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AGRICULTURE'S ROLE IN

PAKISTAN'S STRUCTURAL ADJUSTMENT

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INTRODUCTION

Agriculture continues to play a critical role in the development aspirations of Pakistan. The sector generates 25 per cent of GDP, employees over 50 per cent of the nation's work force and produces 70 per cent of Pakistan's merchandise exports. Moderate growth in the sector during the 1980's, achieved through the expansion of cultivable area not increased productivity, has occurred in the wake of large government subsidies for fertilizer and irrigation water, extensive government involvement in the procurement, processing and marketing of food and control of major food prices, both at the farm and wholesale level.

In light of growing fiscal and current account deficits, continued government involvement in the food sector is under question. Recent structural adjustment loans from the World Bank and the IMF have called for major changes to counter growing macroeconomic imbalances and to overhaul structural weaknesses in key sectors. This essay briefly describes the extent of the macroeconomic imbalances, policy reforms Pakistan will undertake to resolve them and the impact reforms will have adjusting key agricultural subsidies.

PAKISTAN'S MACROECONOMIC SITUATION

For the past two decades, Pakistan has experienced strong to moderate economic growth, averaging 5.7 per cent per year. Growth in per capita income, which has been retarded by uncontrolled population expansion of 3.1 per cent per year, has been respectable, averaging 2.6 per cent per year. By 1988 incomes reached $378 per person.

Since the earlier 1980's, the government began moving away from the import substitution policies adopted in the 1970's toward more open markets. Many of the interventions followed during the earlier period, the reliance on heavy subsidization, price and investment controls and extensive involvement of government in commercial activities were rescinded and progress was made in liberalizing investment and price regulations, and managing the exchange rate in a more flexible manor. Adjustments have led to the maintenance of real interest rates, rapid expansion in exports, and vigorous private sector investment in industrial growth. Industrial growth has averaged 7.2 per cent since 1980 , with a major share of new investments originating in the private sector.

However, the generally satisfactory economic performance of recent years has coincided with worsening macroeconomic balances. Fiscal performance has deteriorated significantly since the mid 80's with the continuation of poor government revenue generating efforts and growth in expenditures. Led by growing defense expenditures, averaging 30 per cent of total expenditures per year during the 1980's, and growing food and agricultural input subsidies, government budget deficits have increased continuously, rising from 5.3 per cent of GDP in the early 1980's to 8.6 per cent by 1988.

With declining growth in the Middle East economies, reductions in foreign remittances and declining domestic savings, debt financing of these expenditures has relied heavily on domestic bank and non-bank borrowing. Consequently, the nation's debt service bill has risen sharply. From the end of 1983 to June of 1988, the domestic debt to GDP ratio rose from 28 to 42 per cent, while external civilian debt increased from 37 to 42 per cent.

Rapid accumulation of debt, has meant increased interest payments. By 1988, interest on domestic and foreign debt had risen alarmingly, and was absorbing 17 per cent of all government budget expenditures. When combined with government subsidies, primarily for food, fertilizer and irrigation water, these expenditures absorbed 83 per cent of the government's 1988 development budget.

Large fiscal deficits have frustrated efforts to contain accompanying rises in Pakistan's external account deficit. The impact of strong export growth, averaging 32 per cent during the later 1980's, has been more than offset by a serge in imports and a deterioration in the nation's debt service account. Increased imports, financed partially by a foreign exchange draw-downs, helped during the late 80's to dampen the inflationary influence uncontrolled budget and accommodating credit expansion. Nevertheless, inflationary pressure, as measured by the GDP deflator, rose to 13.8 per cent per annum during 1988 and 1989, or almost two times the 1982 to 1987 average of 7.1 per cent. A 1989 inflation rate of 16.9 per cent, suggests that investors will be faced with negative interest rates for the first time during the decade and further erosion in domestic savings rates are projected. Finally, the rapid draw-down in foreign exchange reserves used to support imports cannot be maintained. Reserves levels, now equivalent to four weeks of imports, are dangerously low and insufficient to meet unanticipated short-term fluxiations in foreign exchange needs.

Government recognition that these macroeconomic imbalances could not be maintained came in 1989 with the initiation of a three year structural adjustment program designed to tackle the causes of the macroeconomic imbalances and to repair major structural weaknesses in the economy. The reforms, which are supported by a 18 month IMF stand-by agreement and a three year World Bank structural adjustment loan, focus on the following objectives:

1. The reduction in overall budget deficit to under 5 per cent;
2. the reduction in the current account deficit to 2.5 per cent of GDP;
3. The reduction in inflation to 6.5 per cent;

4. The reduction in the external debt service ratio from the current level of 30 per cent to 24 per cent; and,
5. The maintenance of real GDP growth between 5.2 and 5.5 per cent.

