

**BINDING CONSTRAINTS: THE ROLE OF THE ARMY IN
PAKISTAN'S ECONOMIC UNDER-DEVELOPMENT**

by

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B.A., Simon Fraser University, 2008

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PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS

In the
School for International Studies
Faculty of Arts and Social Sciences

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SIMON FRASER UNIVERSITY

Spring 2012

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Abstract

Pakistan army has ruled the country for the better part of its history. As a result, several scholars have contemplated its role in the economic under-development of the country. However, a better approach to understand the true influence of the army on the economic development would be the one that Bardhan has used to understand the distortions within the Indian economy. According to this approach, in post-colonial states, certain dominant proprietary classes compete for their share in the benefit of the economy. As a result, the policy makers fail to pursue policies that challenge the status quo even though they are vital for the development of the economy. The case of the Pakistan economy is no different from that of India in this regard. Despite being the group in control, the army has failed to deter other dominant proprietary classes from their rent-seeking behaviour. In fact, the army actively encouraged the rent-seeking behaviour of certain classes in order to prolong its rule over the country. As a result, certain distortions emerged within the economy that hindered its growth and are directly responsible for its present poor state.

Keywords: Pakistan Army; Economic Under-development of Pakistan; Class analysis.

Dedication

Dedicated with love to Phopho Amma - who raised me to be who I am.

Acknowledgements

Many thanks to my supervisors Dr. Michael Howard and Dr. John Harriss, who have supported and encouraged me in writing this project. This project would not have been possible without their help in developing its analytical framework.

A special thanks to Ellen Yap, Secretary and now advisor at the School for International Studies at SFU, for her timely help, valuable advice and prompt assistance throughout my studies. Thank you to all my class mates, especially Ann Nienaber, Zannat, Hikari, Toke, Raged, Aarij, his wife Tuba, Kevin, and his wife Miel for getting me through this tough year with their wonderful company, delicious cooking, and for inspiring many of my ideas.

Thank you to my wife Alia, who stood by me and encouraged me while I was trying to complete this project. A very special thanks to my daughter Haneen for being a constant source of joy in my life. A special thank you to my Mother Farrukh Riasat Khan, my Father Rana Tahir Javaid Khan, to Usmaan Bhai, Khurram Mamun, Mumtaz Chachu, Shami, and Nayyer Phopho for their endless support and encouragement throughout my student years.

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1. Introduction

On 22nd Oct 2011, the Chairman of Central Revenue Board of Pakistan declared that the country is practically being run on loans. He announced the country has a budget deficit of 600 billion rupees. Furthermore, out of 1558 billion rupees being collected in tax revenue every year, 750 billion are being spent on debt servicing and 441 billion on defence (The Express Tribune: Oct 22, 2011; Daily Express: Oct 23, 2011). This situation is very different from the euphoric years of the early post-colonial period of the 1950s and 1960s. In 1964, economists all over the world were increasingly optimistic about the future of Pakistan, and for good reason: Pakistan's GDP growth rate was close to 7% a year for almost a decade, with an annual manufacturing growth rate close to 10% (Zaidi, 2005: 6).

However, within years afterwards, the country's economic and political condition started to deteriorate dramatically. In 1971, it lost half of its population and area with the separation of East Pakistan that became Bangladesh. The growth rate declined to a mere 4% a year (Ibid). In fact, the only time the country came close to achieving the same level of confidence in its economy was in 1988-89, when a young and popular Prime Minister, Benazir Bhutto took charge of the country (from the military junta that had stabilized the economy to a large extent), only to bring the economy back on its knees in a matter of months through poor governance and rampant corruption. Today, Pakistan is a poor third world country, with a highly unstable political environment and a dying economy under tremendous stress from security and energy crises.

1.1 Research Question:

The question I wish to explore in this project is the following:

What role, if any, has the army played in Pakistan's current dismal economic situation?

Pakistan's military has ruled the country for most of its history with the exception of brief periods of democratic rule. A cursory look at the economic indicators shows that the economy has performed demonstrably better under military rule, as compared with the democratic interludes. Consequently, several scholars have contemplated the role of the army in Pakistan's economic performance. In 2007, for example, a controversial new book by Dr. Ayesha Siddiqa called "Military Inc.: Inside Pakistan's Military Economy" made headlines within Pakistan and in the international media. The source of this hype was many allegations the author put forward in this book against the Pakistan army's economic activities. Among them, Siddiqa asserted that Pakistan's military have developed an elaborate business empire, which acts like a monopoly in the markets, and is hindering fair competition and discouraging economic activity.

Similarly, Zaidi argues that Pakistan's large defence budget is one of the biggest obstacles in the economic development of the country. He also maintains that the Pakistan army does not allow the success of peace process between Pakistan and India, in order to justify taking a lion's share of country's already meagre income (Zaidi, 2005: 490-91). Yet another argument that frequently appears in Pakistan's press asserts that the army's involvement in politics stopped the development of some key institutions that are essential for economic growth, among them, an accountable parliamentary democracy and free judicial system.

These arguments give rise to several questions about the Pakistan military's involvement in the economy: Why has Pakistan's economy done spectacularly well in

some years, and miserably in others? To be precise, why has Pakistan's economy performed better under the military dictators than democratic governments? Is Pakistan's economy designed to facilitate crony capitalists that have traditionally been closer to its military rules? Is the Pakistan army running an economic cartel, which is stifling competition and as a result undermining the overall development of the economy? What effects does Pakistan's defence budget have on its developmental prospects, and is reducing this defence budget a viable option?

1.2 Objectives:

The answers to the above questions may have far-reaching consequences. The Pakistan army's role could be described as that of a Messiah, or that of a rogue institution, depending on how these questions are answered. The goal of this project is to present a picture that could explain the true role of the Pakistan army in this regard.

The approaches taken so far by scholars have largely failed to present a strong enough argument that could withstand academic scrutiny. For example, Siddiq's argument suffers from the measurement problem. The Pakistan army does not release any substantial data regarding its business activities. As a result establishing the true extent of its involvement in the national economy is almost impossible. Furthermore, it is difficult to determine which body or institution within the government controls and benefits from most of the big businesses apparently being run by army officers. The National Logistics Cell (NLC) – the biggest transportation company in the country – is the case in point. This company is formally run by the Ministry of Finance, but is headed by a serving general and staffed by military personnel. The lack of availability of data on its operations makes it impossible to determine who benefits from its economic activities.

Brian Cloughley shows another aspect of the unreliability of this argument. He maintains that armies throughout the world engage in economic and business activities in order to provide retirement and other benefits to their veterans and serving personnel. Therefore, the allegation that the Pakistan army's involvement in the economic sector is based upon a dishonest agenda (monopoly building, unfair rent seeking from the national economy etc.) is 'unfortunate' and 'false' (Cloughley, 2009). Zaidi's argument is also difficult to prove as it is based on counter-factual history. There is no guarantee that Pakistan would have had a healthier rate of economic growth if it had no quarrel with India and a smaller defence budget. Similarly, the argument about the failure of the institutional development in Pakistan is based on the assumption that a country needs a particular set of institutions in order to grow economically, which is difficult to prove. Therefore, I propose that a class-based analysis of Pakistan political economy can provide a more useful insight into the role of Pakistan's military in its economic under-development. I have used Pranab Bardhan's theory that explains the dynamics of the interactions between various dominant proprietary classes in India and the effects of these interactions on the Indian economy as a template for this project. In the following paragraphs, I will explain the concept of the proprietary classes and what similarities between India and Pakistan justify the use of the same approach in both cases.

1.3 Key Concepts:

According to Davis and Moore, "as a functioning mechanism a society must somehow distribute its members in social positions and induce them to perform the duties of these positions" (Davis and Moore in Levine, 1998: 87). The groups of members of a society or 'classes' can be based on various societal functions like

'government', 'wealth property and labour' and 'technical knowledge'. In Weberian sense, the term class is defined in the following words:

In our Terminology, 'classes' are not communities; they merely represent possible, and frequent, bases for communal action. We may speak of a 'class' when (1) number of people have in common a specific causal component of their life chances, in so far as, (2) this component is represented exclusively by economic interest in the possession of goods and opportunities for income and (3) is represented under the condition of the commodity or the labor market. (These points refer to 'class situation'...)... The Term 'class' refers to any group of people that is found in a similar class situation (Gerth and Mills, 1958: 181).

Moreover, not all classes play a dominant role in envisioning, forming or implementing public policy. Indeed, the state sanctions this particular role to certain classes based on specific historical developments and the nature of the polity. The interaction between the state and the classes goes both ways: the state lays down the limits within which the various classes can interact with each other, and in return, the interactions between various classes shape the nature of the state. The classes that play a role in policy formation and implementation are referred to here as the dominant proprietary classes.

Bardhan includes the rich farmers, the industrial capitalist class, and the professionals in the public sector in India's dominant proprietary classes (Bardhan, 1958: 54). Similarly, four classes played a role in the power structure of Pakistani society throughout its history: Army; bureaucracy; land owning aristocracy – that makes up some powerful political families; and the industrial and financial sector. Although these classes may have some over-lap they can be distinguished analytically in various periods as constituents that legitimized the rule of various regimes – both civil and military, and influenced the formation of economic policy of the government. I have specifically chosen these four classes because they are the only ones that played a

meaningful role in formulating and implementing the economic policies of the state, as I will later discuss in detail.

It is important to note that my analysis of the interaction between various classes may seem to use them as rigid social constructs that treat them as homogeneous entities, mainly because I will refrain from mentioning any internal differences within them. Indeed, in order to accommodate the analysis within the limited space available, I have taken the position that in order to protect their interests these classes have acted as 'united fronts' of individuals from similar backgrounds. In other words, a certain demand from one group that features in this project as a 'representative demand' may not be seen as such by all members or groups within that class. However, I believe that this necessary simplification does not render the larger picture, which I have tried to paint here, redundant, because this analysis focuses on examining collective interests and interactions among these classes. For example, the adoption of Import Substitution Policy in the 1950s was clearly in the interest of the industrial class of the country as a whole, and so on. Furthermore, I will try to present a comparatively detailed description of the Pakistan army as a 'class' at least, as it is the main actor whose behaviour I wish to examine in this project.

1.4 Methodology and Central Thesis:

Bardhan builds his argument on a classic theory about economic growth. According to this theory, state savings gathered through taxation translate into capital inputs and the expansion of the technological frontier through government initiatives in public works. In India for example, Bardhan has identified public investment in coal, transport, power and irrigation as essential to India's economic development (Bardhan, 1998: 61). He argues that India's dominant proprietary classes interact in a pluralistic

manner in which all groups succeed in procuring rents from the Indian economy through subsidies, public loans for private companies, and lucrative salary packages, leaving scanty resources for the projects essential for the economic growth of the country (Ibid: 60-67).

