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Abstract

Contrary to neoclassical political economic assumptions, this paper argues that the processes of post-colonial development are embedded within conflict across class lines, and that the state has a central role in mediating these conflicts. In other terms, post-colonial capitalist development immanently produces winners and losers in a society. The Marxian-institutional framework is employed to capture the interplay of class forces and institutions in mediating development outcomes. In addition to formal institutions, this paper also acknowledges the centrality of informal institutions in mutually determining development outcomes in post-colonial societies. For an empirical case study, this paper looks at the historical evolution of Pakistan's economy since its inception in 1947. The post-colonial development in Pakistan is divided into five distinct regimes of growth and distribution. This paper delineates the modalities of interplay between social classes and institutions in mediating processes of post-colonial development in Pakistan.

Keywords: Growth and Distribution, Economic History, Pakistan, Post-Colonial State and Class Analysis.

1 Introduction

According to neoclassical political economy, 'real' conflict never takes place among 'rational' economic agents except when the state intervenes into the economy (Vahabi, 2009). But in reality, capitalist economic development is embedded within conflict because it requires the reallocation of resources from low to high productivity areas of the economy, and these processes of reallocation in turn tend to create conflict in a society (McCartney, 2011:4). For example, urbanization and/or industrialization may result in the dispossession of people from their land and livelihoods[i] (see Lodhi, 2010; Sanyal, 2007). The manifestation of conflict can be across class, caste, ethnicity, gender and/or regional lines. The collective action and organizational capacity of different classes and factions within a society determine the distributive dynamics of the processes of development (Boddy and Crotty, 1975; Khan, 2000; Folbre, 1982). This inherent conflict in processes of capitalist economic development is muted in neoclassical economic analyses (Vahabi, 2009). Moreover, neoclassical political economy assumes that state intervention in the economy creates rents, and to acquire these rents, economic agents participate in unproductive rent-seeking activities. To avoid this unproductive behavior, economy should be protected from state intervention (Srinivasan, 1985). While when impersonal market competition among economic agents prevails, it yields an efficient outcome for the whole society (McCartney, 2011:4). The neoclassical route to economic development advocates development of market forces and withdrawal of state from the economic sphere, which is manifested in a neoliberal economic policy package (see Vakulabharanam, 2009). Since the 1980s, international financial institutions in post-colonial economies have religiously espoused neoliberal economic policies (Das, 2015). It is important to point out that the impoverishment of working people has increased and socio-economic inequalities have worsened due to these policies (Das, 2015; Munir, Naqavi and Usman, 2015). In sharp contrast to neoclassical policy advice, in the actual experiences of countries, the state had a major role to play in the economic development of both early and late[ii] industrializers (Chang, 2010). Contrary to neoclassical economics, heterodox political economic frameworks (institutional, feminist and Marxian) highlight embedded conflicts within capitalist development and acknowledge the role of the state in processes of economic development (see Vakulabharanam, 2014; Khan, 2000; Folbre, 1982). This paper draws from this heterodox political economic tradition of Marxian-institutional literature to conceptualize processes of economic development in the post-colonial state of Pakistan.

The literature on the developmental state argues that the role of the state is central to the processes of economic development. The state has the ability to minimize the conflict and expand benefits of development across society by mediating between different classes (Chang, 2010). Wade and Veneroso (1998) argued that the key role of a developmental state is to guarantee access to credit to productive capitalists. Amsden (1989) argued that setting up a correct regime of subsidies for firms based on their economic performance is the most important characteristic of a developmental state. The major puzzle that development state literature is unable to address is why countries like Pakistan, which implemented very similar economic policies to East Asian countries, diverged significantly in terms of their development outcomes (Easterly, 2001). The 'political settlement' framework forwarded by Khan (2010) can help us resolve this puzzle. Khan (2010) argued that in post-colonial societies, it is a combination of formal institutions[iii], informal institutions[iv] and the given distribution of power among social classes that plays a central role in mediating processes and outcomes of economic development. In other words, political settlement is an equilibrium condition where an institutional structure "creates benefits for different classes and groups in line with their relative power" (Khan, 2010: 20). The role of informal institutions becomes crucial whenever there is a mismatch between formal institutions and the existing distribution of power within a society. Powerful classes use informal institutions to accrue benefits for themselves. This is the case in most post-colonial societies, including Pakistan (see Khan, 2000, 2010).