Attainment of these objectives requires initiation of a broad set of policy reforms. For example, to reduce the overall budget deficit, the government has agreed to increases in tax revenues by broadening and improving the administration of the national sales tax, to restructure the income tax system and to increase tariffs on public utilities, irrigation services, agricultural inputs and local sewer and potable water rates. To improve performance in foreign trade and promote industrial growth, the reform package calls for the replacement of non-tariff barriers by tariffs, the reduction in the number of commodity banned from import, lowering the maximum tariff from 225 to 100 per cent, continued management of an flexible exchange rate policy to support import liberalization and foster export growth and the adoption of changes that encourage industrial deregulation and greater private sector investment. Finally, in the area of financial reforms, the government in an effort to reduce inflation and improve the balance of payments, has agreed to peruse (pursue) cautious domestic debt policies while channeling adequate credit to the private sector. As the fiscal deficit begins to decline the government will establish market based interest rates using a Treasury bill auction procedure.

meaning contraction of the money supply??

AGRICULTURE'S ROLE IN THE ADJUSTMENT PROCESS

These adjustments will have a significant impact on the Pakistan economy as a whole, and the food production, processing and distribution system in particular. As part of the restructuring process, the government must reduce major agricultural subsidies.

Over the past decade, these subsidies, although rising in absolute terms, have declined relative to total government expenditures. For example, in 1979 government subsidies accounted for 19.8 per cent of current expenditures or 1.9 per cent of GDP. In that year, government supported the price of fertilizer, wheat, edible oils, plant protection and irrigation services, petroleum products and selected exports. As defence expenditures grew through the 80's, the number of subsidized commodities was reduced. Subsidies on edible oils, plant protection services and petroleum products were dropped, while fertilizer and irrigation services subsidies declined. By 1987, the most recent data available, wheat and fertilizer remained as the two major agricultural subsidies, accounting for 62 per cent of all government subsidy payments or 5.4 per cent of annual government expenditures.

As part of the restructuring, these subsidies will need to be reduced further. Government's ability to do so will depend on the structure of the subsidy, the size of benefits conferred and the distribution of those benefits.

Wheat and flour. Over the past two decades, wheat production, processing and distribution have been heavily influenced by government. To assure adequate stocks were available for the public ration system, government established a network of public procurement centers and imposed restrictive regulations on wheat traders, millers, private storage facilities and transporters. These centers procure, either through traders or directly from farmers, 60 to 70 per cent of the nation's marketable surplus per year. Wheat is then milled and distributed through a system of licensed mills and ration shops.

This system is driven by a set of administered prices. In 1986, the domestic procurement price, the price government paid to farmers was Rp 1750 and the selling price to mills was Rp 1703. Storage and handling costs, born by the government, were estimated at Rp 600 per ton, while the price of wheat flour through government controlled ration shops was Rp 1800 per ton. During the same year, the landed import price for wheat in pakistan averaged Rp 2450 a metric ton.

These administered prices suggest that it was government policy to subsidized consumers at the expense of producers. For example, by setting procurement prices below import prices and maintaining a restrictive internal trade regime, the government imposed an implicit tax of Rp 600 on wheat producers (import price less the domestic procurement price). In addition, this price regime suggests that a portion of this implicit tax was passed on to consumers through lower than normal flour prices. Assuming that public sector milling and distribution costs were equal to the spread between mill purchase and ration shop sales price, the nominal cost of wheat flour to the government was Rp 2447 per ton or Rp 647 per ton more what consumers were paying.

Under such circumstances, the government would find it difficult to withdraw the subsidy since it constituted 30 per cent of the wheat prices and was broadly distributed across a wide range of consumers. However, recent analysis conducted by IFPRI suggests that this may not be the case. In their 1988 study of Pakistan's food distribution system, IFPRI analysts found that 80 per cent of the wheat released to the mills never found its way into the ration system. This suggests that a substantial portion of subsidized wheat was milled and sold in the commercial market at prices above those announced by government. The extent to which this is true, millers not consumers become the subsidy recipient. The fact that the current system taxes producers, confers limited benefits on consumers and is providing rents to a limited number of licensed millers suggests that changes in the system would receive the support of surplus producers and would not be rigorously apposed by the general public.