He concludes, “when diverse elements of the loose and uneasy coalition of the dominant proprietary classes pull in different directions and when none of them is individually strong enough to dominate the process of resource allocation, one predictable outcome is the proliferation of subsidies and grants to placate all of them, with the consequent reduction in available surplus for public capital formation” (Ibid: 61). Furthermore, in terms of public mobilization and management of capital the rent-seeking behaviour of the dominant proprietary classes plays a crucial role. Bardhan argues that in India, where these classes essentially work in a “deceptively consensual” manner, the public institutions often suffer from “overstaffing, feather-bedding, fake payrolls and absenteeism” (Ibid: 70). These factors lead to lack of social discipline, lack of accountability, and lack of political will, resulting in deficiencies in management of public capital, and neglect of merit based utilization of human resources and ultimately to slow economic growth (Ibid: 71-74).

Bardhan argues that the economy would not perform better until one particular class could dominate all others and could form the economic policy without their harmful influences. In other words, Bardhan traces the processes, influences, motivation and interactions between various actors behind the formulation and implementation of economic policy in order to highlight the deficiencies that hinder the economic growth of India. I will argue that a similar study could be conducted for Pakistan as well.

On surface, the case of Pakistan may seem different from India in this regard. In Pakistan, the military has clearly been in command of the national resources. It has had the power to assert its will on all other dominant proprietary classes of the country. However, I will show that this impression is not justified, as the power of the military has never remained constant even during the years it was in power, let alone during the periodic but significant years of civilian rule. I will show that just as in the case of India, all dominant proprietary classes have been engaged in similar pluralistic relationship with each other, which provides a share for each in the economy in return for the preservation of the status quo. In the third chapter of this paper, I will argue that the reason behind this important similarity lies in the nature of the postcolonial state.

No single dominant proprietary class in Pakistan – be it the military or the rural landowning politicians or the industrialists – has ever had sufficient power to prevent the rent-seeking behaviour of the other groups. In fact, the group in power more often than not encouraged the rent-seeking behaviour of the rest of the dominant proprietary classes in order to maintain its hold on power. This is especially true in the case of the Pakistan army, which needed alternative ways of seeking legitimacy in the absence of a clear public mandate for its rule. This is where the answer to the central question of this project lies: The army played a crucial role in the economic under-development of the country by encouraging various dominant proprietary classes of Pakistan in their rent-seeking behaviour that resulted in deficiencies in the country's economy and hindered its growth.

It is important to note that the examination of all economic policies of all the governments in Pakistan to date is beyond the scope of this project. Instead, I will look for the overall policy orientation of various governments and examples of policy

decisions that clearly point towards a trend that proves or disproves the hypothesis posed in this project. Furthermore, my analysis will draw upon various studies in the political and the economic development of the country. Due to constraints of space and scholarly research in this area on the contemporary period, I will restrict my analysis to the period up to the year 1999. However, I believe that the framework I am putting forward in this project is also valid for the present time, as the interaction between the various proprietary classes of Pakistan should be seen as the continuation of a single phenomenon, instead of random acts that necessitate individual scrutiny.

1.5 Chapter Outline:

In order to achieve my goal, I have divided my argument into three sections. In chapter 2 of this project, I will first introduce the circumstances that gave birth to the dominant proprietary classes of Pakistan in the backdrop of the country's independence from the British. The purpose of this section is to show that the state influences the behaviour of the various classes by setting out the rules of the game. Second, I will briefly introduce the four dominant proprietary classes of Pakistan and explain how and why their interactions shaped the condition Pakistan's economy is in today. Finally, in Chapter 3, I will trace the processes that play a part in economic policy formation in the country by looking at the interactions between various proprietary classes of Pakistan and the resulting policy orientation of these regimes.

2: The Formative Years - The State and the Dominant Proprietary Classes of Pakistan:

Bardhan maintains that “the state-centred theories of politics and government of the Marxist as well as the liberal-pluralists and structural-functionalists” often manage to ignore “the explanatory centrality of states as potent and autonomous organizational actors” (ibid, 33). In other words, he asserts, “the state not merely shapes class realignments or provides the material basis for new classes; in many newly industrializing countries, the state is today an important part of the economic base itself” (Ibid: 35). According to Bardhan, lack of private capital, infrastructure, and insurance in newly independent developing countries warrant a significant effort on the part of the state to intervene in the national economy.

This argument is relevant to this project in an important way. The dominant proprietary classes of Pakistan emerged out of a particular environment, which ultimately shaped their behaviour. To be precise, the events directly following the traumatic birth of the country in 1947 greatly influenced their mutual interaction. The state laid out the playing field and many of the ground rules that significantly influenced the interaction between these dominant proprietary classes. In this chapter, I will first describe the circumstances that gave birth to the proprietary classes of Pakistan and later present a brief introduction to these classes. I will argue that the historical and social circumstances that gave birth to the Pakistani state laid out the playing field and set the conditions for the interaction of the various classes in the society. In return, the interactions between these various classes gave the country its current shape. The

purpose of this exercise is to provide the foundation for the discussion on the shortcomings of Pakistan's economic system in the following chapter.

2.1 The Formative Years – An Introduction:

At the time of the independence of India and Pakistan in 1947, most of the industries of the subcontinent were situated in areas that went to India. The provinces of colonial India that became Pakistan, including East Bengal (now Bangladesh), West Punjab, Sindh, Baluchistan and NWFP (now Kheber-Pakhtunkhuwa) had little or no industrial infrastructure. In fact, Pakistan's entire exports consisted of primary commodities, like jute and cotton. Furthermore, the new state had to bear the burden of accommodating hundreds of thousands of refugees, who migrated to "Muslim" Pakistan from "non-Muslim" India. The situation was so acute that the Governor-General of Pakistan had to declare an emergency "on the grounds that the influx of refugees threatened the economic life of the country" only 13 days after its inception (Das, 2010: XV). According to Gustav Papanek,

At independence, Pakistan – simultaneously created and disrupted by the partition of British India – was widely considered an economic monstrosity. The country was among the poorest in the world and had no industry to speak of, almost no industrial raw materials, no significant industrial or commercial groups. It was difficult to see how Pakistan's economy could grow more rapidly than its population. Economic chaos and political disintegration seemed more likely. The 1950s were a period of apparent stagnation and mounting economic problems, when early dire predictions seemed to be fulfilled (Papanek quoted in Zaidi, 2005: 90).

Therefore, from the very beginning, the state required foreign funding and technical expertise in order to lay the foundation for its industrial sector and to find employment for hundreds of thousands of refugees coming from India. The implication of this dire need for industrial growth is that it provided the capitalist class many opportunities to thrive.

Moreover, its comparatively powerful neighbour – India - militarily threatened the new state. India and Pakistan fought their first war only months after their independence from the British for the disputed territory of Kashmir. This war forced the state to allocate significant resources towards its armed forces, as the 1948 war did not resolve the Kashmir issue. In fact, since 1948 the two countries have fought two more major wars (in 1965 and 1971) and several minor conflicts (1984, 1998-99) because of the same issue. The implication of the threat of war from India is that the military became a powerful actor in the political, economic and international affairs of Pakistan from the very beginning.

In conclusion, in the game of seeking power, influence and resources, the newborn state determined the direction for the interactions of the various proprietary classes of Pakistan. In the following section, I will briefly introduce these proprietary classes of Pakistan in order to set the stage for further discussion of their mutual interaction in chapter 3 of this project.

2.2 The Dominant Proprietary Classes of Pakistan – An Introduction

It is important to note that the composition of Pakistan's dominant proprietary classes and their mutual interactions and alliances have not been uniform throughout Pakistan's history. For example, between 1947 and 1971 the Pakistan army, rich landowners, a small class of industrialists and the bureaucracy dominated the state apparatus. However, between 1972 and 1977 the role of the Pakistan army was reduced significantly in the functioning of the state in general and its economy in particular. The situation was reversed once more during 1978-88 period, when army returned to regain power. The capitalist class expanded substantially over the same period as well. Shafqat

counts the existence of seven societal classes in Pakistan: 1) Feudal Class; 2) Middle Farmer Class; 3) Peasants, Tenants/ Sharecroppers; 4) The Urban Middle Class (including Urban Professionals; Petty Merchants, Traders, and Small manufacturers); 5) Industrial Labour; 6) Financial-Industrial groups; 7) Religious Groups (Shafqat, 1997: 5-6). Although, the military and the bureaucracy draw upon these societal classes for their manpower, their unique role in the social and political structure of the country gives them a distinct identity as dominant proprietary classes along with the Financial-Industrialist groups and the feudal class, as I will explain later in this chapter.

“In contrast to the power of the four dominant classes, the position of subordinate classes has been very weak. The peasantry and landless labourers in the countryside, who have occasionally demonstrated localized militancy, are not organized on class lines, but are controlled by landlord dominated ‘factions’...” (Alavi in Gardezi & Rashid, 1983: 56). Several studies have shown that Salaried and professional classes like teachers and lawyers effectively acted as clients to the various dominant proprietary classes, especially the politicians and the army. For example, as mentioned earlier, the judiciary usually gave legitimacy to various military regimes - although, this situation has very recently changed since the Chief Justice of Pakistan struck down the implementation of ‘emergency’ in the country by the military dictator General Pervez Musharraf in 2008. Since then, the Chief Justice has warned the military to avoid toppling the present democratically elected government many times, as the court will not give any such action legitimacy anymore (Daily Times: Nov 14, 2011).

Similarly, public enterprises have been and are still being used as tools to appease the subordinate classes. These institutions have been serving as a hotbed of political appointments and cronyism. In one case study, LaPorte and Ahmed show that

overstaffing and political appointments have crippled the Water and Power Development Authority (WAPDA) – the entity responsible for electricity production in the country – where incompetence, mismanagement and cronyism reign without hindrance (LaPorte & Ahmed, 1989: 182). This is generally true for most of the other public enterprises as well including Pakistan Steel Mills, Pakistan International Airlines and Pakistan Railway among many others. Presently, all three major public corporations are tottering on the verge of bankruptcy due to mismanagement and cronyism.

