now flows between countries are included and another relative price, the exchange rate, becomes relevant. But the basic social problem remains the same, i.e. to ensure maximum global efficiency, as both relative prices within countries and exchange rates between them are adjusted to take maximum advantage of the additional production opportunity called trade.

Thus the most important role of relative prices in the traditional classical and neo-classical literature has been in the achievement of efficient resource allocation extended to time and space. The relevance for practical planning or policy making is relatively meager. In fact, only one real policy conclusion can be drawn from the general equilibrium model as extended, namely to let the price system function as freely as possible.

We know that the real world, even in the mature economies, does not always meet the implicit conditions which permit the general equilibrium system to operate to ensure Pareto optimality. Even if we should accept the efficient utilization of resources as "the" major social problem, certain essential conditions must be fulfilled if such a system is to be at all relevant to a real society and if planning based upon it is to make any sense. For one, we must assume the existence of a minimal set of price and profit sensitive entrepreneurs or other economic agents. For another, the society must be politically and ideologically ready to accept the capitalist system as a driving force. In other words, the relevance of the price system as an essential instrument to ensure optimality requires that there exist no economic necessity, e.g. because of scale or other reasons, for government to play a substantial role in the economy's directly productive areas, and moreover, that there exist no over-riding non-economic or ideological "necessity" to have the public sector play a more extensive role. Thirdly, we must assume the relatively full and free flow of information and resources, i.e. the absence of pronounced institutional constraints.

In the developing economy context, to which this paper is primarily addressed, the existence of a sufficiently large number of entrepreneurs sensitive to price and profit signals cannot be taken for granted. Secondly, there is customarily in evidence a shortage of those many social and economic overheads painfully built up over the centuries and taken for granted in what are now the mature economies. Moreover, in many of these societies, especially in the early stages after emergence from colonialism, there exist strong ideological reasons for not wanting to accept a market-oriented system, which is often identified with imperialism as the driving force. Finally, neither the mobility of resources nor of the flow of information, nor the absence of other major institutional constraints, can be taken for granted. In fact, perhaps more than anything else, it is the absence of these features and the consequent inability to use the convenient ceteris paribus assumptions of traditional theory which lies at the heart of the development problem.

Under these circumstances, it is legitimate to ask whether or not the efficient utilization of available resources is, in fact, "the" major social problem facing the developing society. As it emerges from a frequently stagnant colonial agrarian situation, a developing country usually demands a reallocation of resources and is almost bound to make some use of prices and profits in helping to achieve that reallocation. The role of relative prices in this context is, however, very different from that envisioned in the dynamic general equilibrium system. While this system may be valid in the long run, i.e., once an economy is approaching economic maturity--with all the caveats we are familiar with even in those contexts--it does not capture the essence of the problem of development;

consequently the simple policy advice flowing from it is not really relevant.

If resource allocation across time and space is not "the" problem of major relevance for the developing economy, what is? Basically, it is the achievement of structural change via a broadening of the resources base, both human and material. The basic question, in other words, is not how to allocate given resources more efficiently, but how to introduce technological change, how to broaden participation, how to create entrepreneurs, how to create institutional change, and how to induce minimum mobility. If these issues lie at the heart of the problem, and if they can be addressed with the help of planning and policy making, relative prices can be viewed as taking on a new and quite different role. It is this role to which this paper is addressed. In Section II we describe the typical import substitution phase the newly independent developing economy is likely to pass through initially. In Section III we seek to outline the dimensions of the required transition from import to export substitution and the role of relative prices in planning for that transition. Finally, in Section IV, we illustrate this role for the case of Korea and Pakistan.

II

In traditional theory, relative prices provide the information and the signals required for efficient static allocation as well as for moving the economy in the right direction dynamically. Prices serve as stimulants and propellants, but they cannot be expected, in any simple fashion, to help create the proper environment, or entrepreneurial capacity, ab initio.

If there exists a shortage of entrepreneurs in a developing country, or if there exists the impediment of institutional barriers, planners or policy makers may well set shadow prices in such a way as to provide larger than normal profits to offset larger than normal risks. Over time, once such decision makers, given the benefit of experience, begin to improve at their task, and once institutions are gradually transformed in directions which accommodate rather than obstruct change, these extra price margins can be reduced and finally eliminated.