Fertilizer. The Pakistan government has, since the early 1970's, provided fertilizer price supports to encourage increased farm use. As irrigated agriculture has expanded (it now accounts for 70 per cent of Pakistan's cultivable area) more extensive cropping patterns have emerged and fertilizer demand has increased. There is a direct relationship between fertilizer offtake, price and subsidy levels. For example, during the latter part of 1970, domestic prices were held relatively constant, while offtake increased. This led to an eight fold increase in subsidy levels from Rp 381 to Rp 2454 million between 1977 and 1980. In 1980, average fertilizer prices increases of 23 per cent, led to a decline in the rate in growth in demand for fertilizer. For example, in that year demand grew only 3.4 per cent, or seven times lower that the 1977/80 average. By the end of the year sluggish demand initiated the beginning of the decline in fertilizer subsidy.

During the period between 1982 and 1985, declining crop-fertilizer price ratios, poor weather, increases in fertilizer prices, primarily nitrogen fertilizers, and slow and often stagnate offtake resulted in slow but continuous declines in subsidy levels. Improved weather in 1985 and 1986 led a strong recovery in offtake and the leap in subsidies to Rp 3041. Government responded in May, 1986 by deregulation the nitrogen fertilizer industry. Even though government did retain control over the importation, domestic production, prices and distribution of phosphatic and potassium fertilizer, liberalization of the nitrogen fertilizer market, by far the most popular fertilizer used by Pakistan farmers, led to reduction in the subsidy of Rp 1.6 billion between 1986 and 1988. Increases in world nitrogen fertilizer prices and the increase use of phosphatic and potassium fertilizers have led to a resurgence in subsidies to Rp 2.1

billion in 1989. These recent trends have encouraged the government, in cooperation with the World Bank, to phase out these latter two types of subsidies.

Action on this issue while significantly reducing government expenditures, estimated at US$100 million in 1989, will not be easy. The 1986 Fertilizer Policy Study, supported by AID, suggests that retail prices of the most popular phosphatic fertilizers, diammonia phosphate and triple superphosphate,would have to be increased 60 to 98 per cent respectively to eliminate the subsidy. Retail prices of potassium, which account for only 2 per cent of demand but 15 per cent of total subsidies, would have to be increased 300 per cent to remove the subsidy.

While these increases would seem significant, they become manageable when viewed in the context of total revenue generated by agricultural production. An analysis conducted by the World Bank in 1985, entitled Fertilizer Pricing and Subsidy Removal, suggests that in almost instances fertilizer costs per acre are between 10 and 15 per cent of gross revenues per acre. Thus a 1 per cent increase in output prices would suffice to offset a 7 to 10 per cent increase in fertilizer prices, or a 10 per cent increase in output prices would offset 65 to 100 per cent increases.

On the domestic production and distribution side, deregulation, while it will not go unopposed, is not likely to have significant results. For example, some facilities which are old (the Pak-American and Lyallpur Chemical facilities) and others which are relatively small with obsolete equipment (the Pak-China facility) would likely go out of business. While these plants produce only 9.6 per cent of Pakistan total fertilizer output, production costs are high and industrial subsidies would be required to operate the facilities following deregulation. Other state owned facilities would continue to be viable operations after deregulation and theoretically could be privatized after deregulation. Finally, a limited number of high cost provincial government controlled distributors would be forced out of business in the absence of subsidies. Private investors would likely move into this area if government made it clear that they would not be interfering with the market in the future. AID's analysis found private distributors 11 per cent more efficient than government.

SUMMARY AND CONCLUSIONS

Although Pakistan has experienced modest economic growth through out the 1980's, excessive government control of the economy and a dependence on borrowing to meet domestic consumption bills, has led to serious macroeconomic imbalances in the economy. The Pakistan government has accepted the fact that growth cannot be sustained in light of growing current account and budget deficits. In cooperation with the World Bank and the IMF, they have initiated a set of adjustments to reduce both these deficits, to bring inflation under control and to reduce the foreign debt service ratio. All of this will be accomplished while maintaining GDP growth above 5 per cent per year. To achieve these goals, the government will initiate specific steps to improve the nation's money supply, to increase trade and to reduce aggregate demand. An important part of this latter goal, will be the reduction and/or elimination of budget subsidies on wheat, wheat flour, fertilizer and energy.

This essay focuses on the wheat and fertilizer subsidy programs. These two subsidies alone represent 62 per cent of all government subsidies and consume 5.4 per cent of annual government expenditures. The analysis, although limited by data availability, suggests that reductions in the subsidies are feasible and complementary. That is, increases in the prices of phosphatic and potassium fertilizers to eliminate subsidies will need to be substantial and should only be undertaken with accompanying increases in commodity prices. In addition, wheat prices, which are currently controlled by government, could be increased at the farm level with little or no impact on farmers. The analysis found that because of government pricing policies farmers were being taxed Rp 600 per ton. In theory this tax was to be passed on to consumers via lower wheat flour prices. Unfortunately, 80 per cent of the wheat destined for ration shop sales (subsidized sales) is diverted and sold on the open market. Consequently, it is the millers, not the consumers who receive the benefits of the implicit tax. Raising farm level wheat prices and freeing up the distribution system would reduce rents currently accruing to millers, maintain favorable wheat-fertilizer price ratios and reduce subsidies without reducing fertilizer demand. Farm level analysis, reviewed in the essay, suggests that a 10 per cent increase in aggregate farm level prices would more be more than sufficient to cover the rather large increases that would be required to remove current fertilizer subsidies of US$100 million per year.

and I had to read it quickly.