In other words, like the peasantry, the urban middle classes have largely been stuck in a system where survival depends upon maintaining a client-patron relationship with the dominant classes. The traders are similarly bought over through the illusion of tax reliefs and subsidies on food and transportation. These incentives are an illusion because in order to run its day-to-day business, the governments have created a system of indirect taxation, where 80% of the taxes being collected by the federal government are levied indirectly in the shape of various sales, goods and services taxes, collected well before any goods reach the consumers (Zaidi, 2005: 75). As a result, the poor and working classes in the country are forced to pay (comparatively) more taxes than the rich, thus creating a significant distortion in the economy.

Although, there are some notable exceptions to this general trend - where subordinate classes play no direct role in the policy making process. For the purposes of this paper, I will use their subordinate position as an underlying principle. In other words, the focus of this project would remain on the dominant proprietary classes of Pakistan. In the following paragraphs, I will briefly introduce how the dominant proprietary classes came to command the role of envisioning, forming and/ or implementing of the economic policies of the country.

2.2.1 Feudal Class:

The landowning aristocracy, in four out of five provinces of newly independent Pakistan (Punjab, Sindh, Baluchistan and NWFP), that has dominated the mainstream political parties throughout the history of Pakistan, made little or no contribution in the freedom movement. Instead, the Urdu speaking urban middle class of the United Provinces of India and the professional classes in East Bengal were the true champions of the Pakistan movement (Shafqat, 1997). However, they held little sway over the politics of the newly established country because the United Provinces became part of India. Before independence, the landowning aristocracy dominated politics in the NWFP, Punjab, Sindh and Baluchistan. Most of them joined the bandwagon of the independence movement only after the establishment of the new country seemed inevitable. Yet, by 1953, a mere five years after the death of the founder of the country M.A. Jinnah, the ruling party, the All Pakistan Muslim League, was dominated by this landowning elite in West Pakistan (Ali, 1983: 43; Alavi in Gardezi and Rashid, 1983: 50). “In Pakistan as a whole, 6000 landlords owned more than 3.5 million peasant households. Many of these were also political and/or religious leaders in their regions” (Alavi, 1972). Their loyalty however, remained to power and wealth-creation instead of their party or the state itself. Their constant infighting drove West Pakistan’s provinces, in particular, into political chaos, as I will discuss in the following paragraphs in detail (Nawaz, 2008: 77).

This situation left a space for the bureaucracy and later the army to expand their influence and control over the polity. There are two significant implications of the peculiar history of this particular class. 1) The lack of loyalty to a party, vision or the even the country left these landlord politicians open to manipulation from the strong civil service

and later the military regimes. 2) Both the military rulers and the bureaucracy needed these politicians, as they commanded the loyalty of their peasant or tribal “subjects”, in order to legitimize or consolidate their control over the country (Burki, 1988: 31). Several studies have shown that these landlords have systematically kept the populations under their influence away from the institutions of development (including schools, hospitals) in order to preserve their control. Pakistan Muslim League – the Party responsible for the creation of the country – proved especially valuable for the military dictators, as every single one of them created their own factions within it in order to legitimize their rule over the country.

Lagharis of South Punjab, Doltanas, Khars of Central Punjab, Makhdoms and Bhuttos of Sindh, Bugtis, Maris and Mengals of Baluchistan are some of the most notable feudal families in Pakistan. In conclusion, unable to unite, the politicians had only two options available to them: 1) seek patronage from the military-bureaucracy alliance or 2) confront the military-bureaucratic alliance by exploiting the unfulfilled aspirations of the middle classes and by exercising their control over the rural poor (Shafqat, 1997: 9). As I will show in the next chapter, this class has exercised both options throughout the history of the nation. In any case, the feudal class has been playing a key role in influencing the economic policy making process of the country.

2.2.2 Financial-Industrial Groups:

Pakistan had little industry to speak of at the time of its inception. However, it did have a dynamic class of traders, which thrived under the influence of the state. According to Burki, certain business and trader families established good relationships with the political elite of the country before the independence of the country in 1947. He claims that because the landowning class did not support the Pakistan movement, they

left a vacuum in the power structure of the country, which the industrialists were only too eager to fill (Burki, 1988: 17). Furthermore, “the large landlords, not accustomed to entrepreneurial activity in a laissez-faire environment, were not prepared to undertake new investment” (Ibid). On the other hand, the business families were not only better organized, they had the ‘liquidity’ required to establish new industries in Pakistan (Ibid: 25-26). Habibs, Hashwanis, Memons, and Lakhani in Sindh and Chiniotis and Saigols in Punjab are some of the most notable families in this regard.

The state provided significant incentives for these families in order for them to establish the industrial and financial infrastructure in the country. These incentives included access to capital through loans, establishment of industrial areas with basic provisions required for industrial activity and assistance in accessing the technical know-how of the developed world. According to Shafqat, “to facilitate the transformation of the trader-merchant classes into industrial groups, the private sector was provided with such incentives as tariff protection and tax holidays. Establishment of institutions like Industrial Corporation (1949) and Pakistan Industrial Development for granting loans on industrial projects (1950), bureaucratic elites acquired the control of key positions in the policy-making process” (Shafqat, 1997: 27). With the exception of the 1970s, when Bhutto nationalized the industrial and banking sector of the economy, the industrialists enjoyed a privileged position in policy formation structure of the country.

The present ruling elite of the country consists of a curious mixture of retired army and civil officials, landowning families, and business tycoons. However, this current situation has evolved over 60 years of political and economic activity, and it is comparatively easy to distinguish between various interest groups and classes in the 1947-1988 era. For the purposes of this paper, the point I wish to make in this section is

that the promotion of business and industry has always been a primary objective for all governments since 1947. Moreover, besides obvious benefits of growth in these sectors, rent seeking from a thriving industrial sector was a major objective for all parties concerned for the orientation of these policies. The Bureaucracy ran a rigorous quota regime and only “cooperating” industrialists gained from this arrangement. However, this approach did more harm than good as it concentrated wealth in fewer hands and created distortions and inefficiencies in the economy, as I will discuss in the next chapter. In conclusion, the industrial-financial class has always played a key role in influencing the formation of the economic policies of the country.

2.2.3 *Pakistan Army:*

It is important to ask at this point, why the Pakistan army qualifies as a proprietary class for the purpose of this analysis? After all, the army is an institution that draws its manpower from various societal classes of the country. The Pakistan army qualifies as a proprietary class for two reasons. First, the army has been playing a significant role in the formulation and implementation of the economic policy of the country, as I will discuss later. Second, the army is distinct from any other class or social grouping in Pakistan in terms of its culture, organization and space. According to Rizvi, “Military is not merely a profession, it is a way of life. Its acculturation process is so thorough that it replaces parochial and particularistic orientations of its members and inculcates identification with the national symbols and military’s professional and corporate identity. This contributes to discipline and cohesion in the military which is reinforced by keeping the military at a distance from the rest of the society” (Rizvi, 2009: 21).

The resources at the army's disposal have ensured that it can exist independent of any civilian interference. "The long years of military rule have enabled the military to penetrate the major sectors of the state and society, i.e., government and semi government institutions, the private sector, industry, business, agriculture, education, communications and transportation" (Ibid: 276). Among its many assets, the military owns hospitals, medical colleges, agricultural lands, fertiliser factories, transportation companies, construction companies, housing projects, universities, training centres, stud farms, schools and bakeries.

"Pakistan army had only four lieutenant colonels, 42 majors, and 114 captains at the time of the independence. The first Commander-in-Chief, 'General Ayub' Khan, was promoted to the rank of general from lieutenant colonel in less than 4 years" (Shafqat, 1997: 24). Today, it consists of 550000 personnel and officers. In terms of recruitment, most of the soldiers have traditionally belonged to rural Northern Punjab and Kheber-Pakhtunkhwa provinces. The officers' cadre used to consist of individuals from aristocratic families in Punjab and Kheber-Pakhtunkhwa. However this general trend has changed in recent years. More and more officers are coming from lower and middle class families from urban and semi-urban areas of Punjab, KP and Sindh. The army has also started recruitment drives in rural Sindh and Baluchistan in order to achieve a balanced representation from all provinces of the country. However, because the army is a distinct social grouping with its own interests (organizational or corporate), it must be considered a distinct proprietary class within the framework of this analysis, regardless of its composition. In other words, no matter where the officers and soldiers are recruited from, after being inducted into the army, they become part of its distinct community,

complete with its own culture and traditions and its own interests to protect, which makes their former identities irrelevant.

Another very important point that I wish to convey here is that the internal organization of the army provides the top brass with the unparalleled obedience of its entire manpower. The effective control over all operations and personnel of this institution gives the leadership in general and the army chief in particular power to negotiate with the rest of the stakeholders with complete confidence. The secret behind this unparalleled display of unity is the institutionalised consultation process among the top military brass and their complete freedom over the internal operations of the organization. According to Rizvi, the Corps Commanders' conference is the most "salient" example that demonstrates the strength of this institution:

Presided over by the Army Chief, this meeting includes top commanders, Principal Staff Officers at the Army Headquarters and other senior officers holding strategic appointments. Its members not only discuss security and organizational and professional matters, they also deliberate on domestic issues such as law and order and political conditions, especially when the government and opposition are engaged in intense confrontation. These discussions are meant either to outline their concern or to develop a broad-based consensus. The implementation of the consensus decision is left to the Army Chief, which strengthens his position when he interacts with the civilian leadership. He also consults with the Chiefs of the Navy and the Air Force and Chairman, Joint Chiefs of Staff Committee, in national emergencies. However, it is the Army Chief who decides the actual strategy and presents the military's perspective to the civilian government (Rizvi, 2000: 2).

There have been minor incidents of attempted coups within the army over the years (General Akbar's attempt in 1951 for example). However, they were limited to a very small number of officers and soldiers and posed little or no threat to the institutional integrity of the Pakistan army (Khan, 1999: 33)

The army has so far exercised near complete control over its internal governance including promotions, appointments and service affairs. No government has been

allowed to interfere in these matters, except when the military leadership itself was willing to cooperate with the civilian leadership (Ibid: xvi). There is one exception to this rule however. During periods of civilian rule, the Prime Minister (often after consultation with the President) appoints the army chief. With the exception of General Zia-u-Din (who was appointed by Nawaz Sharif in 1999 to replace Pervez Musharraf), the army has never resisted these decisions from their civilian superiors. Consequently, the Pakistan army has behaved like a formidable, united and organized institution that could advocate its case with one voice in the game of power and influence in the country.