This idea is not a new and startling one, but it lies at the base of the infant industry argument. It is essentially what Smith and List were talking about when they recognized the need for government intervention to affect relative prices in behalf of new industries. The infant entrepreneurial argument is but another way of stating the same case--for the use of administered distortions in relative prices to permit learning-by-doing processes to assert themselves.

Newly independent developing economy governments have, almost without exception, tried to replace traditional colonial patterns of production and trade--orchestrated mainly by the commercial interests of the mother country--by interposing themselves and taking direct action in the import substituting direction. Typically, they first move to gain full control of the critical raw material export flows in order to prevent their continued reinvestment for the exclusive benefit of that same sector, or for repatriation abroad--and to channel them into the domestic industrial and service sectors. Typically also, they see the world through early Prebisch eyes, as an unequal partnership between Center and Periphery, with anticipation of unfavorable demand patterns for traditional exports,

coupled with a firm belief in the dynamic learning processes associated with import substitution. In virtually all cases, this leads to more or less clear notions of what the government must do directly and what it can induce or order the private sector to undertake.

Most import substitution efforts reflect a consensus that government must provide social and economic overheads, but there is much less consensus concerning the ideal division of labor between the public and private sectors in the directly productive sphere and least of all on how to organize or cajole what remains in the private sector. Here, of course, we have a wide range of choice, almost a continuous spectrum, between direct government ownership, on the one extreme, and something approaching textbook laissez faire, on the other. Most developing societies have, in fact, partly for economic and partly for ideological reasons, opted for a relatively expansive definition of what should be in the public sector--as well as for substantial direct controls over the private sector. The tools most frequently used are exchange controls, the compulsory surrender of foreign exchange, and the allocation of import licenses to socially desirable projects in overheads and industry.

This import substitution syndrome usually includes substantial government deficit financing accompanied by inflation and an increasingly over-valued exchange rate. Quantitative restrictions are preferred over tariffs, credit rationing at low interest rates over an approach to market allocation at higher interest rates, and the rationing of any critical materials, like cement, over excise taxes. In fact, the policy choice can often by characterized as one of trying to displace markets rather than attempting to work through them.

The system described obviously provides windfall profits for importers and tends to discriminate against exports since a local producer can acquire more local currency by saving a dollar of imports than by earning a dollar of exports.

A second major concomitant of this distortion of relative prices consists, very often, of the neglect of agriculture. Typically this sector, instead of becoming a major propellant of overall development, turns out to be a drag, incapable of even keeping up with population growth, not to speak of freeing workers and providing saving for industrial growth. Food shortages consequently frequently inhibit further industrial growth as industrial wages tend to rise prematurely.

Thirdly, in the market for capital, the administratively controlled interest rate usually is far below the rate of return on investment. Interest rates are often kept at such levels in LDC's mainly because it is believed that higher rates would discourage investment, as well as for so-called equity reasons, i.e., to help the small investor. Both arguments are defective. Most developing countries chronically suffer from an excess of intended investment relative to available savings; higher interest rates would not only improve the allocation of a given amount of savings, but more importantly, increase the total volume of savings. On the equity issue, the choice is really one between low interest rates which go to the favored large scale borrower, and high interest rates at which all borrowers, large and small, new and old, have approximately equal access at a price.

The allocation of imports, of investment funds, for that matter of virtually every scarce commodity, is thus likely to be highly inefficient

during the import substitution phase, since administered prices drawn up by bureaucrats are asked to bear the burden of determining output as well as factor input mixes. The price of industrial goods is usually pegged high relative to that of agricultural goods, not only via the exchange rate, but also via taxes and subsidies intended to protect the urban consumer; capital goods are often priced low relative to other industrial goods both because imports are under-valued and because the interest rate is kept artificially low. For all these reasons industrial production is likely to be capital and import-intensive, in spite of the presence of surplus labor. Efficiency becomes irrelevant when receipt of an import license or of a loan per se bestows a sizable windfall profit and becomes a main objective of entrepreneurial activity.

The costs of maintaining this kind of system are patently large. Anne Krueger estimated, for Turkey, that import substituting industries used 20-75 lira to save a dollar of imports, while export industries required 8-14 lira to earn a dollar of exports.[1] Johnson, for Chile, estimated that about 12 escudos were needed to save a dollar of imports at a time when the official exchange rate was only 2 escudos per dollar.[2] Stephen Lewis estimated that Pakistani manufactures received about 40 percent more rupees per dollar than did agricultural goods in the early 60's.[3]

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[1]Anne O. Krueger, "Some Economic Costs of Exchange Control: The Turkish Case," JPE (October 1966), Table 3, Column 5.