Last (paper in and read) but certainly not least, a really expert, superb analysis of structural adjustment in and its implications for one key sector in a large economy. You took on some complicated issues and analysis and made them very understandable. I liked very much the way you weaved the management and politics of adjustment, and pointed out the winners and losers as you went along.

Congrats on another excellent paper

Peter Ashri 8/10/90

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ECONOMIC GROWTH AND DEVELOPMENT
IN PAKISTAN DURING THE 1980'S

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INTRODUCTION

During the 1980's, Pakistan experienced annual economic growth in excess of 6 per cent, favorable by any standard. While Pakistan has benefitted from the prosperity of the Middle East region in the 70's and early 80's in terms of exports and manpower, it has since been confronted with the problems of dealing with more than three million Afghan refugees, declining remittances from workers abroad and increased tensions with India along the disputed Kashmiri border. Despite moderate economic growth, per capita income remains under US$ 400.

Following import substitution policies adopted in the 1960's, the Pakistan economy, up to 1980, was heavily controlled with wide ranging subsidies, price and investment regulations, high tariff and non-tariff barriers and heavy government involvement in commercial activities. Interest rates were controlled and monetary policy relied heavily on direct credit controls and credit rationing.

Since the early 1980's, the Government has moved toward a more open market economy. Many of the above interventions have been rescinded and progress has been made in liberalizing investment and price regulations, and managing the exchange rate in a flexible manner. Slower progress has been recorded in trade liberalization, with foreign exchange earnings still heavily dependent on agriculture and cotton based manufactures, and privatization of public enterprises. Retention of direct credit controls, the introduction of Islamic banking laws and direct government intervention to make rates of return on financial investments more flexible, have combined to perpetrate inefficiencies in the banking system.

While these adjustment have led to the continuation of moderate economic growth, has growth meant development? Is the average Pakistani better off today than he was ten years ago? Have all the citizenry participated in this growth or have the benefits of economic expansion accrued to a few? And finally are the current growth trends economically and ecologically sustainable into the future? This essay will examine Pakistan's economic growth performance over the past decade, identify what impact it has had on human development and determine the major constraints that require resolution if current trends are to be continued.

GROWTH AND DEVELOPMENT

Building on a vast body of literature, this essay does not assume that economic growth is synonymous with development. The basic objective of economic growth is the creation, accumulation and investment of material wealth. This objective while necessary for human development, is not sufficient to cause or sustain it.

The object of the latter is to establish and sustain an environment that maximizes human choice. Such an environment produces and distributes sufficient wealth so that average citizens have control over economic resources so they can make real decisions about the goods and services they will purchase today and the investments - human and capital - they wish to make to assure a better future. In such systems, citizens have a reasonable assurance that they will be able to participate in governance, that their voice will be heard, and that they will be around tomorrow to participate in the benefits of growth.

Focusing on development, not economic growth, requires that a broad set of indicators be examined. First and foremost is the economy growing at a sufficient pace to insure that individual purchasing power is increasing? Is there sufficient public and private investment in human and physical resources to sustain growth into the future? Is current growth leading to the structural adjustments required to move the economy from a low level agricultural base to the higher productivity associated with industrialization? Second, are human capital investments in education and health services - both necessary to improving the quality of life - occurring at a sufficient rate to assure broad access by all citizens? And third, is the political environment such that the common citizen has a voice in the affairs of the nation, a voice that can be exercised without fear of reprisal.

ASSESSMENT OF PAKISTAN'S HUMAN DEVELOPMENT PERFORMANCE

A. Economic performance.

Pakistan has experienced moderate economic growth since 1975. As Table One suggests, growth in real GDP has been positive since this year, has consistently exceeded five per cent per annum and has led to annual per capita income increases ranging from 2.1 to 4.9 per cent since 1980. In six of nine years in the 80's for which data is available, growth has exceeded planned targets of 6 per cent.