It is no wonder that most studies that analyse the behaviour of the military as an institution in a larger social, political or economic frame-work either use it as a 'unitary abstraction' or take the actions and or statements of the army chief as the representative voice of the entire institution (Gardezi and Rashid, 1983; Alavi, 1972; Burki, 1988). I have used a similar approach here in this project. I believe that this approach is justified despite that fact that militaries are complex institutions and require deeper study than I have presented in this paper. However, given that the army chief only acts with the mandate from the entire top brass of the army; that the generals serving under him have never contested his decisions or actions in the public domain; and that significant rebellions in the lower ranks are non-existent, I believe this approach holds some merit.

The above discussion however raises another important issue: If the army has so much influence over the civilian leadership, then why does it withdraw to the barracks in favour of the civilian rule in the country. Rizvi summarises the answer to this question in the following words:

Once the armed forces enter the political field, it becomes difficult for them to dissociate themselves from politics. Their assertion at the time of the military takeover that they will return the country to civilian rule 'as soon as possible' does not imply that they will abandon interest in politics... during the period of military rule, they introduce certain changes in the political, social and economic structure of the society. They are interested in the continuation of these policies after the end of military rule... The military leaders can play an important role in the political field after the restoration of constitutional life through numerous ways. First, they establish a puppet civilian government and control the levers of power from the background. Under this arrangement the ultimate power rests with the Generals and the political leaders act as puppets in their hands. Second, they let the political leaders run the civil government but watch politics carefully and keep the civil government informed of their reaction to the policies of the government... Third, the general, who leads the coup resigns military rank and runs the government as a civilian...[in order to] run the administration 'efficiently' and protect their entrenched position (Rizvi, 2009: 125)

In conclusion, the army acts to seize power or withdraws from it according to the political circumstances of the country. However, it has never ceased to influence the civilian governments and maintains virtual control over its internal affairs.

2.2.4 Bureaucracy

Since independence in 1947, the bureaucracy has played a vital role in the administration of the state and its economy. It is perhaps the only force constant to the economic policy formation in Pakistan. The secret to its uncanny resilience lies in the fact that the formal leadership of the country, both civilian and military, relied heavily on civil servants' organization and technical expertise due to their own political shortcomings. The bureaucracy always found a way to manipulate a divided and power hungry political class that allowed them to control the policymaking and policy implementation process in the country without much resistance.

The army entrusted the day-to-day running of the economy to senior bureaucrats, as it was busy on several other fronts including wars with India, political manipulation in the country and the expansion of its own military and economic infrastructure (Rizvi, 2009; Burki, 1991). The economic policies of the various regimes

also ensured that the civil services play a significant role in the management of the economy. For example, the license and quota schemes in the 1950s, economic planning during the Ayub years (1960s), the nationalization of the economy during the Bhutto years (1970s), and the privatization of the economy during the Zia years and the following civilian period all required an elaborate bureaucratic infrastructure for their implementation. Subsequently, the bureaucracy has remained in charge of the policymaking process in general and policy implementation in particular throughout the history of Pakistan.

Moreover, the bureaucracy was quick to establish a patron-client relationship with the military leadership as soon as Ayub took over power in 1958. Ayub wanted to keep his officers away from the “immoral” and “corrupting” politics of the country. At the same time, he did not trust the politicians, due to their incompetence, for managing the affairs of the country either. Consequently, he used the bureaucracy to perform the basic functions of the state. Later on, Zia’s regime gave the bureaucracy vast powers to manage the economy (Burki, 1991, 96-102). In conclusion, the nature of economic policies, and domestic political circumstances in the years after independence provided the bureaucracy with an opportunity to gain a permanent position in the power structure of the country, which has not been seriously threatened since.

The bureaucracy was a well-knit group of 80 officers that were drawn from the Indian Civil Services (Shafqat, 1997: 24). Over the years it has expanded to its current strength of 2.4 million strong (International Crisis Group Report, 2010). It controls and administers regulations on a wide range of state apparatus including but not limited to trade, customs, finance, district management, policing, and foreign affairs. As a result, it

has enjoyed considerable influence over the economic policy formation and implementation process as I would show in the following chapter.

In conclusion, historical circumstances and the nature of the state provided the opportunity to four groups or classes – the army, the bureaucracy, the industrial and financial groups and the politicians – to set the economic agenda for the country. In the next chapter, I will look at the policy orientation of each regime towards the economy and how Pakistan's dominant proprietary classes played a part in its creation.

3: The Phantom of Khaki Shadows:

A detailed analysis of the economic policies, spanning over 52 years under study here, is beyond the scope of this project; therefore, in this chapter, I will only describe how the interactions between the proprietary classes of Pakistan – with special emphasis on the army - shaped the policy orientation of particular regimes, with the help of some pertinent examples.

3.1 Developing the Under-Development of Pakistan:

3.1.1 Post-Independence Years 1947-58:

3.1.1.1 The Interaction Between Various Proprietary Classes:

Two factors shaped the economic orientation of the various governments in this period: 1) the power struggle within the political class of the country and 2) influence of the Pakistan army and its partner- the bureaucracy - in managing state's affairs.

Shafqat (1997) notes that the political class in Pakistan was bitterly divided from the beginning. As late as early 1940s, regional political parties dominated by local landlords ruled Punjab (Unionist Party), and Sindh (Sindh United Party and Muslim Political Party). Indian National Congress – which was against the creation of Pakistan - dominated NWFP's (now KP) politics and Baluchistan was being ruled by local Nawabs like the Khan of Kalat, the Jam of Las Bela and Nawabs of Kharan and Makran. All India Muslim League that championed the cause of a separate homeland for Muslims of India, only gained momentum in the mid 1940s, for reasons that are irrelevant to this topic. The important point is that the Urdu-speaking gentry of United Provinces (UP) of India and

politicians from East Bengal made up the leadership of All India Muslim League and these leaders had no constituency of their own in West Pakistan. Consequently, soon after the inception of the country, the political class of the country was engaged in a vicious power struggle within its own ranks.

The father of the nation Quaid-e-Azam M. A. Jinnah, with little grass-root organization of his party (The All Pakistan Muslim League) in West Pakistan, relied heavily on the Viceregal powers of his British predecessors. The 1935 British India Act was adopted as the interim constitution of the country for this purpose. His successor Liaqat Ali Khan also relied heavily on these powers in order to control the political elites of the country (Safqat 1997: 22). However, after Prime Minister Khan's assassination in 1951, the military and bureaucracy slowly but "intentionally" and "systematically" started to take over key positions in the state's governing apparatus (Ibid: 21). Shafqat argues that the bureaucracy inserted Section 92-A into the 1935 Act in July 1948 in the name of Governor General Quaid-e-Azam Muhammad Ali Jinnah, who was critically ill at the time. This section allowed the Governor General to "suspend constitutional machinery in a province and direct the governor to assume the responsibilities of the provincial government". Between 1947 and 1954, nine provincial governments were dismissed by the use of this section. (Ibid: 25).

There were no National elections in Pakistan till the early 1960s, as the constitutional assembly failed to produce a constitution till 1956. The provincial elections were held in 1951 (Punjab, NWFP), 1953 (Sindh) and 1954 (East Bengal). The power to form a cabinet and appoint the Prime Minister remained with the Governor General. In this regard, the bureaucracy mainly wielded power through Ghulam Muhammad, a bureaucrat who had served as Finance Minister (1947-51) and had a firm hold on power

as Governor General (1951-55). With the help and support of military's top brass, he kept the politicians fighting against each other by offering the Prime Minister's post to various politicians – thanks to the Viceregal powers vested in his position (Shafqat, 1997: 28-29). This situation is evident in the fact that between 1951 (when Prime Minister Liaqat Ali Khan died) and 1958 (when the Pakistan army ceased power for the first time), Pakistan had only one Army Chief, two Governor Generals/ Presidents and six Prime Ministers. In other words, the bureaucracy actively discouraged democratic norms from developing within the political class in order to consolidate its hold on power.

The situation in East Pakistan was different from West Pakistan (where the bureaucracy was able to manipulate power by exploiting the divisions within the political class of the region). The political culture here was more democratic, as the size and influence of large landowners was limited. East Pakistan “was linguistically and culturally homogeneous and had been exposed to British educational and political institutions in the early 19th century. By the early 20th Century, Bengal was the hotbed of radical politics. East Bengalis politics was dominated by lawyers, small landlords, and to some extent, local religious leaders” (Safqat, 1997: 23). However, systematic efforts were made by the establishment (bureaucracy, military and politicians based in West Pakistan) to curtail the political influence of the Eastern wing of the country. First, the elections for the provincial assembly were delayed in East Pakistan for more than six years (until 1954). In the elections the regional parties of East Pakistan comprehensively defeated the ruling party (Pakistan Muslim League). However, despite their success in the elections, these parties (Awami League and Shramik Krishak Party) had to wage battles constantly with the central government in order to procure resources for the region.

It is important to ask at this point, why the bureaucracy and the military tried to hinder the democratic process and systematically manipulated the positions of power in the country away from the politicians. The military played an important role in the politics of the country. General Ayub was much more involved in the affairs of the state than is usual for an army Chief. There are two main reasons for his extra-ordinary involvement in politics. First, the Pakistan army needed serious reorganization after the partition of India. It needed restructuring of units, as the existing ones were mere bits and pieces of various brigades or battalions from the British India army. This meant recruitment of officers and soldiers on a large scale. It also required weapons, ammunition and weapon factories and support structure (pensions, benefits etc.). As a result, Pakistan's first native army chief Ayub Khan needed cooperation from the provincial governments for establishing educational institutions that would produce qualified officers; energy infrastructure to support weapons manufacturing; and the federal government to get him foreign cooperation in terms of both weapon acquisition and financial assistance. Second, the on going infighting among the political class meant that the politicians frequently sought his help and support in order to strengthen their own political standing.

What Ayub found out about the political class and government officials, in his various interactions, was their incompetence, indecisiveness, aloofness and a total lack of interest in developmental issues. For example, he found it impossible to recruit officers in East Pakistan, where lack of education was a big hurdle. Ayub was astonished and frustrated at the lack of any effort on behalf of the East Pakistan politicians to remedy the situation in spite of his frequent requests on the issue (Khan, 1967). He observed that in East Pakistan, "They [the politicians] could [have] face[d] the problem squarely, identify the causes and work to create an adequate social and

economic infra-structure, supported by corresponding educational and technical institutions,... to compete with the rest of the country on merit... [Instead] some of the political agitators found this [blaming West Pakistan] a much more convenient and popular course of action". (Khan, 1967: 24-25).

