

President's Address to Businessmen

MR. ZULFIKAR ALI BHUTTO'S ADDRESS AT KARACHI

MAY 23, 1972



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Address to

**INDUSTRIALISTS
AND BUSINESSMEN
AT KARACHI**

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This is the third occasion since January that I am addressing your community. With the lifting of the Martial Law, the promulgation of the Constitution, the installation of peoples' representative governments in the four provinces and the implementation of economic reforms, a new era of political stability and economic progress has started in the country. Today, I will tell you how I visualise the future developments and relationships in the economic and social fields in the country.

This Government assumed power in circumstances of military disaster and economic collapse. Five months back, we were confronted by a collapse of confidence, a lack of will and an absence of any sense of purpose in all segments of national life. This collapse was superimposed on a process of increasing discontent in the industrial workers. The labour-management relations were extremely bad. The economy was stagnating, new investment was negligible and production and output were shrinking. Critical shortages of essential commodities had developed. Rising prices were affecting everybody, especially those in low income groups. It was against this background of confusion, disorder and despondency that I started making the various reforms as I felt that our political and social fabric would explode unless certain basic reforms were undertaken and a beginning was made towards creating a harmonious relationship among various sections of the people. In my view, this was essential in order to rebuild and rehabilitate the nation and to reflect the new realities. It was impossible to let the previous norms govern us as they had created a society dominated exclusively by the profit-motive, selfishness and exploitation. The industrialists

and the business community did not show a sense of social responsibility and was blinded by the desire to make money quickly. They had forgotten that the interest of the nation should come before the interests of the individual. Without a sense of purpose and without an ideology, it was no wonder that malpractices, corruption and nepotism were prevalent everywhere. The Government inherited this sorry state of affairs but could not tolerate it even for a day if we had to get quickly out of the climate of despair and work towards a bright future.

Of all the reforms, the most basic are the land reforms. The ceiling of land holdings is designed to break up the concentration of landed wealth while the revision of *batai* system in favour of the tenant is intended to relieve him of the burden of certain traditional charges. At the same time, we have tried to preserve the incentives for the continuation of agriculture as an attractive and profitable vocation for the enterprising and the enlightened farmers. Subsequently, we decided to reduce the ceiling to resume a larger area for redistribution but this represents the final revision and no further changes in land ceilings will be made. The land reforms are only a part of our programme for revitalising life in the rural areas by giving incentives and assistance to the small farmer so that he can produce more and live in a healthier and a fuller life. Credit, provision of better seed and more amenities are part of an integrated programme to improve the life of the small farmer who has been neglected by past administrations.

In the industrial field, the State assumed control over ten groups of industries. Within each group, the State took over the management of only the largest undertakings, leaving the smaller units under private ownership and control.

Apart from the units taken over by the State in these ten categories of industry, we have no intention to take over any other units or industries. I had given such an assurance earlier also but there has been some criticism that the Government had gone back on this assurance when it nationalised life insurance. This criticism is incorrect. Insurance is not an industry but is a commercial activity. There is a sharp distinction between industrial undertakings and financial institutions like insurance companies. The nationalisation of life insurance was done not only to reduce the concentration of economic power inherent in the interlocking of life insurance with the ownership of major industrial companies; it was also meant to protect the interest of policy holders. Following nationalisation, our preliminary investigations indicate that some companies were grossly mismanaged and did not have sufficient funds to meet their obligations to the policy holders. In the interest of such policy holders, Government has decided to guarantee the full sums assured. Government is determined to run the nationalised life insurance companies with greater efficiency. You will have noticed that we have appointed professional experts from the insurance field itself to run the nationalised insurance companies. I expect them to discharge their new responsibilities efficiently. Only merit and hard work will be the criteria for their retention and promotion. Every effort will be made to expand life insurance coverage so that its benefits are available to all sections of the people. All claims will be settled promptly.

Appropriate provisions have been made for payment of compensation in lieu of nationalisation of life insurance business. Insofar as general insurance is concerned, we do not contemplate a change in the existing arrangement.

Another major reform relates to the corporate sector where we have abolished the system of managing agencies and made provision for representation of the interests of the

minority share-holders. The abolition of the managing agency system was considered by the former Governments as far back as 1962 but the system could not be abolished due to the opposition of the entrenched vested interests. Thus, the managing and sole agents continued to skim the profits which should have gone to the share-holders and in the process the State was also deprived of its due share of taxes. These groups were self-perpetuating because the system of election to the board of directors made it virtually impossible for outside share-holders to get representation on those boards. The introduction of cumulative voting has changed the situation and the minority share-holders can now elect their own representatives. Financial institutions such as National Investment Trust, Investment Corporation of Pakistan and PICIC, which have a substantial stake in most of these companies as loan-givers or investors can also now get one or more seats on the board of directors, thereby safeguarding their own interest as well as those of the small share-holders.

