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## **Pakistan's economic system: a stage of transition**

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# Pakistan's Economic System

## A Stage of Transition

### Introduction

In the first ever General Elections held in December 1970 the Pakistan People's Party emerged as the largest political party in West Pakistan. On 20th December, 1971 the Chairman of the Party took over as President of Pakistan. Although the country is still under Martial Law democratic rule is to be introduced in the very near future. Certain preliminary economic reforms in the Industrial and Agricultural sectors are to be introduced under the cover of Martial Law. Other reforms will follow the convening of the National and Provincial Assemblies.

The purpose of this article is to examine the different possible paths the Pakistan People's Party may follow in the implementation of its socialist program. For this purpose we intend to examine both the economic and political forces operating in the country.

In the first part of the article we will show that the People's Party's economic programme is a very radical one. It proposes for the government to take away power from the capitalist and the landlords and to initiate a process of constructing socialism. To illustrate this we have extensively quoted from the Party's manifesto. We have also briefly described the main characteristics of the economy in which this manifesto has to be implemented.

In the second part we have analysed the causes of the success of the party, the nature of its mass support, organisational structure and its limitations. Together the first two parts provide us the framework in which the crucial question as to what the Party is likely to do can be answered. This we do in the last part where we have outlined the possible ways open to the Party and have discussed the consequences and limitations of following these policies.

## PART I

**Basic Characteristics of the Pakistan Economy**

Pakistan is a typical underdeveloped country where except for a few people the vast majority lives in misery and poverty. The agricultural sector, which now contributes about 50% of the GNP and employs 80% of the population, is dominated by a feudalist structure.\* Some inroads, however, have been made in it because of the process of mechanization. This has led to the emergence, in certain areas of a class of capitalist farmers. The process of mechanization has also led to an increase in landless labour which now numbers about 20% of the population.† In the industrial sector a policy of robber baron industrialization was followed which has resulted in an extreme situation where on the one hand 66 per cent of the industrial assets and 85% of the Banking and Insurance assets are owned by only 22 families<sup>1</sup>, while on the other, over the last 10 years the per capita income of the peasantry and the industrial workers has gone down.<sup>2</sup>

The semi colonial nature of the society can be seen from the fact that, first the country is heavily dependant on foreign aid and loans which over the years total a sum of dollars 6,033 million.<sup>3</sup> Second, the kind of industrialization which has taken place in the country has been such that no basic industries have been allowed to be set up and the consumer good industries which have been set up are based almost entirely on imported raw materials. Third, considerable amount of private foreign investment has flowed into the country. In 1962 thirty two per cent of the total capital employed by all firms incorporated in Pakistan was owned by foreigners. In percentage terms this declined to 17.5% in 1967. It, however, still remains a substantial amount of Rs. 2,749 million.<sup>4</sup> This shows that

\* An idea of the semi feudal nature of agriculture in West Pakistan can be had from the fact that 6,060 of its big landlords possessed more land than its 3.3 million peasant families, while more than half of the land was cultivated by tenants at will who had no legal right whatsoever to the land. (*A Report of Land Reforms Commission for West Pakistan*, Lahore Jan. 1959 pp. 13-15).

† Most likely an estimate of two million landless labour families would be on the conservative side. Using a figure of 5 members per family would lead to a total population in the landless labour group of about 10 million (Aresvik, O, "Reflections on the Socio-Economic Objectives of the Forth Five Year Plan-Agriculture Strategy", Agriculture Department, Government of Pakistan, November 1968 (Mimeo).

Pakistan has been kept as a market for the manufactures of the advanced industrialised countries and an outlet for their surplus capital.

The other two important forces which form the backbone of the system are the military and the bureaucracy. Ever since the military took over the government in 1958 it has become an increasingly important beneficiary of the system. Not only has there been a considerable increase in military expenditure (totaling 60% of the budget) but also the military has expanded into other fields. A large industrial complex is being directly run by the military. Also some senior military officers have been given large holdings of land and important jobs in various public and private organizations.