Similarly, in West Pakistan, he found that the politicians were engaged in a self-destructive game of intrigue and deception against each other (Khan, 1967: 39). For example, he was frustrated to find out that the approval of power supply to the newly established weapons factory in *Wah* was being delayed because of the complete breakdown of communications between the chief ministers of Punjab and Frontier Provinces, due to their personal rivalry (Ibid). According to Nawaz, "The paradox that hobbled Pakistan's development was that as the army grew in strength and size, it stunted the growth of the political system whose leaders either made no attempt to redress the power imbalance between the institutions of the state and that of the army, making the latter effectively the centre of power; or worse, they invited the army to settle political differences amongst themselves" (Nawaz, 2008: xxviii).

The military leadership was disappointed in politicians for their weak, subdued and unimaginative approach to the 1948 war as well. They believed that the politicians were too scared of a full-scale war with India – which they believed India was incapable of waging at the time. Consequently, they failed to do what needed to be done to win Kashmir back. According to Nawaz,

The unhappiness with the ponderous and meandering decision-making of the politicians led to tensions – some overt, others hidden – between the military and the politicians. This internal conflict fuelled the eventual expansion of military influence in Pakistan and created a serious imbalance between military and political decision-making in the fledgling nation. Kashmir became both a reason for not allowing a democratic polity to

emerge and a massive financial haemorrhage for the new nation state (Nawaz, 2008, 73).

The force of Ayub's own personality must be taken into account in his dealings with the political leadership of the country. He was not afraid to point out the shortcomings of various leaders to their faces. For example, at his very first meeting with Hussain Shaheed Suharwardy from East Bengal province, as Prime Minister, whom he particularly disliked due to his political intrigues, Ayub made it clear that he would not tolerate any intervention from him in army's internal affairs, and the Prime Minister accepted his dictation on the issue without resistance or protest. In his book, he describes Prime Minister Nazimuddin (1951-53) as "pious" but indecisive (Khan, 1967: 25-26), Prime Minister Suharwardy (1956-57) as immoral and conniving (Ibid: 37), and Prime Minister Chaudhry Muhammad Ali (1955-56) as meek (Ibid: 50-52). In Ayub's mind, Pakistan had to be saved from these inept politicians.

It is important to understand the mind-set of the military top brass at the time in order to understand Ayub's unusual behaviour. Ali argues that the British selected and trained the Indian army officers before independence to serve a particular purpose: they were a vital instrument of colonialism, designed to hold a firm grip on power. These officers belonged to the rural gentry and did not come from the urban intelligentsia (although this trend is changing in the recent years). The implication of this background is that these officers inherited a certain mind-set. For example, they were trained to feel themselves and act as being superior to all civilians. Their training enshrined a superiority complex in them through concepts like their recruitment from the so-called "martial races" of India (Ali, 1983: 65-67). According to this concept, certain castes in Punjab and NWFP (now Kheber-Pakhtunkhwa) were genetically superior to the rest in their ability to fight. This background played a vital role in army officers' well-documented

contempt for 'incompetent' civilian politicians. Although the primitive concept of "martial-races" has died since, the superiority complex lingers on to this day.

In this context, Ayub and his fellow senior army officers "assumed" responsibility to protect the country from not only external but also internal threats. One particular instance is worth mentioning in this regard. In 1953, riots broke out in the city of Lahore against a religious minority called *Ahmadis*. The civilian administration failed to bring the city to order and called in the military for help. Martial law was imposed and within a very short span of time, the military took control of the law and order situation completely. However, they did not stop just there. The military interfered in matters as minor as municipal services like garbage collection and overall sanitation of the city. The 1953-54 riots confirmed the military leadership's prior opinion of the incompetency of the political class of the country as well as their own sense of superiority (Nawaz, 2008: 87).

The army's goal to save the country from threats both external (India), and internal (incompetent politicians), combined with its sense of superiority, resulted in its involvement in the political arena of the country. The army started to act, free from the influence of the political leadership, in what it considered to be in the interest of the country. For example, General Ayub visited the US in 1953 without any formal approval from the cabinet. His personal efforts resulted in the procurement of military and economic aid from the US. From that point onwards, the army became "the guarantor" of the state's safety in its own right.

The bureaucracy also took advantage of the weakness in the political class of the country. Governor General Ghulam Muhammad's ambitions to hold onto power and the promise of personal financial gains played a role in the bureaucracy's involvement in the politics of the country. But "Why did the bureaucratic elites come to dominate this

process?” According to Shafqat, “One explanation is that the bureaucratic control, intervention and guidance were accepted and considered workable by the business communities. In general, the society generally accepted the bureaucratic elites’ superiority” (Shafqat, 1997: 27). The bureaucracy ran a rigorous quota regime and was responsible for administering the Import Substitution Policy and establishing the industrial sector of the country. In the next section, I will describe how the collaboration between the army and the bureaucracy helped form and implement the economic policy of the country between 1947 and 1958.

3.1.1.2 The Economic Policies:

As noted in the previous chapter, economically, Pakistan was in a precarious situation at the time of its birth in 1947. In these difficult circumstances, Pakistan had a very limited choice of policy orientations available. The European economies after WWII lay devastated, and the countries that created the Non-Aligned Movement a few years after Pakistan’s independence were themselves strapped for money and had little or no technical expertise available to them. Moreover, Pakistan could not have accessed any assistance from this movement in a meaningful way anyway, because of the fact that the Movement was led by its arch-enemy, India. The USA and the USSR were the only sources of economic aid available to the third world countries at that time (Westad, 2007: 92).

Both the USA and the USSR represented two different approaches to development. Westad describes these models of development in the following words:

One [model of development], symbolized by the United States promised intensive urban-based growth in both the private and public sectors, the import of advanced consumer products and latest technology through joining a global capitalist market, and an alliance with the world’s most powerful state. The other, that of the Soviet world, offered

politically induced growth through a centralized plan and a mass mobilization, with an emphasis on heavy industry, massive infrastructure projects, and collectivization of agriculture, independent of international markets (Ibid, p. 92).

From the very beginning, Pakistan decided to choose the USA camp. The country sought economic cooperation from the US due to the army's need for weaponry and economic aid (Rizvi, 2000; Ali, 1983), despite the opposition of some senior political figures, who wanted to establish similar relations with Britain (Shafqat, 1997). General Ayub Khan was instrumental in this regard. He made several trips to the US and ensured the availability of funds necessary for his military and bureaucracy's economic agendas. For example, It was the US's influence that helped Pakistanis to adapt Import Substitution Industrialization (ISI) as its primary macroeconomic policy between early 1950s and late 1970s. According to Ray, the term import substitution industrialization (ISI) refers to a policy through which the government of a country erects "various barriers to the importation of foreign goods and substitutes for these goods by producing them domestically." This policy is generally expected to establish a new domestic industrial base, form a new highly skilled work force, and help to break free of disadvantaged pattern of global trade (Ray, 1998: 656).

As mentioned earlier, Pakistan was primarily an agricultural economy. The interest of the political elites (especially in West Punjab) was in promotion of the agricultural sector. However, the economic orientation of the country, dictated by the bureaucracy and the army, required the emergence of an industrial and manufacturing sector. The industrial sector was thought to be essential for the development of a country among the economic advisors from the US. Pakistan, however, had a very small industrial base. As a result, the bureaucracy, with complete support and backing from the army embarked upon a quest to establish an industrial class in the country. The

“dynamic”, “skilfully entrepreneurial”, and “clannish and caste-like” trading class was chosen to establish the industrial base for this purpose (Shafqat, 1997: 41).

These families were given access to capital, technology (through international cooperation), and basic infrastructure (energy, land), and the industrial sector flourished in this favourable environment. The government kept the Pakistani Rupee over-valued, and used “qualitative controls on imports to regulate the level and composition of imported goods” (Zaidi, 2005: 93). These policies resulted in hyper growth in the industrial sector. However, “since most of the trader-merchants had settled in West Pakistan, this area became the prime beneficiary of industrialization” (Ibid: 41). This phenomenon had far reaching consequences, as the feeling of being left behind proliferated through the province of East Bengal.

Furthermore, the pro-manufacturing orientation of the first few governments in Pakistan paid little attention to the agriculture sector. As a result, while manufacturing industry grew 23.6% between 1949 and 1954 (Zaidi, 2005: 91), the agriculture growth rate stagnated. “With industry growing at high rates, there was a reverse picture in the agricultural sector, which only once in this period achieved double digit growth rates. This is also the period when agriculture suffered negative growth rates in some years” (Ibid). In other words, this particular economic policy created a major distortion in the economy: It not only concentrated the wealth in fewer hands (Ibid: 96), it damaged the agriculture sector by redirecting revenues to subsidize the industrial sector. “In 1950, there were 3000 individual firms in Pakistan, but the concentration of wealth was so high that only seven individuals, families, or foreign corporations constituted 25 per cent of all private industrial assets in Pakistan. Twenty-four units constituted nearly 50 per cent of all private industrial assets” (Ibid: 96). However, the state did not benefit from this wealth

creation, as the bureaucracy failed to establish a taxation system in the country. The country relied heavily on the economic aid from the US in order to sustain the industrialization process (Ibid: 91).

The economic policy orientation of this era is best described by the Korean War episode. The demand for jute – Pakistan’s leading export commodity – was high due to war. The government kept the value of the currency high (Zaidi, 2005: 92) as part of its ISI policy; and transferred the capital earned from the raw material and primary commodity boom (especially cotton and jute) and used it to facilitate the development of domestic industrial base. This policy hurt the agricultural sector as the landowners failed to benefit from the high jute prices because of the high rupee value.

In conclusion, driven by the “perceived” incompetence of the political class of the country, the army decided to help the bureaucracy in setting the economic policy in this period. The following points are important in this regard:

- 1) The army helped the rent seeking behaviour of the bureaucracy that ran a rigorous quota regime and favoured a small number of trading families to transform into the industrial-financial class.
- 2) The industrial-financial groups received significant subsidies; tax breaks; and access to capital, but failed to pay back the state (in taxes). The result was the concentration of wealth in few hands and continued under-development of the economic condition of the masses.
- 3) The neglected agricultural sector suffered badly in both East and West Pakistan, as the revenues generated from this sector were redirected to develop the industrial sector;

- 4) The economy became chronically dependent upon foreign aid, with drastic long term implications for the future as I will discuss later in this paper;
- 5) And finally, the feeling of systematic economic discrimination spread in East Pakistan, as most of the industry was being established in West Pakistan.

In the next section of this paper, I argue that the first military regime of the country essentially kept pursuing the same economic policies and worsened these various distortions in the economy mentioned above.