Sound management of the nation's money supply has kept annual expansion between 4.6 and 21.8 per cent, has been instrumental in keeping inflation within acceptable levels, 5.2 to 10.8 per cent annually and has led to gradual real changes in exchange rates. Real exchange rates have slowly but constantly appreciate against the dollar, rising from 11.9 to 16.4 Rupees per dollar since 1981. Maintenance of competitive exchange rates has encouraged growth in merchandise export expansion with export volumes doubling and value more than tripling since 1980. In 1980, total exports, under a fixed and overvalued exchange rate system, were RPS 16.9 billion. By 1988, five years after the adoption of flexible exchange rate policies, the real exchange rates had depreciated 27 per cent and the value of exports was expanding 32 per cent annually, one and a half times faster than imports. Unfortunately, the adoption of more flexible rates, has not reduced imports to levels that has generated positive trade

TABLE ONE. ECONOMIC PERFORMANCE INDICATORS FOR PAKISTAN - 1975 TO 1988

INDICATOR	ITEM	1975	1980	1982	1984	1986	1988
POPULATION							
MID YEAR TOTAL	MIL PER	70.9	82.6	87.8	93.3	99.2	105.4
ANNUAL GROWTH RATE	% PER YR	3.4	3.3	3.2	3.1	3.1	3.1
REAL GROSS DOMESTIC PRODUCT							
PER CAPITA	RP PER PER.	3671	4211	4503	4778	5241	5477
GDP GROWTH RATE	% PER YR	3.9	6.7	6.3	5.6	7.8	5.3
PER CAPITA GROWTH RATE	% PER YR	0.4	2.9	3.5	3.1	4.8	2.3
INFLATION							
ANNUAL RATE	% PER YR	22.4	10.5	9.0	9.6	5.2	7.1
GROWTH IN MONEY SUPPLY	% PER YR	16.4	11.5	21.8	4.6	16.1	7.7
SAVINGS AND INVESTMENT							
GROSS NATIONAL SAVINGS	% OF GDP	6.4	14.2	14.1	15.3	14.3	13.6
NET INCOME FROM ABROAD	% OF GNS	17.2	53.3	54.0	60.5	45.1	25.4
FIXED CAPITAL FORMATION							
TOTAL	% OF GDP	15.6	18.6	18.8	18.4	17.9	17.8
GOV.& PUBLIC ENTERPRISE	% OF TOTAL	67.9	68.4	57.3	54.6	54.2	53.0
PRIVATE ENTERPRISE	% OF TOTAL	32.1	31.6	42.7	45.4	45.8	47.0
PUBLIC FINANCE							
REVENUES	MIL RP	14637	39928	52930	72999	94226	121174
EXPENDITURES	MIL RP	26103	53272	68281	98927	141143	167279
SURPLUS/DEFICIT	MIL RP	-11466	-13344	-15351	-25928	-46917	-46105
DEFICIT	% OF GDP	11.1	6.3	5.3	6.9	9.6	7.5
DEBT FINANCING							
DOMESTIC	% OF TOTAL	35.5	26.7	37.8	56.9	78.9	82.9
FOREIGN	% OF TOTAL	68.0	39.9	26.3	12.8	8.1	17.1
TRADE							
TRADE BALANCE	MIL US $	-1157	-2876	-3403	-2965	-2406	0
REAL EXCHANGE RATE	RP PER US $	12.0	12.2	14.8	16.3	16.2	16.4
RESERVES PER WEEKS OF IMPORTS	WEEKS	13.0	15.6	10.0	16.5	6.2	4.7
FOREIGN DEBT							
CURRENT ACCOUNT BALANCE	MIL US $	-1049	-921	-802	-1195	-645	--
TOTAL EXTERNAL DEBT	MIL US $	5553	9922	11958	13375	16289	18102
DEBT SERVICING	% OF EXPORT	24.0	23.1	46.9	43.0	36.8	--

SOURCE: INTERNATIONAL FINANCIAL STATISTICS 1989, IMF

balances, nor has it led to export diversification. Continued dependence on agricultural based exports, which generated 70 per cent of total exports in 1989, leaves Pakistan's foreign exchange position highly vulnerable to external fluctuations that characterize international markets.

Sound monetary policies combined with deregulation have led to a relatively rapid increase in private, as opposed to public sector investment. Since 1980, the relative share of government and public fixed capital investment has declined 15.4 per cent and has been replaced by an equal increase in private fixed capital investment. Currently, public entities account for 53.0 percent of all capital investment and private entities 47.0 per cent.

Positive economic performance, however, has not been consistent across all indicators. While the composition of fixed capital investment has shifted in response to changes in government policies and regulations, the overall level of savings and investment has not increased and remained at relatively low levels throughout the 1980's. Gross National Savings, as a per cent of GDP, rose significantly in the late 70's as repatriated earnings from Pakistani's working in the Middle East expanded. By 1980, savings, driven by a three fold increase in net income from abroad, had more than doubled from 6.4 to 14.2 per cent of GDP. After 1980, savings stagnated, averaging 15.7 per cent of GDP per year. With a decline in repatriated foreign earnings of 45 per cent since 1986, there is serious concern over whether these low rates can be maintained into the future.