[2]Leland J. Johnson, "Problems of Import Substitution: The Chilean Automobile Industry," Economic Development and Cultural Change (Jan. 1967), p. 209.

[3]Stephen R. Lewis, Jr., "Effects of Trade Policy on Domestic Relative Prices: Pakistan, 1951-1965," AER (March 1968), Table 1.

Moreover, in spite of its high costs, import substitution as a way of life may be difficult to abandon. Industrial importing interests become more and more entrenched and used to making large windfall profits. The civil service enjoys not only its absolute power but also its ability to supplement its income as sub-rosa payments grease the wheels of the disequilibrium system. Perhaps most importantly, any change in policy must be prepared to run the gauntlet of accusations of "give-away" either to foreign or domestic private interests.

It should be remembered that this set of policies is basically a reaction to the real or imagined lack of indigenous industrial entrepreneurship. But it will fulfill its historical mission and thus possibly be worth the price only if the system can also be geared to a gradual reduction of these controls over time. Otherwise, the self fulfilling prophecy of the "absent" entrepreneur forcing government into more and more direct actions may well constitute the most vicious of the many vicious circles we've heard about. In other words, the imposition of a hothouse industrial sector can have the desired effect of creating sufficient entrepreneurial capacity for use at a later stage only if there are assured gradual reductions in the temperature over time. Only in this way will embryonic entrepreneurs have a chance to divert their energies from chasing slips of paper and subverting the control system to making some of the finer allocative decisions at the margin. Only if entrepreneurs become discouraged from trying to maintain the hothouse, indefinitely, or using their influence with government to have it maintained -and only if government in turn is willing to recognize the prohibitive costs of continued import substitition--can a transition to a more efficient stage of development occur.

The use of relative prices in planning for such a transition relates much less to the efficient allocation of known and given resources, and much more to uncovering additional resources and exploiting slacks in the system. In other words, the conventional wisdom about the mainsprings of growth undergoes gradual change. Emphasis must shift to the broadening of the resource base, the attempt to bring the economy closer to its full potential, mainly through the adoption of technological change, and an adjustment of relative prices is likely to be essential in effecting the necessary adjustments. While under the previous regime public and large-scale private enterprise were the beneficiaries in response to the actual or assumed shortage of domestic entrepreneurship, a lowering of the hot-house temperature really requires a restructuring of relative prices; that is to say, the role assigned to relative prices must increasingly be one of reflecting actual scarcities rather than facilitating, in a very passive sense, government's directly allocative actions. The goal must now become a broadening of the development base in the attempt to harness a much larger proportion of the previously disenfranchised economic agents to the development effort. Especially if peasants and medium and small scale industrialists are to be mobilized, this cannot be done effectively either by government ownership or by direct horizontal controls over resources allocation in the private sector--if for no other reason than the sheer impossibility of making all the millions of necessary decisions on a broad front, and even physically reaching all the agents concerned. Increasingly, therefore, as the economy moves out of its import substitution sub-phase and into the next phase of development, the catalytic role of government, through its influence on relative price

signals, rather than through its direct control of resources captured and allocated, becomes the critical element.

III

The transition which a successful developing society must be prepared to negotiate is from a land or raw material based import substitution phase, as described above, to what may be called a labor and, later, skill-based export substitution phase. The role of relative prices in planning for such a transition is crucial. It can perhaps be best summarized as promoting growth by undoing the artificial distortions while preserving the gains of the earlier period. For example, distortions between the price of capital and of consumer goods may have led to high saving and low capital formation as in the case of Argentina, or to relatively low saving and low capital formation as in the case of Pakistan. Substantive inefficiencies within the industrial sector, characterized by high rates of excess capacity and capital intensity, result from the overvaluation of the exchange rate and artificially low interest rates. Stagnation in agriculture usually accompanies the artificial depression of that sector's terms of trade in the effort to assist the industrialization drive and keep vocal urban consumers under control.