3.1.2 The Ayub and Yahya Years 1958-1971:

3.1.2.1 The Interaction Between Various Proprietary Classes:

In the face of open hostilities from the military-bureaucratic alliance, the political class of West Pakistan started to reorganize itself by 1956. Under the leadership of Sardar Abdur Rab Nishtar – a respected leader of the Pakistan Movement – the all Pakistan Muslim League began a series of organization exercises including membership meetings and rallies throughout the country. The Constitutional Assembly had delivered the constitution and the elections were called at the end of 1958 (Shafqat, 1997: 33). In East Pakistan, the politicians were getting increasingly agitated over unequal treatment of their province compared to the West Pakistan province. Several studies have confirmed that revenues generated by East Pakistan were being spent on West Pakistan's development, as I will discuss in detail in the next section.

The success of regional nationalist parties against the Muslim League alarmed the military-bureaucratic elites. Amjad summarizes this situation in the following words,

“For the industrialists [and the military-bureaucratic power behind them], the threat of the feudal classes loomed on the horizon. With general elections to be held by the end of 1958, it was certain that they would be returned convincingly to power. As elected representatives of the people, they would make short work of the power base, which the industrialists had built for themselves... The military coup in 1958 was the answer to all these problems. It did away with the elections and hence the feudal threat” (Amjad in Gardezi & Rashid, 1983: 262).

General Ayub, however, changed the dynamics of the power game in the country. Confident of US support for his regime, he tried to cleanse the state from corrupt officials. Some writers have argued that greed was behind the military’s alliance with bureaucracy and the industrial class before 1958. For example, Rizvi maintains that during the 1950s, “the senior military positions became a ladder for lucrative jobs in the public and private sectors. A good number of retired Lieutenant-Generals, Major-Generals, and Brigadiers, and their equivalent ranks in the other services, were provided with the top positions in government and semi-government corporations, autonomous bodies and boards, where they could draw handsome salaries and other facilities admissible under the terms and conditions of the service. Various private firms and limited companies offered them directorships to avail of their influence and contact in their influence in dealings with the government” (Rizvi, 2009: 128-29).

However, Rizvi’s argument is not based on a systematic study of relationship between the military top brass and the industrial class. Certain cases are repeatedly discussed in various studies to support this line of argument. For example, Gohar Ayub Khan (son of General Ayub Khan)’s case is cited as a prime example of intimate relations between the military and the industrial class. Gohar Ayub Khan became a

leading business-man during the 1960s despite his humble origins. Many authors have alleged that his success is owed largely to his father's influence and position of power (Khan, 2007). But no study has systematically looked into the alleged relationship between the two groups; these assertions have been based largely on prominent but rare cases like Gohar Ayub Khan's. Gohar Ayub Khan himself attributes his success to favorable economic environment of the country and his business acumen for his success (Ibid).

The available evidence points towards a different reality altogether. By all accounts, Ayub was keen to limit the involvement of the military in politics, which he considered to be a corrupting influence for his officers (Khan, 1967; Nawaz, 2008). Instead his actions before 1958 must be considered under a different light. Ayub sincerely believed that the politicians would destroy the country due to their incompetence. He collaborated the bureaucracy before 1958 because their agendas to establish an industrial class matched. But after taking the reigns of power, he ensured that the corrupt bureaucratic officials were dismissed and replaced by honest individuals. According to Shafqat (1997), "as many as 1662 civil servants belonging to central and provincial services were either dismissed, demoted or retired" (Ibid: 37). Screening committees were setup to cleanse the Civil Services of Pakistan (CSP). These measures however did not mean the end of a relationship between the military and the bureaucracy.

Instead, their relationship changed from one in which the bureaucracy was supported by the military to its being controlled by the military. What did not change was their mutual distrust of the politicians' capacity to run the country. General Ayub adopted a two-pronged strategy to deal with the politicians. First, he implemented a presidential

system of government through his 1962 constitution, with exclusive powers to appoint and dismiss a cabinet, thus effectively excluding the politicians from participation on national issues. Second, he started a non-party system of “Basic Democracies” in which the country was divided into small units (called Union Councils). The elected members were supposed to look after local and development issues and provide Ayub’s regime with badly needed legitimacy by providing a sense of political participation to the masses (Shafqat, 1997: 40). He believed that the institution of basic democracies “would produce a cadre of new leaders who could serve as the base for the new political system and a link between the people and the government” (Rizvi, 2009: 148). However, this system failed on either end, as the urban middle classes in both wings of the country felt excluded from the political process. The system met with relative success in the rural West Pakistan regions, where the land-owning aristocracy reaped the rewards of marginal participation in the political process as well as benefits of rural development projects, as I will explain in the next section in detail.

In conclusion, Ayub’s regime kept policy formation and implementation powers in the bureaucratic apparatus, tried to appease the rural gentry in West Pakistan and promoted the industrial class between the 1958 and 1969 era. In the next section, I will examine the economic policy orientation of the regime and its impact of the economic future of the country.

3.1.2.2 The Economic Policies:

The economic policies of this regime led to an unprecedented growth in the industrial and agricultural sectors in West Pakistan, and growing impoverishment of the East Pakistan province. The 1960s are known as the golden decade of development in

Pakistan's economic history. However, it must be noted that only West Pakistan was reaping the benefits of this development in this regard.

Three important factors contributed towards unprecedented growth in the agricultural sector. First, the Indus Water Treaty (1960) ended crucial water disputes with India for a few decades and paved the way for elaborate projects that included construction of a major dam (Mangla Dam in Azad Kashmir) and the world's most advanced canal system. Second, advances in agricultural sciences (known today as the Green Revolution) enabled the country to feed its population for the first time in the 1960s. Third, Ayub Khan started the Rural Works Program in 1962, in which farmers were given easy access to loans, agricultural machinery and fertilizers. As a result, the agricultural sector grew by 3% between 1958-64 and by 6.2% between 1967-70 (Zaidi, 2005: 98).

On the Industrial front growth was even more staggering. Large-scale manufacturing grew by 13.3% and 10.4% for 1958-64 and 1965-70 periods respectively. "In 1959 there was a fundamental reordering and change in the method of directing industrialization through trade policy and a series of liberal policies..." (Ibid: 98). The quotas and license regime was eased in favor of free market policies under The Bonus Voucher Schemes (that "allowed a free market in bonus vouchers for certain commodities), Open General License schemes and 'Free List', "which permitted the import of certain goods without any license" (Ibid: 98). Through these schemes, the country was able to help both import substituting and export growth (Ibid: 99). By all accounts these policies were a resounding success (Ibid).

However, this success came with two major drawbacks, or rather disasters. First, the government was able to sustain the import liberalization policies only due to the generous flow of foreign aid from the US (Ibid: 101). According to Rashid Amjad,

The system which operated in Pakistan came very close to being what we can term a "Foreign Aid Dependent Regime" in which the mechanics of industrial growth were in one way or another dependent on foreign aid inflows. Once these aid flows slowed down, the system not being able to replace foreign aid with other forms of external finance like direct foreign investment, and without the peculiar boost to profitability associated with the local system for dispensing aid, found it difficult to sustain the earlier growth it had generated. (Amjad quoted in Zaidi, 2005: 101).

The major effects of this policy were felt during the 1970s when economic growth stagnated significantly, as I will discuss later in this paper. It is important to understand the significance of this drawback. Ayub's regime had no legitimacy in the eyes of the Urban Middle classes of the country (Shafqat, 1997: 40). Moreover, his regime was subsidizing the industrial sector of the society and was in conflict with the political class, which happened to control the only other significant means of production – agriculture. In this situation, the only avenue to sustain his regime financially – to sustain his economic policies and even for day-to-day workings of his government – was foreign aid. This over-reliance on foreign governments was a major distortion in the economy.

The second major drawback is based on the "Doctrine of Inequality". The Ayub government was advised by a group of economists from Harvard University, USA – called the Harvard Advisory Group. These experts believed in this doctrine that resources must be redirected towards the industrial sector, "which has a higher propensity to save", compared to the agricultural sector (Ibid: 102). There were two major consequences of pursuing this particular doctrine. First, the agricultural sector suffered a great deal as a result of diverting resources to the industrial section. Due to various unrelated policies (the Sindh Water Treaty, building of water dams and canals),

the West Pakistan province escaped without much impact. However, the East Pakistan province bore the brunt of the impact. Given that most of the industry was being set up in West Pakistan, the resources (especially the ones earned through Jute crop sales from East Pakistan) were diverted to the industrial sector in West Pakistan. As a result, the disparity between both regions of the country increased dramatically. This is evident in the fact that the disparity of per capita income between East Pakistanis and the West Pakistanis increased from 17.9% to 37.9 per cent (Ibid: 103).

The masses in West Pakistan were not much better off. Despite the unparalleled growth in both agricultural and industrial sectors, human development indicators remained dismal for the populations in both provinces. This is evident in the fact that in 1951, Pakistan's literacy rate was at 16.4%. Despite the significant growth in all economic indicators (GDP, manufacturing, services sector), 10 years later (1961) it remained virtually the same; and in "the Golden Age" of development (1961-72) it increased by a mere 5.4% to 21.7% (Choudhry, 2005: 4). According to Hussain (1999), less than 1% of the total population controlled more than two thirds of the resources during the 1960s.

By the end of 1960s, the urban middle classes in West Pakistan and the entire East Pakistan were showing signs of unrest. The military regime tried to take steps to remedy the situation, but it was too late by then. General Yahya Khan took power away from Ayub Khan and declared Martial Law in 1969. According to Rizvi, "The Yahya regime was aware of the severe criticism of Ayub's economic planning and development policies. It adopted several measures to promote social justice and egalitarianism" (Rizvi, 2009: 185). These measures included the enforcement of the Monopolies and Restrictive Trade Practices Ordinance in 1970, in order to prevent the concentration of

wealth in few hands; and the establishment of Equity Participation Fund in Dacca (Ibid). Yahya also ensured that the partisan elections of 1970 were free and fair. However, the political situation get worse and East Pakistan separated to become Bangladesh in 1971.

In conclusion, despite General Ayub's sincere efforts to "save" the country from "incompetent" politicians and "corrupt" bureaucracy, the distortions in the country's economy grew worse. The following points are important in this regard:

- 1) The government's failure to establish a viable taxation system ensured that the wealth was concentrated in even fewer hands than in previous decade;
- 2) The over-reliance on foreign aid become worse in this decade, a policy that would have adverse effects on the economy in the subsequent decade;
- 3) The economic policies of the 1950s and 60s combined with the military and the bureaucracy's (successful) attempts to hinder the evolution of democratic norms, institutions and political participation of the masses led to the growing frustration in the population and were leading causes for the break-up of the country.

The East Pakistan province became Bangladesh following a brief war with India and the local insurgency, in 1971. The glitter of "the Golden Age of Development" darkened the future of the country.