Future performance is also clouded by current government fiscal policy. Since 1980, deficit budget financing partially as an offset to increasing defense expenditures has increased 43 per cent per year or from Rps 13.3 to 46.1 billion between 1980 and 1988. With relatively conservative monetary policies, deficit financing has not come from expansion in the money supply but borrowing. As fiscal deficits have increased, deficit financing has shifted from foreign to domestic sources. By 1988, domestic sources were relied upon to provide 83 percent of the deficit or 14 times 1980 levels. As borrowing increased, interest expenditures to service accumulating foreign and domestic debt expanded. By 1989, domestic interest payments alone had reached RPS 26.6 billion or 18 per cent of total government revenues.

With a negative balance of payments and conservative monetary policies, the major sources of deficit financing have been domestic savings - or more accurately net income transfers from abroad, official government reserves and foreign aid transfers. None of these sources can be relied on indefinitely. Official reserves are currently at dangerously low levels, and are sufficient to finance slightly over one month's worth of imports. Foreign remittances, a major contributor to domestic savings, have continue to drop precipitously since 1985, falling 57 per cent between 1985 and 1988. Finally, foreign assistance, although doubling between 1981 and 1988, has been highly variable, fluctuating as much as 60 per cent between years. With the withdrawal of Russian troops from Afghanistan in 1988 and the reduced threat of worldwide communism, US government assistance, which accounted for 30 to 40 per cent of annual aid levels, will likely decline. Reductions in US support of US$119 million between 1988 and 1989 are likely to continue and set the trend for the 1990's.

The above fiscal disequaliberium suggests that major restructuring of the nation's budget and/or improvements in government capacity to generate new revenues will be required. Restructuring is also required for another reason. As Table Two indicates, modest growth in the Pakistan economy has not resulted in the structural transformation that normally accompany

TABLE TWO. STRUCTURAL ADJUSTMENTS IN THE PAKISTAN ECONOMY

ITEM	1970	1975	1980	1985
SECTORAL SHARE OF GDP				
AGRICULTURE	36.8	32.0	29.5	25.3
INDUSTRY	22.3	23.4	24.9	27.2
SERVICES	40.9	44.5	45.6	47.5
DISTRIBUTION OF THE LABOR FORCE				
AGRICULTURE	58.9	56.8	54.6	52.0
INDUSTRY	14.8	15.9	16.0	17.0
SERVICES	26.3	27.3	30.0	31.0
IMPLIED OUTPUT PER WORKER				
AGRICULTURE	0.62	0.56	0.54	0.49
INDUSTRY	1.51	1.47	1.56	1.60
SERVICES	1.56	1.63	1.52	1.53

SOURCES: WORLD DEVELOPMENT REPORT 1989, WORLD BANK
INTERNATIONAL FINANCIAL STATISTICS 1989, IMF

NOTES: COMPUTED BY DIVIDING THE SECTORAL SHARE OF GDP BY THE DISTRIBUTION OF THE LABOR FORCE BY SECTOR.

growth. During the period from 1970 to 1985, agriculture's share of GDP declined 11.5 per cent, while the per cent of the labor force in agriculture declined only 6.9 per cent. In other words, in 1970, 60 per cent of the agricultural labor force was producing 37 per cent of the nations product. By 1985, output per worker had dropped, with 52 per cent of that labor force producing only 25 per cent of the national product. This suggests a 21 per cent decline in the productivity of agricultural labor over 15 years a trend that Pakistan cannot afford in the future.

Unless a substantial portion of the labor force now employed in low productivity agricultural tasks can be shifted to more productive industrial and service sector employment, it is questionable if even the moderate growth rates of the 1980's can be sustained into the future. Major restructuring of government policies that encourage the rapid decline of inefficient government and public sector production and a rapid expansion of private sector investment in industry and services will be required.

B. Investments in Human Capital

Moderate economic performance has accompanied exceptionally poor performance in the development and maintenance of Pakistani human capital. Key to this poor performance has been Pakistan's inability to come to terms with rapid increases in population. At present growth rates, which have remained at 3.1 per cent per year since 1983, the current population of 103.8 million will double in 23 years. Rapid population growth means less for individual Pakistanis. For example, if replacement population rates of 2.0 per cent had been achieved in 1980, per capita GDP would have increased 488 Rupees or 9 per cent per person in 1988.