The Bureaucracy, which is a legacy of our colonial past, derives its main power from the vested interests. It has been able to exercise tremendous economic power because of its control over the distribution of economic resources. This has had two effects. Firstly, corruption is rampant amongst government servants and they have amassed considerable wealth. Secondly, they have either become partners in business with the industrialists or are getting high salaried jobs on retirement in the private sector.

We can, therefore, conclude that the basic characteristic of the economy is semi-feudal and semi-colonial. The feudalists and the comprador monopoly capitalists control the system through the military and the bureaucracy.

#### **PEOPLE'S PARTY PROGRAMME\***

The Party's manifesto states "*The ultimate objectives of the Party policy is the attainment of a classless society which is possible only through socialism in our times.*"<sup>5</sup> (Emphasis added.) The Party stands for the elimination of the feudal system and will take concrete steps in accordance with the established principles of socialism to protect and advance the interests of the peasantry<sup>6</sup>

##### **1. NATIONALIZATION OF INDUSTRIES' :**

In the Public sector will be all basic and key industries. The principal ones are :—

1. Iron and steel
2. Non ferrous metals

\*This has been taken entirely from the People's Party Manifesto to show what is its economic programme.

3. Heavy engineering
4. Machine tools
5. Chemicals
6. Ship building
7. Motor car assembly and manufacture.
8. Equipment for electrical power production, distribution and use.
9. Electronics
10. Production of arms, and ammunition and armaments for defence.
11. Cement
12. Paper.

To these will be added the new industries which must be established to enable the autonomous growth of the national economy. For example, it will be necessary to manufacture agricultural machinery and equipment in Pakistan, and the commonly used hand tools.

*All major industries will be nationalized.* (Emphasis added.) This will mean taking over into the public sector textile and jute mills over a certain production capacity. In private ownership these have been sources of excessive profits, inefficient production, wastage of resources and unhindered exploitation of workers.

In the public sector will be not only the large scale production of electrical power but also all other sources of energy supply namely, nuclear material, gas, oil and coal. All exploitation of mineral wealth, both mining and ore-processing, will be in the public sector.

The public sector will completely contain the following major means of public transports, namely, railways, shipping and airways. It will also take over public road transport, whether of passengers or goods, when it is necessary to run it on a large scale. A special concern will be the conveyance of workers and employees between their homes and their places of work.

Large-scale export trading, such as of jute and cotton, will be conducted by state corporations."

## 2. FINANCIAL MEASURES<sup>8</sup> :

"The possession of money institutions in the hands of private parties is the source of exploitation which uses national wealth and private deposits to create money for the financing of monopoly capitalists. All big industries have been set up entirely on bank loans, which means, on the money

of depositors. Such loans can be said to have been the misappropriation of public money by the bankers. To this sort of abuse which is inherent in any system where banks are in private hands, there has been added the control of banks in cartels belonging to industrialist families. Unless the State takes hold of all the banks by making them national property, it will not be able to check inflation. The State's financial policy is at present a prisoner of the bankers. *All banks and insurance companies will be forthwith nationalised*". (Emphasis added.)

### **Agrarian Reforms** <sup>9</sup>

*"The breaking up of the large estates to destroy the power of the feudal landowners is a national necessity that will have to be carried through by practical measures, of which a ceiling is only a part.* (Emphasis added.) The size of the agricultural estate will be limited by the ceiling, the norm being the ownership of a maximum of 50 to 150 acres of irrigated land, the maximum varying from tract to tract and being determined on the basis of quality of soil, present productivity and the availability of irrigation facilities. For what the estate owner surrenders over and above the prescribed ceiling he will be compensated in the form of a terminable life annuity, with a maximum duration of twenty-five years heritable and negotiable within this period. But the best way is to replace the system of agricultural production in isolated units by the creation of social cooperative farms. The estate owner, after he has surrendered his excess holding, will be eligible, like any other farmer, to join the social cooperative farm of his area.