In the field of labour-management relations, we have protected the genuine rights of the workers. The Labour Reforms have introduced a new streamlined procedure for redressing the grievances of industrial workers. Disputes can now be settled expeditiously. The share of workers in the annual profits has been raised. The new policy also provides for progressively more effective workers' participation in the management of industry, payment of bonus, better housing and work facilities, education of children of workers and expansion of the social security scheme. The new Labour Laws recognise the rights of the employees as well as those of management. The practice of arbitrary dismissals has been eliminated and dismissals can now be made only for properly stated reasons.

On the 11th of this month, I took the hard decision of devaluing the rupee. As a result of policies pursued in the past, the par value of the Pakistani currency had eroded with continuous speculation against it, both inside and outside the country. Since Independence the only time the exchange rate was changed was in July 1955. However, on account of lack of proper supporting measures, this could not improve the balance of payments situation and extensive physical controls on imports had to be introduced. In 1959, the export bonus scheme was introduced which did help in increasing the country's export earnings but at the same time gave rise to a number of distortions. The scheme was used over the years for *de facto* piece-meal devaluation of the rupee. As effective exchange rates under the scheme went on depreciating, the necessary financial discipline disappeared and investment decisions were made without due regard to the scarcity value of foreign exchange. The scheme led to misallocation of resources and in fact favoured the less efficient industries. The sharp fluctuations in the prices of bonus vouchers, frequent shifting of imports from one category to another, and changes in bonus entitlements naturally created uncertainty and interfered with investment decisions, production plans and cost rationalisation. The exchange reform has ended all these uncertainties once for all and has created a stable framework for investment decisions. It should also create favourable conditions for the inflow of foreign investment. One of the biggest benefits of the new exchange would be to reduce malpractices, such as under-invoicing of exports, over-invoicing of imports and smuggling.

An exchange rate adjustment always involves certain immediate sacrifices in order to achieve long-term economic benefits. Such problems are faced by every country when it devalues its currency and we are no exception in this matter. Devaluation may put pressure on the prices of certain goods but we are doing all that is possible to maintain the price line in articles of every-day use, such as wheat, rice, vegetable ghee, cloth, kerosene oil

and sugar. In other cases, the price rise will have to be neutralised by greater production and tariff adjustments. In the case of a large number of imported goods their prices are already at a high level as they were being imported on bonus. Their prices should not be effected by the devaluation decision.

The major benefits which would flow from this bold surgical operation would be to increase the export earnings of the country and make itself reliant in the not-too-distant future. A further benefit would be to reduce bureaucratic controls to the absolute minimum. We want to inject an element of freedom in the market and make imports and exports more or less automatic, without the importer and the exporter having to run to Government offices for permits, permissions and quotas. The time and effort now spent by the business community in getting such permissions from the Government offices could now be devoted to productive efforts.

Reforms have also been introduced in the field of banking in line with the socio-economic objectives of the Government. In the past, the banks have shown a remarkable dynamism in extending the network of their branches and the scale of their operations in the country and abroad but failed to play their due role in broad-basing the process of growth and promoting a more equitable distribution of wealth. This was due partly to interlocking of banking and commercial interests and partly to the development strategies pursued in the past which were devoid of any egalitarian content. There is also evidence of considerable malpractices in the banking field and misuse of funds deposited with the banks. We have, therefore, introduced changes in the organisation and management of the banks to meet more effectively, purposefully and equitably the credit and investment needs of the various sectors of the economy. The scheme is designed to regulate the operations of the banks through the State Bank of Pakistan in order to achieve in essence what a straight nationalisation of the banks would have achieved. Under the new regulations, the State Bank will be empowered to remove directors or other managerial persons and to supersede the board of directors of a bank and appoint administrators during the period of such supersession. Action under this provision will be taken in case of mismanagement for reasons to be recorded in writing. The State Bank will also be empowered to nominate a director on the board of directors of every private bank. To prevent the misuse of bank funds and to avoid excessive involvement in financing individual projects and parties, ceilings and limitations have been imposed on borrowings and advances from banks covering individual borrowers, banks' directors, their family members and the undertakings in which they are interested. Certain limitations have also been imposed on bank executives and employees.

A number of measures have been adopted to bring about a more equitable and purposeful distribution of bank credit. A National Credit Consultative Council is being set up under the aegis of the State Bank with representatives from the Government and the private sector which will pay special attention to the flow of credit to agriculture, to small borrowers, for non-traditional exports and for housing. To cover the risks involved, the State Bank is introducing a scheme to provide guarantees to the commercial banks. It is expected that these controls will bring about a basic change in the policies and working methods of the banks.