Rapid increases in population have meant that limited social sector expenditures have had to be stretched over a larger and larger population base. Examining public expenditure rates over the decade, Table Three, it becomes evident that the nation has consistently under-invested in human capital resources.

TABLE THREE. SECTORAL ALLOCATION OF GOVERNMENT EXPENDITURES - 1980 to 1986

ITEM	1980	1982	1984	1986
TOTAL EXPENDITURES (BIL. RP)	47.8	65.8	85.3	111.1
PERCENT OF GDP	22.7	21.2	23.7	26.9
SECTORAL ALLOCATION (% OF TOTAL)				
DEFENSE	30.6	33.5	32.3	29.5
EDUCATION	2.7	2.2	2.9	2.6
HEALTH	1.5	1.1	1.1	0.9
INFRASTRUCTURE	11.6	9.8	8.8	13.2
SOCIAL SECURITY	1.3	5.0	6.1	5.6
HOUSING	2.8	1.8	4.1	3.1
AGRICULTURE	2.1	1.4	1.1	1.0

SOURCES: INTERNATIONAL FINANCIAL STATISTICS 1989, IMF
GOVERNMENT FINANCE STATISTICS 1988, IMF

The armed conflict in Afghanistan , followed by rising tensions with India over the Kashmir has led to continued high public defence expenditures, declines in public health and education expenditures and an increase in social service expenditures primarily to meet the needs of the 3.4 million Afghan refugees. Between 1980 and 1988, investments in education and health declined .1 and .6 per cent respectably. By 1986, the last year data was available, investments in health, education, housing and social security totalled only 12.7 per cent of all expenditures or less than 40 per cent of annual defense expenditures.

The impact of limited investments in human capital are evident in key human development indicators. As Table Four indicates, primary school enrollment while improving slowly since 1980 remains far below potential. By 1986, only 53 out of every 100 children could look forward to attending primary school ; and only 26 of those

TABLE FOUR. INDICATORS OF HUMAN DEVELOPMENT

ITEM	1980	1982	1984	1986	1988
EDUCATION					
PRIMARY SCHOOL ENROLLMENT	43.0	42.0	47.0	53.0	--
SECONDARY SCHOOL ENROLLMENT	14.0	15.0	17.0	24.0	--
PRIMARY SCHOOL COMPLETION RATE	--	--	--	--	49.0
ADULT LITERACY					
MALE	--	--	--	40.0	--
FEMALE	--	--	--	19.0	--
HEALTH					
LIFE EXPECTANCY AT BIRTH	49.2	50.0	50.8	51.5	51.9
INFANT MORTALITY (UNDER 1)	124.0	120.0	116.0	112.0	110.0
CHILD MORTALITY (UNDER 5)	--	--	--	192.0	166.0

SOURCES: WORLD TABLES 1988-89, WORLD BANK
STATE OF THE WORLD'S CHILDREN 1990, UNICEF
NOTES: 1985 ESTIMATES
1987 ESTIMATES

could expect to graduate. The literacy rate, which is heavily skewed in favor of males, suggests that what little educational services are available, are reserved for men. In 1985, only two out of every ten Pakistani women could read and write. Low female literacy rates help to maintain the country's high population growth rates, and continue to contribute to high infant and child mortality rates. Currently, 10 out of every 100 children born can expect to die before their first birthday, and 17 out of a 100 before their fifth birthday.

When compared to other countries, Pakistan's human development performance leaves much to be desired. As Table Five indicates, although Pakistan has 14 per cent more income than the World Bank's average low income economy, infant mortality rates, life expectancy and primary school enrollment rates are all significantly lower than the low income country average. For example, infant mortality is almost double, life expectancy 85 per cent and primary school enrollments less than half the

TABLE FIVE. PAKISTAN'S COMPARATIVE PERFORMANCE IN HUMAN DEVELOPMENT

ITEM	PAKISTAN	ALL LOW INCOME ECONOMIES	THE POOREST NATION	THE RICHEST NATION
PER CAPITA INCOME (US $)	330	290	130	18530
INFANT MORTALITY	109	62	154	10
LIFE EXPECTANCY AT BIRTH				
MALE	55	65	45	74
FEMALE	54	64	49	80
PRIMARY SCHOOL ENROLLMENT				
MALE	55	113	44	103
FEMALE	32	92	28	101

SOURCE: WORLD DEVELOPMENT REPORT 1989, WORLD BANK

average of the 31 countries that the World Bank designates as low income economies. When compared to the world's poorest country, Ethiopia, Pakistan has almost two and a half times as much income but the average Pakistani lives only seven years longer, has only

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ten per cent more of his children in school and can expect one out of ten, not one out of eight, of his children to die within one year of birth.