All this is subject to change by tackling relative prices in the context of development planning. The terms of trade between agriculture and non-agriculture may be a prime objective. With agricultural activity still a preponderant feature of the landscape, the introduction of technological change in that sector usually remains a prerequisite for sustained growth--no matter how important the role of the foreign sector.

But while new knowledge on miracle seeds, fertilizer, and other input combinations is clearly required for any major change in physical relationships to take place, it is likely to be relative price adjustments which are the sine qua non for the adoption of such new technology. As long as, either because of an overvalued exchange rate or because of forced procurement at artificially low prices, farmer's terms of trade are stacked against him, the potential bounty made available through the courtesy of the International Rice Research Institute or Mexican wheat researchers is not likely to be realized. This certainly has been the comparative experience in India and Pakistan, where a time-phased relationship between changes in agricultural price policy and in the willingness to adopt the burgeoning new technology can be established. Relative price adjustments can, of course, also be used on the agricultural input side, especially when the new technology is sensitive to the use of a new input, such as fertilizer. Sensible planning which seeks to harness relative price changes for the promotion of structural change and growth may well call for temporary subsidization of that input, quite in addition to overall government support of the output price as an underpinning of the market for major food crops. Such relative price readjustments should, however, be time constrained since one would clearly not wish to move away from one set of distortions to perpetuate another. In other words, both on the input and output side, the growth promoting role of adjusting relative prices away from previous levels of distortions should be sensitive to the need to ensure that the overall turning down of the temperature is not neglected, i.e. that, over time, there is a return as quickly as possible to international prices, both in terms of the support

levels on major food crops and the return of input prices, such as fertilizer, to competitive levels, after the period of introduction.

Perhaps the most important relative price which needs to be adjusted during this transition period is, of course, the exchange rate, through which an indirect tax is levied on exports while importer-industrialists benefit from incentive-dulling windfall profits. Devaluations, either de facto or de jure, have been a major tool of the restructuring that began to take place in many of the developing countries during the latter half of the 1960's, especially where such devaluations were accompanied by import liberalization, i.e., the partial dismantling of the import quota and licensing system permitting a somewhat more market-determined allocation of bottleneck inputs. As the economy tries to move away from its almost exclusive reliance on traditional exports and seeks to export more of its abundant labor power--and, somewhat later, its indigenous skills--a more realistic exchange rate permitting increase participation in the international economy becomes essential.

Similarly with respect to the relative price governing intertemporal choices between saving and consumption, i.e. the interest rate. In the typical situation, with official rates way below the scarcity price of capital, and a wide gap between it and unofficial curb rates, a move towards unitary official rates at a considerably higher level is likely not only to lead to a better allocation of investment, but also, and more importantly, to a substantial rise in the volume of saving.

There are, in other words, a large number of relative price adjustments which, in the context of planning, can promote growth through a restructuring effort. In order to determine, in any particular country

context, what role to assign to the adjustment of which relative prices, and in what sequence, we must first have a clearer picture of the type of an economy we are talking about and in what phase of development it finds itself. For example, the growth promotion problem may not simply be one of enhanced participation of all the factors, but there may be special problems of income or regional distribution which must be addressed if a political explosion is to be avoided--also a growth relevant consideration. For another, the relative importance of the exchange rate is much greater in the case of a small economy than in that of a large one, and external terms of trade much more crucial in the latter than in the former. If an economy has a strong and diversified natural resources base, with good expectations as to the future, the pressures for restructuring from land to labor based development are much smaller. In such cases, e.g. Malaysia, the attempt may well be made to skip the import substitution stage completely. And if the inherited human resources endowment is strong, the required length of that phase may be much shorter. In other words, any sensible assessment of the role of relative prices in planning cannot be independent of the type of economy we are talking about, e.g. its size, its land-labor ratio, its infrastructure and its relative strength of human and natural resources, among others. Without an understanding of these elements as well as some historical perspective on where the economy has been (during its colonial period), and where it is now, the potential growth promoting role of the use of relative prices in planning cannot be fully realized.

The only really general statement that can thus be made, in summary, is that there may exist a unique role for relative prices in promoting

growth via a planned restructuring of the developing economy's system--long before the promotion of efficiency in the more familiar general equilibrium context becomes relevant. Then, as distortions are gradually eliminated, these readjustments in relative prices can be the prime force in gradually moving the economy out of import and into export substitution, with the growth promoting role of relative prices gradually yielding to the promotion of Pareto efficiency in the fully activated mature economy. Finally, we intend to briefly illustrate this role of relative prices in the transition process by briefly looking at a couple of real world cases, South Korea and Pakistan.