3.1.3 The Bhutto Years 1972-78:

3.1.3.1 The Interaction Between Various Proprietary Classes:

Zulfiqar Ali Bhutto's party the Pakistan Peoples Party won the election in West Pakistan in 1970 elections. After the separation of East Pakistan, he became the President and the Chief Martial Law Administrator of the country. The new government responded to the complaints of inequality immediately by starting a nationalization campaign of all industry, banking, and insurance sectors of the economy. In this period, leading industrialists were arrested on charges of corruption (some true, some not) and most heavy industries were nationalized (Burki and Baxter, 1991: 93). Bhutto was able to successfully subdue the influence of the industrialist class, however, his decision to nationalize the industrial and financial sectors proved to be disastrous, as I will explain in the following section.

Bhutto's rise came as a reaction to the policies of the ruling alliance between military, bureaucracy and industrialists. His supporters included students, factory workers and landless peasants. However, he was a complicated character. Despite being a revolutionary by heart, he failed to completely sever his ties from his feudal background (Wolpert, 1993). In Rizvi's words,

Bhutto's strongest asset was the popular support, which he enjoyed at the beginning of his rule. Instead of using his mass appeal to institutionalize participatory framework and establish self-sustaining political institutions, he opted for personalization of power and created a patrimonial system wherein loyalty to the chief rather than to the system was assigned a high premium. The whole edifice of the political system was built around his personality (Rizvi, 2009: 230-31).

Instead of dismantling the military and bureaucracy-centric power structure of the state and establishing democratic institutions and measures of accountability, Bhutto decided to use these power structures to consolidate his rule over the country. For

example, instead of reforming the bureaucratic apparatus of the country, he used the civil services of Pakistan to (unsuccessfully) manage the industrial units and financial institutions his government had nationalized.

Similarly, he decided to make General Zia Ul Haq the Chief of Army Staff, despite his junior position on seniority list of army's top brass. He thought that Zia would be easier to manipulate compared to some other senior generals, which proved to be a mistake, as Zia toppled his government in a coup in 1977. The Pakistan army was demoralised at the time, due to its defeat in East Pakistan at the hands of India and the local insurgency. Bhutto took advantage of this situation and relieved 43 generals (One star and above) from the military (all three services – Army, Navy and Air Force) (Rizvi, 2009: 213). In the end, however, he failed to keep the army at bay due to his own political miscalculations, as I will discuss in the next section.

The situation was not any better on the political front. The 1973 constitution is considered to be one of the most important political developments in Pakistan's history. Bhutto went to great lengths to achieve consensus from all political, religious and regional parties on this constitution. However, he failed to respect the spirit of the constitution himself. His government was involved in undemocratic actions including intimidation and violence towards its opponents. He also dismissed the democratically elected government in Baluchistan over political differences and imposed Governor's rule in the province. Towards the end of his regime, the old landowning political families forced their way into his Pakistan People's Party, dismantling its revolutionary character.

Shafqat summarises the political situation in Pakistan right after the country broke into two, in the following words:

The decay of the military hegemonic system unleashed new social groups, classes and political leaders in the political arena, particularly in the urban professionals and industrialized labour groups... Peasants, tenants, the lower middle and petty government employees expected socioeconomic change. Financial industrial groups, the bureaucratic military elites and a significant segment of the feudal classes... were sceptical about the PPP's reformist intentions. In short, Bhutto inherited a conflict ridden and polarized Pakistan (Shafqat, 1997: 81).

Bhutto failed to unite this 'conflict ridden' and 'polarized' Pakistan. The country lived through the worst years of economic growth to date under his rule. However, his political failures were not the only factors in this economic collapse, as I will explain in the next section.

3.1.3.2 The Economic Policies:

After the secession of Bangladesh, Pakistan economy was in shock. 50% of West Pakistan's exports and 17% imports used to travel to and from East Pakistan. Therefore, the search for a market for exports and imports was an immediate concern. Moreover, Bhutto was elected on the promise of taking the wealth away from monopoly houses and the rich industrialists, for the benefit of the masses. The subordinate classes of West Pakistan flocked under his party's banner. Consequently, Bhutto's economic policy was based on two principles: 1) Nationalization and 2) promotion of the agricultural sector. Bhutto's regime devalued the rupee by 134%, and abandoned the Export Bonus Scheme. He also put a ceiling on agricultural land holdings. The economic orientation of the country changed from export promotion to a focus on nationalization.

For the first three years of his government, the economy grew at a respectable rate. However, a number of factors came together to halt the economic performance of the country. First, the 1973 oil crisis and the global recession (1974-77) combined with the devalued rupee crippled the country's export based business. The massive floods in 1973 and 1976-77 devastated agricultural productivity (Zaidi, 2005: 106-107). Second,

Bhutto did not nationalize all industry and business, at once. The process of nationalization was carried out in stages. First the heavy manufacturing industries were taken over, followed by the banks and insurance business and finally the small units like cotton ginning factories were nationalized. In between, Bhutto promised on several different occasions that the process of nationalization had stopped, only to resume another round of takeovers. These actions destroyed the credibility of his government and stopped the flow of foreign investment (Zaidi, 2005: 105-107).

	1960s	1970s
GDP	6.77	4.84
Agriculture	5.07	2.37
Manufacturing	9.93	5.50
Commodity-producing Sector	6.83	3.88
Services Sector	6.74	6.26

Table 1: Growth Rates in Pakistan (average annual, %) (Zaidi, 2005: 6).

Furthermore, his regime used these assets to buy political allegiances and reward cronies, instead of empowering the middle class of the country (Hussain, 1999:

22-23). Rampant corruption and mismanagement destroyed the established industries of the country (evident from the table above). For example, Burki maintains, “the bureaucrats who took over the control of the fifty firms that had operated in this [vegetable oil] industry did not possess the expertise or the capital of the owners they had displaced. But the farmers needed both. What was worse, it soon became clear that the new managers were also not very honest. A report that was to be commissioned by the government later cited a number of examples of the way in which the ‘bureaucrats-managers’ had sought bribes for ‘lifting the farmers’ produce” (Burki, 1988: 117). Bhutto’s regime failed to remedy the situation, which adversely affected the economy (Ibid: 178).

Furthermore, due to Bhutto’s own political mistakes, the army regained its previous strength within 5 short years. Three factors helped the military to regain its previous reputation among the population of the country. First, the Bhutto government failed to bring the 1971 War POWs back within a reasonable time (the last batch of POWs arrived three years after the war ended). Second, the enmity with India reached a new level after the separation of Bangladesh, which forced the Bhutto regime to pour considerable resources into the military, and this in turn enabled the military to regain its confidence. And finally, the use of the military in maintaining law and order and its assistance with floods, and other natural disasters ‘eroded’ the Bhutto’s regimes power against the military (Rizvi, 2009: 230).

In conclusion, the Bhutto era showed promise for the balanced growth of Pakistan’s economy because Bhutto was able to briefly hold up the military-industrial-feudal alliance from pursuing a blind economic policy of industrial subsidization. However, he failed to bring true reforms to the power structure of the country and

succumbed to his personal ambitions to rule the country by keeping that power structure intact. By alienating the masses he had derived his legitimacy from in 1970 elections, he set himself up for disaster. The army soon regained its previous influence and eventually decided to overthrow his government in 1977 (Ali, 1983: 130). The following points are important in this regard:

- 1) Bhutto's regime failed to manage the nationalized industries, which were destroyed under the corrupt supervision of the bureaucracy;
- 2) Bhutto failed to dismantle the military/bureaucracy-centric power structure of the country in order to sustain his own rule, with disastrous consequences for his own rule.

3.1.4 The Zia Years 1978-1988:

3.1.4.1 The Interaction Between Various Proprietary Classes:

Bhutto's regime failed to deliver the promise of a prosperous economy to the people of Pakistan. A combination of mismanagement of the economy, corruption of the bureaucracy, natural disasters and global economic recession devastated the economy. At the same time, Bhutto's inability to reform the power structure of the country and his disregard of democratic norms in NWFP and Baluchistan led to increasing political agitation against his government. Citing the law and order situation after the 1977 election that Bhutto's Pakistan Peoples Party won under the shadow of allegations of rigging, the Pakistan army declared martial law.

General Zia ul Haq's regime was considerably different from that of Ayub and Yahya. Both Ayub and Yahya tried to keep the army away from politics and government as much as they could. However, Zia decided to take over all functions of the state,

which he helped to manage till 1985 with assistance from the bureaucracy. Most of Zia's achievements in economy and politics can be attributed to his good fortune (Zaidi, 2005). The USSR invasion of Afghanistan took the sting out of the provincialism in NWFP and Baluchistan. Zia was able to appease the leaders that were in constant struggle against the federal government during Bhutto's reign in these two provinces (Burki and Baxter, 1991: 39). Furthermore, his pro-jihad stance also won over the religious parties, which had created the crippling law and order situation for the previous regime. The bureaucracy was given a free hand in the day-to-day running of the economy (Burki and Baxter, 1991). Finally, the force of the army kept the PPP supports well under control during this period. In the next section, I will explain how the good luck years of Zia's regime transformed the battered economy.

3.1.4.2 The Economic Policies:

When Zia's martial law government took over the country, Pakistan's economy was in shambles. This regime immediately started a program of liberalization after 1978 in order to regain the confidence of the industrialists with rewarding consequences (Zaidi, 2005: 104-108). Zia's period is seen as an era of economic stabilization after the tumultuous 1970s. Two major factors contributed primarily towards the economic stability of the country. First, overseas Pakistanis, who went to the Middle Eastern countries in search of work (thanks to Bhutto's successful diplomacy towards Islamic countries), started to send billions of dollars, which stabilized the value of Pakistani rupee (Burki and Baxter, 1991: 14). Second, the USA started to pour money into Pakistan as its ally against communism in Afghanistan. These funds came to Pakistan in various forms including military aid and development assistance programs (Ibid: 18).

The bureaucracy, under the leadership of Ghulam Ishaq Khan (a prominent bureaucrat, who became the President of Pakistan after Zia's death) managed the economy in a conservative manner. Despite fierce pressure from the business and industrialist communities, Ishaq refused to auction the nationalised units. Instead he worked hard on improving their performance (Burki and Baxter, 1991: 14). The foreign aid that had dried up during the Bhutto era started to flow again, as Pakistan became the frontline state in the war against communism. At the same time, the Middle East was experiencing an economic boom and the remittances from Pakistanis working there, strengthened the economy further. As a result, the economy stabilized a great deal. The healthy economic condition of the country is sometimes cited as a significant reason behind the longevity of the Zia regime.