The above analysis suggests quite clearly that Pakistan has consistently under-invested throughout the 80's in human capital development. Unless massive public defense expenditures can be reduced and reallocated to human development investments, the quality of life for the majority of Pakistani's will not improve. In fact, high defence expenditures and the resulting fiscal deficits when combined with continued high population growth rates set the stage for rapid declines in growth and prosperity.

C. Development of Democratic Pluralism.

A final set of indicators, and the most difficult to access, are those that measure the degree individual rights have been protected or enhanced in Pakistan during the period. This analysis relies on a set of indexes calculated by Raymond Gastel and published annually in Freedom of the World. The indices, which are calibrated on an ascending scale from seven to two, measure increasing political rights i.e. the ability of individual Pakistanis to effectively choose who manages the country and improvements in civil liberties, such as the right of expression, religion and education and protection against false seizure and imprisonment. In 1982, the first year the indices were calculated, Pakistan received a seven in the area of political rights and a five with respect to civil liberties. The lowest political rights rating was awarded in recognition of the fact that individual Pakistani's had little or no political rights. At that time, the government was controlled by a centralized military dictatorship, political parties were officially banned, promised elections had been postponed indefinitely and the former Prime Minister had been executed following a political trial. Although local elections of limited significance were allowed, the influence of political parties, religious leaders, provincial leaders and the judiciary was tightly controlled and internal consensus within and between factions was waning. Because of the strong government control of the press, imprisonment and alleged torturing of political prisoners, limits on the right to assemble, and the curtailment of private rights, especially freedom of religion, freedom to organize and women's rights, Pakistan received a five rating with respect to civil liberties.

Through the six year period that the indices are available (1982 to 1988), both political freedom and civil liberties have improved since 1985. Although the national referendum held in 1984 to decide on the President's rule and Islam was considered by most international observers to be a farce, the 1985 nonparty assembly elections were not. Even though established political parties were banned from competing, many of their members actively campaigned. The result was the creation of a parliament that has increasingly shown its independence from the mixed military/civilian government. As a consequence of these changes, Pakistan's political rights rating improved from seven to five.

The election of Benazir Butto in 1989 and the expansion in both political and civil liberties has resulted in further improvements in ratings. Political rights were enhanced with the opposition party's victory in the 1988 election, the formation of the Butto government and the initiation of a rapid transition from military/civilian rule to full parliamentary government. As a result, the political rights has again improved, falling from five to three. Complementary improvements in civil liberties, have led to similar improvements with ratings falling from five to three. While the government retains control over radio and tv, freedom of the press was re-established in 1988. Bans on the right to assemble and to demonstrate have been lifted. Restrictions on union activity, the requirement to conform teaching to Islamic doctrine and the limits that Islamic conservatism has placed on limiting freedom of religion and women rights continue.There are early indications, however, that the underpinnings of this conservative position, Islamic fundamentalism, that was such an important to previous regimes, might be abandon or significantly modified under the Butto regime.

SUMMARY

Throughout the last decade,Pakistan has experienced moderate economic growth, averaging above 6.0 per cent per year. Although impressive, there are indicators that these growth rates cannot be sustained. Unregulated growth in population of 3.1 per cent continues to absorb a significant proportion of economic growth. High and continuous military expenditures, averaging over 30 per cent of all government expenditures during the period, have led to unsustainable budget deficits. Faced with declining repatriated earnings from Pakistanis work ng abroad, formally the major source of deficit financing, the government must increase and diversify export earnings, improve industrial and service sector productivity and/or increase the revenue generating capacity of government just to maintain the status quo. Restructuring government revenues and expenditures, adoption of policies that lead to the rapid expansion of private savings and investment and the resolution of the constraints that are inhibiting the rapid transfer of labor out of agriculture will be required if Pakistan is to be able to provide its citizens the economic choices they will demand in the future.

In addition, the abysmal human capital development record must be reversed. Pakistan needs to declare a peace dividend, to find new ways of reducing military expenditures and of channeling savings to increase support for universal primary education, for both boys and girls, to intensify the coverage and content of family planning and maternal health care programs and to develop effective yet efficient safety nets for those citizens who for whatever reason will not be able to participate or benefit from

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economic growth.

In contrast to the abysmal record in human capital development, Pakistan has carried out an impressive expansion in civil and political liberties since 1985. New initiatives to expand women's rights, reduce remaining government control of electronic media and rescind the worst abuses of Islamic fundamentalism must accompany improvements in the freedom of the press, assembly and association that have already occurred. In the future, the greatest challenge facing the new regime will be how successful the new regime will be in harnessing the support of the new political coalitions that are forming to solve the difficult structural adjustments that must be tackled to sustain development.