There are many peasants who possess land less than the subsistence unit and must therefore be regarded as a class from whom land revenue cannot be justifiably demanded.

### **Conclusion**

It is obvious from the above that the Party's economic programme is not only concerned with economic reforms but aims at bringing about basic changes in the existing system. It aims at destroying the power of the capitalists and the feudalists in the country and initiating a process of building socialism. This is to be achieved through far reaching nationalisations in industry and finance on the one hand and drastic land reforms in agriculture on the other.

## PART II

**The Reason for the People's Party's Success in West Pakistan**

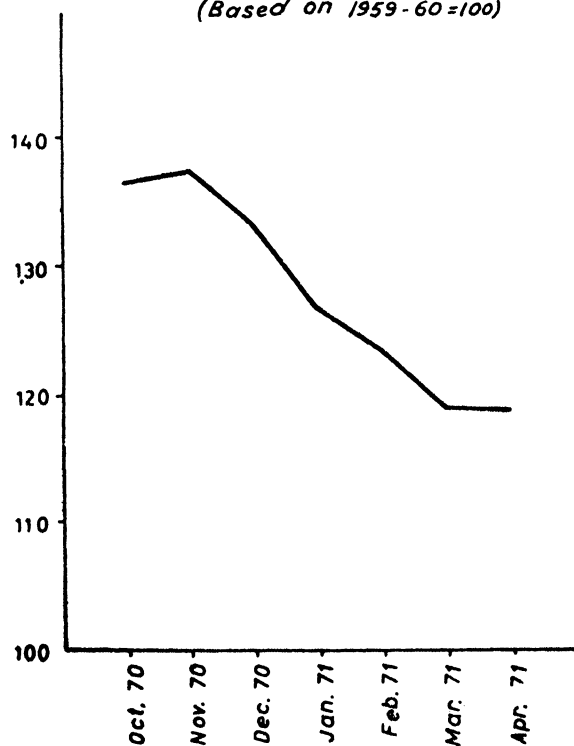
Probably for some time to come it will be a matter of dispute amongst political scientists as to whether the charismatic leadership of Mr. Z.A. Bhutto or the appeal of the party's program was the main cause of its success. However, there is no doubt that both played a very important part in this victory. Without the charisma of Mr. Z.A. Bhutto the message of socialism would not have been able to spread so widely amongst the masses in so short a time. On the other hand without the mass appeal of the People's Party program its success could never have been so overwhelming. It is important to keep this in mind and one must not over emphasise the role of charismatic leadership. If this had been the only factor it should have been equally effective in all areas. However, we find that the success of the People's Party is mostly restricted to the relatively advanced areas of West Pakistan. This indicates that only in those areas where the people could understand the party's program and think it feasible did the party receive massive support. While on the other hand in the backward areas where the feudalist hold is still very strong and the people could not comprehend the feasibility of the program the party did not achieve such success. This means that considerable expectations have been aroused amongst the people and those who voted for the People's Party expect it to fulfil its promises.

**Reaction amongst the Capitalists**

Although the rightist press and political parties have consistently maintained that the People's Party has no intentions of fulfilling its promises yet apparently they did not believe in their own propoganda. An idea of this can be had from the actions of the landlords and the capitalists immediately after the election results. The landlords have tried to sell or transfer land and also have ejected the tenants for the fear that they would lose it in the land reforms. Similarly the stock market which is an index of the capitalists expectations declined sharply. It was only slightly revived at the time of military action in East Pakistan in March 1971 when hopes were revived that the power would not be transferred to the people's representatives (See figures).