This era of stability, however, had dire consequences for the long-term future of the economy. First, it gave rise to unreasonable government spending on non-productive programs, as the officials felt no compulsion to answer to anyone (there was no one to answer to as the money was gained through aid or loans; and no political opposition under the military rule was allowed to hold them accountable). The waste through unscrupulous spending continued even when the aid dried up after the break-up of the Soviet Union in the 1990s. Furthermore, "One of the negative effects of the Afghan war was the mushrooming of the parallel and illegal economy. The diversion of aid money, the growth of smuggling, the rise in sale of weapons, and the large drug business together created a subterranean economy that was estimated to be 20-30 per cent of GDP. Estimates put the value of illegal imports at around \$1.5 billion in the mid-1980s. A large un-taxed component of the economy was growing at the same time as the fiscal

burden was reaching 8 per cent of GDP” (Hussain, 1999: 30). Hussain summarises the economic situation in the 1980s and its consequences in the following words:

The large volume of foreign aid in the 1960s, the remittances from workers in the Middle East in the 1970s, the Afghan war in the 1980s, have all benefited the Pakistan economy. It may be argued that these exceptional sources of external financing in fact did not impose a hard budget constraint on Pakistan and allowed the country to postpone the required adjustments when they were needed. The current economic difficulties can, in fact, be ascribed to the cumulative effects of the incomplete, or in some instances, postponed adjustment in the last three decades (Hussain, 1999: 341).

Furthermore, Zia’s regime gave vast powers to the bureaucracy and instituted a system of subsidies for the subordinated classes of Pakistan in order to give longevity to its reign. As a result, the regime was unable to make tough decisions on economy when necessary. For example, Ghulam Ishaq Khan tried to widen the tax net by incorporating the merchant class of the country into the system. However, he was unable to execute his plans. The subordinated classes (especially petty merchants, traders and shopkeepers in urban centres, addicted to a tax-free existence, resisted any attempt to bring them into the tax net. They called strikes and started to protest against the government (Burki and Baxter, 1991: 13). Zia’s regime, just like those of the dictators before him, lacked legitimacy and folded in the face of first signs of unrest. The failure of the plan has had far-reaching consequences for the economy, as the government became more reliant on foreign aid and loans, thus creating a significant distortion in the economy.

The apparent economic stability suited the ruling generals who expanded the military’s influence into government, economy and society. The army officers were given top positions in civil departments, public enterprises and law enforcement agencies (Rizvi, 2009: 257). Furthermore, the army expanded its economic infrastructure by establishing transport, construction and manufacturing companies. The overall operation

of the economy was left to the bureaucracy (Burki and Baxter, 1991). Towards the end of Zia's regime, these irresponsible policies started to show their devastating effects. According to Hussain, "the government's diversion of non-bank savings into its own exchequer created several strains on the financial system, most notably the upward pressure on interest rates. This also led to crowding out, with high interest rates deterring investments" and failed to increase and diversify exports. As a result, "exports declined from \$409 million in 1980-81 to \$355 million in 1989-90" (Hussain, 1999: 31).

In conclusion, the army directly or indirectly caused the following important distortions in the economy in this period:

1) The addiction to foreign funding, which came out of defence relationship between the Pakistan army and the US, led to a significant distortion in the economic structure of Pakistan: foremost among them, an under-developed taxation system and unsustainable over-reliance on foreign loans. We have seen this theme repeated before during the Ayub era.

2) In search of legitimacy, the military regime tried to appease the subordinate classes of the country through subsidies and unscrupulous developmental spending, and created long lasting distortions in the economy.

3.1.5 The Democratic Sham 1988-1999:

3.1.5.1 The Interaction Between Various Proprietary Classes:

The period between 1988 and 1999 is the most shameful period in the history of the country on many levels. Two Presidents, Ghulam Ishaq Khan (a retired bureaucrat) 1988-1993 and Farooq Laghari (one of the largest land owners in South Punjab) 1993-1997, largely on corruption charges, dismissed three out of four governments (PM

Benazir Bhutto 1989-1991; PM Nawaz Sharif 1991-1993; PM Benazir Bhutto 1993-1997), in this period. In 1999, General Pervez Musharraf dismissed the fourth government (that of PM Nawaz Sharif 1997-1999) in bizarre circumstances, where the Prime Minister, Nawaz Sharif, was prosecuted on treason charges.

The army never loosened its grip on its position of influence in the policy-making arena during this period. It caused governments to fall and helped some parties to form new governments during this period (Rizvi, 2000). It is important to note that several of the politicians in both ruling parties, the Pakistan Muslim League (N) and Pakistan People's Party, had collaborated with the army in Zia's period and had served as his ministers or members of parliament under his regime (Burki, 1983: 11-12). The army's influence over them never seemed to exit. Rather the generals tried to extend their influence over the political class through any means possible. For example, the army has been accused of forcing Mehran Bank's president Younus Habib to provide millions of rupees in order to buy the loyalty of several PPP members of parliament to switch parties (Khan, 2005). The Director General of Pakistan's powerful intelligence agency at the time, General (retired) Asad Durrani has confessed to his crime by submitting an affidavit that details this entire episode. This case is being heard in the supreme court of Pakistan at the time of writing . This is but one of the many cases that has seen the light of day in an elaborate story of intrigue, bribery and manipulation against the civilian governments by the army. The army helped to create an environment where new governments constantly struggled to make tough decisions regarding the economy.

Rizvi summarises the motivation behind these intrigues by the army in the following words, "The military's decision to stay on the sidelines and support the democratic process ...was a tactical withdrawal based on realistic assessment of the political

situation and did not represent their exit from the political domain or their ability to play a salient role.” Indeed the new civilian Prime Minister had to promise the military that she would “respect the military’s interests and concerns” (Rizvi, 2009: 266). Consequently, no leader was able to enjoy a stable political situation. Cronyism, mismanagement, and corruption that had become a part of the political culture under the military regimes thrived under the civilian rule. The policy was to keep everyone happy with the help of subsidies, housing schemes, political patronage, government contracts and jobs. These governments too encouraged rent-seeking behaviour among all the proprietary classes in order to sustain their rule. The constant fear for the survival of their regimes drove them to pursue policies that were harmful for the economy, as I will discuss in the following section.

3.1.5.2 The Economic Policies:

The profligate spending that resulted from this relationship between the US and the military could have been contained in the democratic interludes. However, these governments were mired by corrupt practices and incompetence themselves. As a result, the leaders of these governments also decided to keep borrowing or begging the US or the international financial institutions, instead of taxing the dominant proprietary classes of Pakistan. According to Hussain, “[the] growing fiscal deficits [during the Zia era] did not translate immediately into instability or weakened growth rate, but the accumulated domestic borrowing to finance these deficits had serious repercussions for public finances and macroeconomic stability in the 1990s” (Hussain, 1999: 31).

The 1990s showcased a system that is best described as a sham democracy. The political class struggled constantly to try to govern the country and balance the interests of powerful classes including the army and the bureaucracy. Macro-economic

policy in this period showed no sign of defying the international financial system's dictates. The political governments between 1988 and 1999 constantly manoeuvred to stay in power against intrigues and conspiracies orchestrated by the bureaucracy and the army. On the economic front too, bad management practices had become a norm. When foreign aid dried up at the end of war in Afghanistan, the weak civilian governments – unable to reform the tax system – started to privatize various industrial units, institutions and departments of the government in order to generate sorely needed revenue.

Milam summarizes this situation in the following words:

In Pakistan, the economic deficiencies are probably easiest to understand, yet hardest for a democratically elected parliamentary government to deal with. Put simply, Pakistan has, as a country, lived consistently beyond its means for much of the past 35 years. The enormous structural problems that plague the economy and constrain policy reflect this history of generally financing its excess of domestic consumption over domestic production by borrowing from abroad. Pakistani success at pulling this off for such a long time has led to an almost automatic reliance on foreign capital for its inherent fiscal and balance of payments deficiencies. This has created a built-in political/social resistance to the fiscal reform that is necessary if this pernicious cycle is to be broken. Unfortunately, successive Pakistani governments, both military and civilian, have relied on its geo-strategic position to avoid reform and always expect that its strategic allies of the moment will come to its rescue when there is a periodic payments crisis, as there inevitably is (Milam, 2010).

In conclusion, a cursory analysis of the economic policies of the democratic interlude shows that the distortion in the economy that were created during the military regimes, including budget deficits resulting from wasteful spending, and the use of public enterprises to distribute political patronage, cumulated in this period.

3.2 Conclusion:

In this project, I have presented an analysis that accounts for the involvement of the Pakistan army in the country's economic under-development. Despite the fact that I

have only looked at the period between 1947 and 1999, this project has identified a pattern that could be used to analyse the years beyond. The military regimes, sincerely believed that they could run the country better than the “incompetent” civilians but failed to comprehend the complexities of ruling a country. Their search of legitimacy forced them to pursue policies that were bound to damage the economy by producing certain distortions in the economy:

Ayub Khan and Zia-ul-Haq engaged in constitutional and political engineering coopted a section of the political elite and excluded their political adversaries from the political process in order to civilianize military regimes. There were successful in ensuring the continuity of the key personal and policies in the post-martial law period and protected their personal, professional and corporate interests. But, their regimes could not overcome the crisis of legitimacy and never shaped up as viable entities (Rizvi, 2009: 275).

Their policies encouraged certain groups within the society to take advantage of their regimes’ weaknesses to their own ends. The bureaucracy and the industrial and financial classes have been the biggest beneficiaries in this regard.

Furthermore, Pakistan army’s direct rule and indirect influence over the civilian governments led to the creation of certain distortions in the economy with effects that are present today. These distortions include but are not limited to

- Over-reliance on foreign aid that promotes unscrupulous spending and helps put off tough decisions like creating a comprehensive taxation system;
- Failure to hold the bureaucracy – the shepherds of the economy for the most of Pakistan’s history – accountable;
- Concentration of wealth in fewer hands (namely in industrial-financial groups);

- And finally, the failure to allow the establishment of democratic norms and institutions, which has directly or indirectly led to various problems including cronyism, provincialism, and chronic disruption of law and order.

It must be added however that the blame should not be put squarely on the army for all of these devastating consequences for the economy. The political class of the country has failed miserably to remedy the situation. In fact, the political class of the country has rather exacerbated the distortions that were created under the military regimes. What Pakistan requires today is a strong civilian government that could not only take tough decisions on the economic front, but is able to uphold the democratic norms in order to put an end to problems like provincialism and cronyism in the country.

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