Government accepts the pattern of a mixed economy for Pakistan—the existence of the private sector side by side with the nationalised sector in which private enterprise has

an important role to play. The Government-managed sector consists mainly of heavy and basic industries and the public utilities. Many lucrative channels of industrial investments remain open to the private sector. Even in the ten categories of industries whose control has been taken over, only the larger units have been brought under Government control and we have no intention of taking over the smaller units. In the engineering group for which I visualise a very bright future, both in the internal and in the export market, there are a large number of small units producing tubewell equipment, diesel engines, small motors, electrical gear and appliances, sports goods, electrical fans and light engineering goods. These are going to be the backbone of further industrialisation of the country. They should feel free to expand their operations. They should have no apprehension that their units would be taken over by the State. In fact, Government would provide them with facilities to increase their output and improve their quality.

In undertaking these economic and financial reforms, our objective is to create a social order which would be free from exploitation but at the same time would reward the talented, the enterprising and the industrious. We have no intention of curbing the freedom of the individual to pursue his normal vocation. We accept that private enterprise has a role to play in the economic progress of Pakistan but we must rid the economy of concentration of economic power in the hands of few to end the exploitation of the many. Our aim is to regulate private enterprise in the larger national and social interests. Concentration of economic power in fact saps the vitality of the private sector itself by shutting out competition which eventually retards economic growth. The time has now come for private enterprise to realize that the best way of securing its future is to live upto its social obligations. If you want to live a respected and respectable life in this country, you must play the game according to rules which benefit the majority of the population. These rules primarily mean that you discharge your social responsibilities. You must give to the worker his just share, to the investor and share-holder a reasonable return, to the State all taxes due to it. You must co-operate with the Government in keeping prices at a reasonable level. You must produce more and increase productivity at all levels. You must not indulge in malpractices which have cost the country so much in the past. You must stop wasteful expenditure. You must allow new-comers to enter the industrial field. You must eliminate all monopolies. You must not fix prices by collusion. You are at liberty to make reasonable profits as a reward for hard work and efficient use of talent and resources. I would welcome the profits of efficiency and hard work but I detest profits made through exploitation. I sincerely hope that you will follow the new rules and whole-heartedly accept the reforms and stop fretting about your losses, actual or imaginary, caused by them. On our part I assure you that we have closed one chapter in the book of Pakistan. We would now like to embark on the next phase of greater production and industrial peace so that in these five years we can show to our people and the world the fruits of our labour, the results of our struggle and sacrifice.

The Pakistan People's Party is a party of the industrial worker, the agricultural labourer and the small man. The interests of these people will continue to have the first call on our resources. We are determined to have an egalitarian society. We have tried to give a fair deal to the labour and what is even more important to give him a sense of dignity. We respect the contribution made by him in industrial and agricultural production. We are determined that he shall get a fair day's wage for a full day's work. We have also ensured that he can deal with the employer on an equal basis and that his job is protected against

arbitrary dismissal. On their side, labour also have a social obligation to the society. They must produce more and they must show discipline. The days of 'gherao and jalao' are over and anyone indulging in them is not only damaging the national economy but also damaging the long-term interest of the labour. I expect labour to behave with dignity, discipline and responsibility and not take the law in their own hands. They must eschew violence. The new rules equally apply to labour. They should always remember that this is their Government which will continue to do all in its power to further their interests and the welfare of their children.

The economic development of the backward areas of the country is very near my heart. I was very glad that members of your community were invited recently to Peshawar by the Government of North-West Frontier Province. I welcome this approach and hope that you will similarly visit Baluchistan in the near future and start participating fully in the development of the backward areas.

Now that the Government has unfolded all the key elements of its socio-economic policies and removed the misgivings that might have persisted in the minds of investors and entrepreneurs about the role of private sector in the country's economy, time has come to reactivate the capital market by reopening the stock exchanges. The circumstances in which their closure was decreed in December last year are well known. It has been now decided to reopen the stock exchanges with effect from Thursday, the 25th May, 1972. For obvious reasons, it will not be possible to resume trading in the shares of companies registered in East Pakistan and wholly located there; trading in such shares will remain suspended. We have given serious consideration to the issue whether scrips of companies registered in West Pakistan but having some of their assets in East Pakistan should be traded or not and have come to the conclusion that it would be best to let the market make its own judgement on these scrips. A number of steps are being taken to promote savings and investment so as to restore strength to the share market. We hope that investment activity in the country would revive quickly on the opening of the stock exchanges and this will assist significantly the process of normalisation.

Pakistan has a bright future. God has been kind and endowed us with many natural resources not given to others. We have already built an adequate infrastructure for industry and agriculture and our communications system is reasonably good. Our entrepreneurs have shown excellent initiative in the past. Our worker in the field and in the factory is robust and hard working. We now have a system of government elected by the people and answerable to them. The days of dictatorship and personal fiat are over. We can now work in harmony and co-operation and end every kind of exploitation. Let us build together a new and a prosperous Pakistan of which we and the coming generations could be proud. The challenge and the opportunity are there. Let us make a pledge that we will not fail in this task.

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