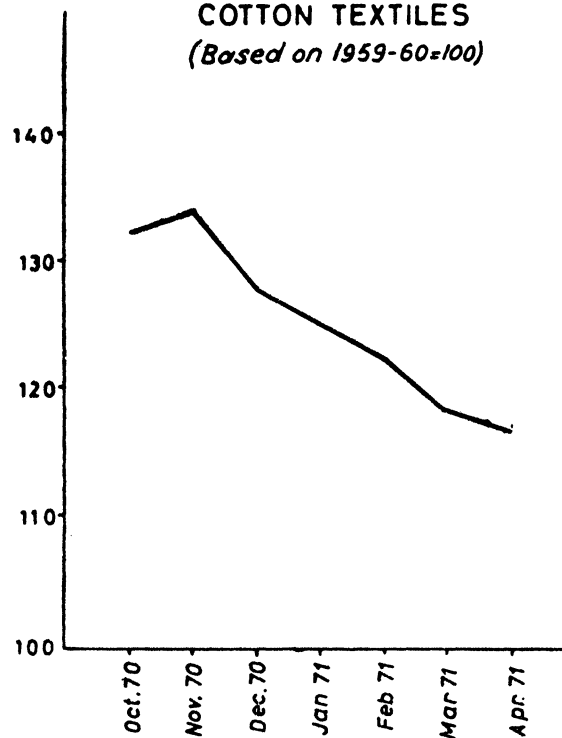
### GENERAL INDEX OF SHARE-PRICES

(Based on 1959-60=100)



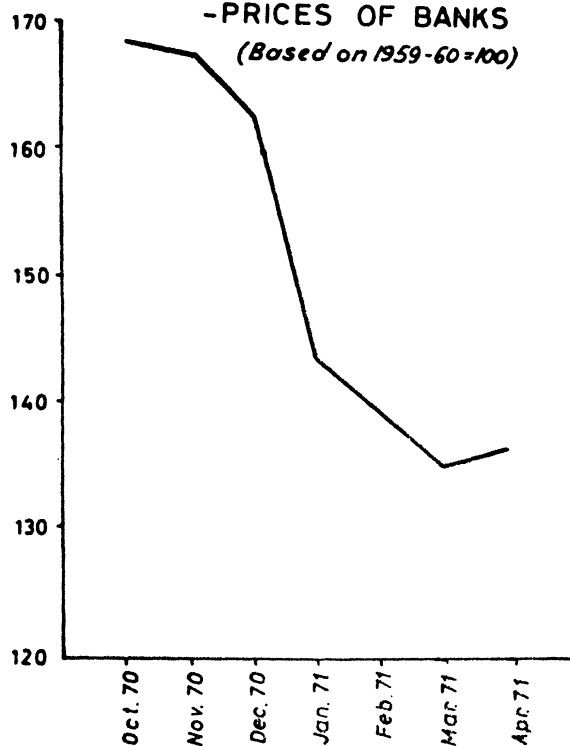
### SHARE PRICES INDEX OF COTTON TEXTILES

(Based on 1959-60=100)



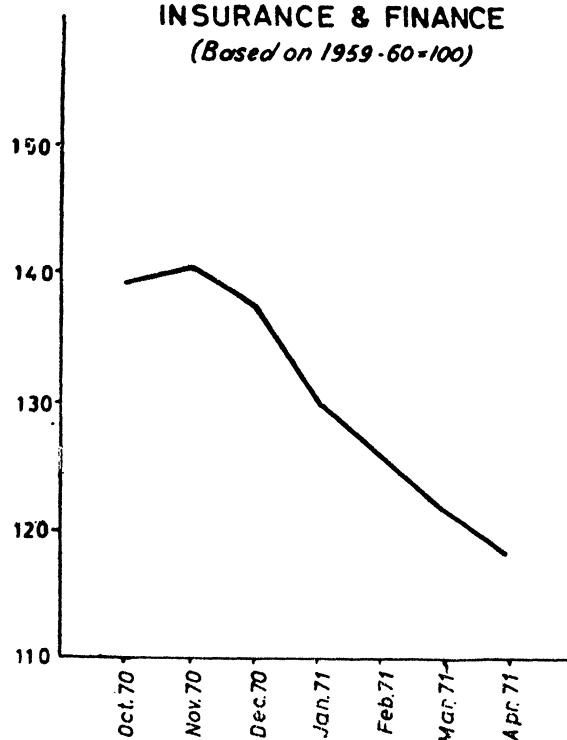
### GENERAL INDEX OF SHARE -PRICES OF BANKS

(Based on 1959-60=100)



### SHARE PRICES INDEX OF INSURANCE & FINANCE

(Based on 1959-60=100)



(Source : Monthly Statistical Bulletin November '72 C.S.O. Karachi)

Diagrams by Abdul Raof.