IV

At the time of initial attempted transition to modern growth the small dualistic economy of South Korea found itself with a fairly strong agricultural infrastructure and a fairly well developed indigenous entrepreneurial class. Nevertheless, in the aftermath of Partition and War, Korea in the early 50's turned towards a fairly conventional import substituting set of policies, tending to favor industry and services through foreign exchange controls, with an increasingly overvalued exchange rate as domestic inflation made itself felt. As long as stabilization efforts aren't successful and the economy continues subject to rapid inflation and inflationary expectations--as was the case in the 50's and early 60's--relative prices are unlikely to be effective either as growth promoting or finely allocative devices. When such signals are obscured by massive overall inflation, and energies are concentrated on making quick profits,

rather than on productive investment, there is very little chance to reap the full benefits of import substitution and move beyond it. During the period under discussion, Korea's growth rate was just about high enough to keep up with population growth, while saving rates were negligible, for some years even negative.

By 1963 the back of the inflation was finally broken and, given the basically strong inherited human resource endowment, the first efforts to attempt a developmental transition via changes in relative prices became possible soon thereafter. In order to shift from what are essentially land-based food and raw material exports to the exportation of labor and, increasingly with time, domestic skills and ingenuity, Korea first had to achieve a more realistic relative price of foreign exchange, i.e. it could not, especially since it is small, continue to live behind artificial walls of protection without serious consequences for growth. As a consequence, in May 1964, Korea substantially devalued her currency and simultaneously unified a complicated multiple exchange system. Moreover, imports were liberalized, i.e. the licensing system broadened through the widening of import quotas, the introduction of export retention schemes and, later, a quasi-automatic licensing system to cover an expanding volume of imports. The effects of a change in the signals via a change in this crucial relative price have been startling. Exports, which had grown at annual rates of less than 15 percent during the '58-'62 period, have been growing at 30-40 percent annual rates since '64. Moreover, this export boom has been especially pronounced in the area of light industry where value added in the form of pure labor could play an increasingly important role.

In 1965, relative prices in the sector complementary to the foreign trade sector, i.e. the credit sector, were changed dramatically. Interest rates, which had been kept at artificially low levels, were drastically raised in 1965, and the huge gap between the low official rates, actually available only to established prime borrowers, and the astronomically high rates facing ordinary people on the curb market was substantially narrowed. Interest rates on saving deposits doubled and deposits responded by rising by more than 200 percent between 1964 and the end of 1965, and by more than 700 percent by September 1968. To indicate that this was not just a shift from one form of saving to another, we should note that the overall saving rate which had been negative in the 1958-62 period and had stood at only 5.8 percent as late as 1962-64, reached 13.6 percent in 1968 and is currently in the 15 percent range.

It can be said that the changes in these two relative prices, the exchange rate and the interest rate, more than anything else, have led to the spectacular turn-around in the performance of the Korean economy summarized in Table 1. As a direct consequence, Korea was placed in a position to put her abundant high quality human resources to use in an export-led rather than import substitution dominated industrialization effort. Increasingly also, domestic skill and innovative ingenuity could be incorporated with unskilled domestic labor as medium and small-scale entrepreneurs had an opportunity, really for the first time, to gain access to resources and participate broadly in the development process.

Table 1

Growth Performance of Korea

	Years	Percentage
Average Annual Rate of Growth of Per Capita Income	'55-'60	1.6
	'60-'65	3.7
	'65-'67	8.3
Domestic Saving Rate	'58	-2.5
	'66	9.2
Average Annual Rate of Growth of Exports	'55-'60	-0.8
	'65-'67	39.3

That other relative price, the terms of trade between agriculture and industry, has not as yet been substantially modified in the case of Korea from its distorted earlier levels. It is true that, in 1968, the Korean Government adopted a price support policy which has tended to somewhat improve her agricultural sector's terms of trade. Unfortunately, however, this price is announced at harvest rather than at planting time and thus serves more as an income redistribution rather than incentive device. Largely as a consequence, the adoption of available better technology including double cropping, fertilizer, and lime use, etc. has been slow, and substantial agricultural productivity increases still wait to be harnessed. While many of the distortions of the import substitution regime have, in other words, been corrected through changes in relative prices, much yet needs to be done to activate the agricultural sector.

