Pakistan

A Ray of Hope Still Remains

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Pakistan’s economy has been under considerable stresses and strains during the last year, and more especially so during its last quarter. The author, a former Economic Adviser to the Pakistan Government, reviews past economic problems and gives his personal outlook on the future development. We would like this article to serve as a basis of discussion.

In any country whose economy is still predominantly agrarian, rainfall plays quite an important part. Pakistan is somewhat unfortunate in this regard. It has a most unequitable distribution of rainfall. In West Pakistan it varies from 5 inches to 25 inches, while in East Pakistan the minimum is about 80 inches and the maximum reaches 200 inches. The worst aspect is that most of the rain in both the wings falls between July and September, which are called the Monsoon months. It should be noted that while West Pakistan often suffers from worst droughts, East Pakistan is the victim of too much rainfall and has to bear the impact of severe floods.

Natural Tragedy

Last year’s monsoons were more than capricious. By September, 1970, it became clear that monsoons had failed in West Pakistan, while they were more than severe in East Pakistan. In August it was the victim of unprecedented heavy floods which gave a severe setback not only to its economy but also resulted in the postponement of the first ever general elections in the country. The unfortunate peasant had hardly recovered from this disaster when in early November he saw the most horrible cyclone known to the province. Overnight human lives estimated at about a million were lost, though nobody can give exact figures. All cattle in the cyclone affected areas was wiped out. The loss of crops was simply colossal, though any estimate with any degree of reasonable accuracy is rather difficult. This is not the place to narrate the harrowing tales of this cruel natural tragedy which not only dislocated the economy of the affected districts but also brought in its wake unprecedented disease and suffering. There was water everywhere, the sea water flooded vast areas in many districts. But due to its saline nature there was not a drop to drink. Thanks to the very generous and timely aid, a substantial part of which was transported by air, by many countries of the world, it was possible to minimise the impact of this great calamity and the work of rehabilitation was quickly set in motion. As a result, the Government did not postpone for the second time the forthcoming elections scheduled for December 7 and 17 for the National and Provincial Assemblies, respectively, in both wings of the country.

Effects of Elections

Purely from the economic point of view the elections did not prove an unmixed blessing. As these were the first general elections on the basis of adult franchise—one man or woman one vote—, the public enthusiasm was unbound. The election starved candidates rushed to grab seats. On an average there were six candidates for each seat. This meant not only elaborate arrangements by the Government which called for heavy expenses but also large spending by this vast army of candidates. This resulted in a steep increase in money supply and gave birth to inflationary forces. According to the figures published by the State Bank of Pakistan, in December, 1970, money supply increased by Rs 760.21 mn compared to a month earlier. This, however, began to decline after the elections were over. In January, 1971, it declined by Rs 100.24 mn.

In the course of calender year 1970 the money supply increased from Rs 20,500.05 mn to Rs 22,930.92 mn, showing an increase of Rs 2,430.87 mn which is the highest rise in the course of any one year in Pakistan’s monetary history. As a consequence there was an all round increase in the price level. The cost of living indices for
clerical workers showed a rise of 7 points rising from 152 (base 1956: 100 p.c.) to 159 in the course of calendar year 1970.

In order to curb the inflationary tendencies the State Bank of Pakistan adopted a number of measures largely aimed at restricting credit for speculative purposes and to prevent accumulation of inventories. The month of December, 1970, from the economic point of view, especially on the monetary and financial front was the forerunner of many troubles which followed. In this month a Mission of the International Monetary Fund came to Pakistan on its annual visit to seek justification from Pakistan regarding the continuation of quantitative restrictions on imports. It may be mentioned that the Articles of Agreement of the IMF, to which Pakistan as a member country is a signatory, provides for such an examination each year for those countries which continue to impose quantitative restrictions on grounds of their balance of payment difficulties. Pakistan was placed in a rather unfavourable position in this year's negotiations with the Fund Mission as its foreign exchange reserves had been fast dwindling due to non-receipt of large part of the promised quota of economic assistance from the member countries of the Consortium for Aid to Pakistan. Pakistan had, therefore asked the Fund for a Stand-by Agreement for a loan of $ 50 mn.

IMF Remedy -- Devaluation

The IMF experts have a pet remedy for all monetary and economic ills of a country — devaluation. This remedy was also prescribed for Pakistan before any loan could be forthcoming. The writer took a strong exception to this advice of the IMF. The writer's contention is that in a modern complex economy based on paper standard devaluation is quite a blunt and antiquated tool. Moreover the monetary experience of a number of countries has shown that it has only an "aspirin" effect and fails to deliver the goods even in the medium run. One devaluation leads to another.

In the case of Pakistan this remedy is unwarranted for the following reasons:

- The Pakistan rupee is already de facto devalued to the tune of 185 to 190 p.c. as practically all private imports are allowed through Bonus Vouchers. Even at this unprecedented high rate of exchange Pakistan does not possess the necessary foreign exchange to allow unrestricted imports. Recently it has completely banned the imports of a number of items.
- If India's magnitude of devaluation is any measure to be suggested for Pakistan, then it is doomed to failure from the day it takes place.

When India was advised to change its par of exchange with the US dollar from Rs 4.76 to Rs 7.50, the free market price was Rs 9.00. Therefore all the evils of monetary imbalance and undervaluation of exports and overvaluation of imports, especially those imports for which foreign exchange is provided at the official rate, continued. As a result we find that the free market price of 1 US$ is 12 Indian rupees.

- The current free market rate of Pakistan rupee is Rs 11.00 per US$. So what should be the magnitude of devaluation of the Pakistan rupee if it is to be effective in correcting the monetary imbalance?

- When de jure devaluation of the rupee is suggested it should be borne in mind that Pakistan has large fixed payments to meet. The budget of the Central Government of Pakistan for 1970–71 provides Rs 1,230 mn for debt service and this amount is bound to increase in the years to come. If the rupee is devalued to the same extent as the Indian rupee (which in the circumstances is very modest and has proved quite ineffective) it will require 50 p.c. more rupees to discharge debt service obligations. Again for the next few years about Rs 450 mn are needed every year for import of food grains and edible oils.

Indo-Pakistan Relations

It is somewhat unfortunate that Indo-Pakistan relations are quite strained. In the interim budget introduced in the Indian Lok Sabaha (Lower House) in the last week of March 1971, provision of Rs 12,000 mn was provided for defence. This amount stood at Rs 2,760 mn in 1960–61. India has embarked on a mad armament race and has chosen the policy of guns instead of butter which it promised to its electorate in the last elections. Willy-nilly Pakistan has to follow suit. So both countries are pursuing suicidal policies which seriously retard their economic development and generate inflationary forces. All economic experts are agreed that inflation is the worst enemy of development.

In view of the strained relations between the two countries, Pakistan has also to spend large sums on the import of armaments. Any increase in its par value will result in proportionally more rupees to import vital defence requirements. Rupees simply are not available. They are as sacred as foreign exchange. This experience is shared even by a rich country like the Federal Republic of Germany. The writer recalls that when he was a member of the team which was exploring the possibilities of setting up an Asian Development Bank in 1965, the West German Government, which was quite sympathetic to this project, ex-