### **Impact on the People**

The election campaign in 1970 and the victory of the People's Party has had a tremendous impact on the thinking of the people. For the first time in the rural areas the people participated in mass political activity against their age old oppressors. Their victory made them aware that the landlord and his supporters could be defeated. This has opened entirely new possibilities for the oppressed peasantry and landless labour. The result is that besides the increased expectations there is also a new spirit of self-confidence amongst them and this will be of great consequence for the future especially if their expectations are not fulfilled.

Although the visible impact in the rural areas has been far greater, because of the previous backwardness, there has also been an important change in urban areas especially amongst the working class. Until now the workers had been involved only in "Trade Union" activities. For the first time in 1970 workers began to participate increasingly in political activities, and the year was marked with a mammoth 'May Day' procession and numerous meetings for purely political purposes. This change reached a climax with a two day takeover of all the large factories in Lyallpur, in March 1971, for political demands on the call of the People's Party. There has been a great increase in their political awareness and recently whenever the workers have protested they have done so not by strikes and walkouts but by taking over the factory and running it on their own.

All this indicates that the present government is now faced with a politically conscious and active population, who will be much more difficult to satisfy than they were in the past.

### **Limitations of the Party and its implications**

The basic limitation of the party is the lack of well disciplined organization and the class content of its leadership. The reasons for the former is not only that the party has been in existence for just four years, but more important that not enough attention has been paid to building up its organization on proper lines. At the same time because of its success all sorts of opportunist elements have joined it and now exercise considerable influence in it.

This has serious implications regarding the future policies. The opportunist elements who have joined the party for personal motives will try to sidetrack the basic reforms and will advocate a policy of gradualism

so as to safeguard their own interests. Similar advice will be forthcoming from the existing bureaucracy, which the party will probably rely on because of the weaknesses in its own organization.

### PART III\*

Before we outline the possible paths open to the People's Party we would like to make clear some of the difficulties involved in trying to bring about socialism without first undertaking fundamental changes in the economic system.

The first and most important difficulty has been very clearly expressed by Oskar Lange who points out that "An economic system based on private enterprise and private property of the means of production can work only as long as the security of private property and of income derived from property and from enterprise is maintained. The very existence of a government bent on introducing socialism is a constant threat to this security. Therefore, the economy cannot function under a socialist government unless the government is socialist in name only. If the socialist government socialises the heavy industry today and declares that the textile industry is going to be socialized after five years, we can be quite certain that the textile industry will be ruined before it will be socialized. For the owners threatened with expropriation have no inducement to make the necessary investments and improvements and to manage them efficiently. And no government supervision or administrative measures can cope effectively with the passive resistance and sabotage of the owners and managers.

A socialist government really intent upon socialism has to decide to carry out its socialisation program at one stroke, or to give it up altogether. The very coming into power of such a government must cause a financial panic and economic collapse. Therefore, the socialist government must either guarantee the immunity of private property and private enterprise in order to enable the capitalist economy to function normally in doing which it gives up its socialist aims, or it must go through resolutely with its socialisation program at maximum speed. Any hesitation, any vacillation and indecision would provoke the inevitable economic catastrophe. Socialism is not an economic policy for the timid."<sup>10</sup>

\*In this part we have relied considerably on the article "Peaceful Transition to Socialism?" by the Editors, *Monthly Review*, January 1971.