Pakistan adopted a classic set of import substitution policies soon after partition and independence. While inflationary pressures built up, rendering the exchange rate increasingly overvalued, traditional raw jute and cotton export proceeds, supplemented by foreign aid, were reallocated, via exchange controls and licensing, to the construction of overheads and industry.

The overall economic performance which resulted throughout the '50's was little short of dismal. Agricultural production was barely able to keep up with population growth; exports were sluggish through the decade, actually declining in value. Only large scale industry, much of it in the public sector, grew at a fast pace, i.e. in excess of 30% annually. Domestic saving averaged around 5%, and more than 50% of the First Five Year Plan's ('55-'60) investment expenditures consequently had to be financed from abroad.

In 1959 the first restructuring of relative prices was undertaken via a de facto devaluation of the exchange rate through the establishment of an export bonus system. This was followed by additional import liberalization, including an expanding Open General License system and a Free List. By 1964 more than 40% of imports was liberalized in one way or another. Industrial excess capacity declined from more than 50% in 1960 to 10% of a much larger industrial plant in 1965. Non-traditional exports rose by 89% between 1959 and 1964 and accounted for 60% of the total by 1964.

In 1961, moreover, the policy of forced procurement of major food crops at low prices was abandoned. Instead, prices were permitted to be market-determined, undergirded by government guaranteed minimum price supports, with fluctuations reduced through the operation of buffer stocks. This reform, supplemented by fertilizer subsidies, constituted a marked improvement in agriculture's terms of trade. In this fashion farmers' incentives were realigned, culminating in substantial growth of agricultural productivity, especially in West Pakistan, even before the new miracle seeds became generally available. Once this more drastic change in input-output relations became possible, especially in wheat,

farmers were ready to respond and, moreover, able to increase vital water inputs through the free importation of pig iron needed for the construction of tubewells. The realignment of the terms of trade thus made the 32,000 private tubewells which had mushroomed up by 1965 profitable, while readjustments in the exchange system made them possible. Food grain production which had been growing at 1-2% annually during 1950-60 spurted ahead at a 4% annual clip during '60-'65. By 1970-71 a wheat crop at 170% of '64-'65 levels is expected and agricultural surpluses, rather than the persistent deficits of the '50's, are being contemplated.

Moreover, the substantial increase in agricultural productivity and the accompanying demand for pumps to power the tubewells led to the surprising development of engineering and other smaller scale industries, in West Pakistan. In this mutually self-reinforcing fashion, agricultural surpluses financed the growth of decentralized medium and small-scale industries, many of which in turn provided the physical inputs and incentives for further agricultural productivity increase. Changes in crucial relative prices thus effected major growth promoting changes in the economy. The change in aggregate performance for Pakistan, from negligible per capita income increases in the late '50's to increases of better than 3% annually on a sustained basis, in spite of war, aid declines, and drought bear ample testimony to the fact that the economy, in spite of its political problems, now seems to be moving on entirely different tracks. This is illustrated in Table 2.

Table 2

Growth Performance of Pakistan

	Years	Percentage
Average Annual Rate of Growth of Per Capite Income	'55-'60	1.2
	'60-'65	2.9
	'65-'67	3.4
Domestic Saving Rate	'58	5.5
	'66	9.0
Average Annual Rate of Growth of Exports	'55-'60	2.5
	'65-'67	8.3

In summary, the role of relative prices in planning for the transition from colonial agrarianism, through import substitution, to a more market-oriented and broadly based growth effort is a central one. In the typical situation, the attempt is made to achieve economic independence by cutting the colonial pattern and capturing the land-based resources for import substituting industrialization; relative prices are administered and largely irrelevant, with resources allocated directly to what are considered socially desirable areas. Then, as the crazy-quilt of administered pricing and controls begins to take its toll in terms of low efficiency and growth rates, structural change in the direction of a fuller participation of the society's peasants and medium and small-scale entrepreneurs is considered increasingly essential. Such a transition, in keeping with the changing entrepreneurial capacity of the economy, requires major changes in relative prices. The ability to transform the economy so that, first, unskilled labor, and then, domestic ingenuity and skills can carry more and more of the essential burdens of growth is heavily dependent on the timely, well-planned adjustment of relative prices.