Secondly, as the socialist government comes to power it inherits the state apparatus of the past. This state apparatus is there to serve the interests of the capitalist and feudal classes. The members of the bureaucracy have links with the vested interests. The legal system, the police in fact the entire government structure is there to look after the interests of the privileged classes. If the socialist government tries to work within this structure and uses this apparatus to bring about its reforms it will find that the reforms will be sabotaged at every step and unnecessary difficulties created in every way. Therefore, a socialist government coming to power must immediately destroy the source of power of the existing privileged classes and this obviously can only be done by nationalising the big industries and redistribution of land. Only when this source of power has been effectively done away with the socialist government can be saved from sabotage by the state apparatus which it inherits.

We must, therefore, conclude that short term changes are neither feasible nor possible for the socialist government to bring about until it is fully resolved to completely change the basic socio-economic structure. And that the government would face considerable difficulty in making short term reforms without changing the system.

### **Alternative Policies**

The new government has taken office on a programme which is a standing threat to the existing economic system and to the vested interests. The government therefore has two simple choices. Either it should act on its programme in such a way as to try to gain effective control over the economy and lay the basis of socialism or to retreat from its programme and adopt policies compatible with interests of the feudalists, capitalists and imperialists.

As regard to the first alternative it would mean implementing fully the party's programme of introducing radical land reforms in the agriculture sector and far reaching nationalization in the industrial sector. The vested interests, however, will not give up their power without a struggle and here the party will find that its two major shortcomings *i.e.* lack of party organization and the class content of its leadership acting as an important barrier in its efforts to implement these reforms.

No successful land reform can be implemented through the present bureaucratic structure with the feudal interest dominating the party leader-

ship in the rural areas. In the industrial sector the old owners and managers will fight against any attempt on the part of the government to impose policies on them which they consider contrary to their interests. If the government tries to counter this by taking over the industries and relies on the bureaucracy or the "bourgeois" managerial class it will hardly make any real difference in the industrial sector.

The only way the government can be successful in implementing its manifesto is by putting itself at the head of a great mass movement against feudalism, monopoly capitalism and imperialism. Only under the impetus of such a mass movement, embracing the majority of the population, will it be able to carry out a bold programme of socialisation. This in concrete terms would mean the setting up and strengthening the present organizational structure of the party to grass root levels. With the leadership at all levels in hands of the exploited people and reform being carried out through peasant committees and cooperative farming being organized by them. In the industrial sector it can be done only with workers participation and control of the nationalized industries and the replacing of the market mechanism by a centrally planned economy.

The second alternative for the party would be to "retreat" from its programme. By this we do not mean anything as simple as formal abandonment in whole or in part. What we do mean is that the programme is interpreted and implemented in such a way as to make the feudualists and capitalists (both domestic and foreign) to believe that the basic framework would not be destroyed. The party could carry out reforms such as nationalization of the insignificant heavy industrial sector and agrarian reforms on the line of Ayub Khan's regime.

The programme of retreat can consist of three parts :—

- (1) Pressing forward with reforms acceptable to the vested interests
- (2) postponing structural changes unacceptable to the vested interests.
- (3) Starting a short run programme to rehabilitate the economy supported by large amounts of foreign aid. For example what the government can do is to bring about minimum amount of nationalization and land reforms keeping the overall system intact and putting forward the reason that given the extreme nature of the present economic and political crises it must move slowly.

The success of such measures depends, however, on how successful

the government is in satisfying the people on the one hand and of convincing the vested interests on the other, that it will ensure its basic existence. If the vested interests still fail to cooperate with the government in making limited economic reforms then it would be forced into taking a definite position. Either it would have to make an alliance with the vested interests and give up its programme of socialism altogether, or it would be forced to move in the other direction completely socialising the economy.

### Conclusion

Thus we can see that the government has two options open to it. It can either bring about limited economic reforms, with the cooperation of the vested interests or it can undertake fundamental and far reaching changes in the economic system and begin the construction of socialism. However, it must be kept in mind that the problems of the masses are very acute. While, at the moment, the People's Party government enjoys almost the complete support of the people yet they will not be prepared to accept the continuation of the status quo for very long. The very forces which the People's Party has generated amongst the masses leaves it with very little room for manoeuvre.

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