Pakistan's economic trajectory is a unique case study because despite consistent economic growth over the years, Pakistan does much worse on social indicators than other countries at the same income level (Easterly, 2001). This divergence is explained by elite capture in Pakistan (Gardezi, 1998; Cheema, 2003). Elite capture needs to be contextualized in terms of the intersection between social classes, informal institutions and the post-colonial state. The post-colonial state can only be understood in the context of the colonial state and the colonial political economy. Colonialism divided state and society across ethnic, religious and regional lines in the Indian sub-continent and these differences continue to reproduce in the post-colonial period (Mamdani, 2012; Alavi, 1971, 1991). One of the legacies of colonialism that Pakistan inherited is the over-developed post-colonial state (Alavi, 1972). That is, civil-military bureaucracies are highly organized, powerful and autonomous vis-à-vis the rest of the society[v] (Alavi, 1972, 1981). Taken together, the civil-bureaucracy and the military "directly appropriates a very large part of the economic surplus and deploys it in bureaucratically directed economic activity in the name of promoting development" (Alavi, 1972: 62). Alavi[vi] (1972) was a major departure from canonical Marxist theories of the state, where the role of the state was reduced to a mere tool in the hands of ruling classes (Khan, 2016). Akhtar (2014, 2010) builds on Alavi (1972) and emphasizes the role of politics and ideology in shaping the character of the post-colonial state of Pakistan. Different classes have competed with each other to exert their influence over the post-colonial state throughout the history of Pakistan (see Hassan, 2010; Niazi, 2004; Cheema, 2003; Hussain, 1999; Gardezi, 1998). Since the 1980s, new classes (intermediate classes such as professionals, and traders in urban spaces) and institutions (judiciary, media and Islamist clergy) have enhanced their influence over the state (Akhtar, 2014). In the light of these changes, Zaidi (2014) argued that the role of institutions is central to understanding the dynamics of contemporary post-colonial Pakistan. Khan (2018) forwarded the notion of uneven state spatiality[vii] to explain divergent development outcomes within post-colonial Pakistan. While building on this critical strand of political economic literature, this paper asks the following question: How has the processes of economic development been mediated by the interplay of institutions and social classes in Pakistan? To address this question, this paper brings together insights from both institutional and Marxian frameworks by paying close attention to the interplay of formal institutions (government policies, laws and regulations) and informal institutions (political clientelistic networks) and the power structure (organizational capacity and political power of different classes) in mediating development outcomes in Pakistan.

Historical analysis of Pakistan's economy is necessary to address the above question. The existing political economic literature periodizes historical evolution of Pakistan's economy based on civilian versus military regimes, or on the duration of the person in the executive (President or Prime Minister) office (see Khan, 2011; Hussain, 2004; Noman, 1988). This paper opted another approach - an analytical yardstick to periodize economic development in Pakistan. McCartney (2011) used this approach to divide Pakistan's historical economic development into periods of growth and stagnation. McCartney's (2011) approach is insightful but it does not capture the dynamic interplay between classes and institutions. Moreover, it primarily focuses on formal institutions. Vakulabharanam and De (2016) used a notion of regimes (periods) of growth and distribution to capture the dynamic interplay between state and society in mediating development outcomes for post-colonial India. This paper draws from Vakulabharanam and De (2016) for the study of Pakistan's development trajectory. This approach allows us to identify five distinct periods (regimes) of growth and distribution in Pakistan. It is argued that each regime, due to its idiosyncratic growth and distributional dynamics, produced a unique set of economic crises and class conflicts and a new regime replaced the old one to temporarily resolve these crises. This dynamic process explains the historical evolution of post-colonial development in Pakistan. This paper offers an ex-post analysis and does not claim to predict dynamics of future regimes in Pakistan. The rest of the paper is structured as follows. Section 2 delineates the empirical strategy to identify regimes of growth and distribution. Section 3 provides a detail analysis of periods (regimes) of growth and distribution in the context of the post-colonial state of Pakistan from the period 1947 to 2016. Section 4 offers a conclusion.

2 Empirical Strategy and Data

Growth is measured in terms of total aggregate demand in the economy. That is, private consumption (C), government expenditures (G), investment (I), exports (X) have a positive effect on aggregate demand, while imports (M) have a negative effect on it (Kotz and Zhu, 2011). The contribution share of each component of the aggregate demand is measured as the rate of change in that component (e.g. C, G, I, X, M) divided by the rate of change in the total output (GDP) in the given time, multiplied by hundred. For example, the equation (1) shows how the contribution share of consumption is calculated:

$$\frac{\left[\left(\frac{\Delta C}{C}\right) * \left(\frac{C}{Y}\right)\right]}{\frac{\Delta Y}{Y}} * 100 - - - - - (1)$$

How is one period differentiated from the other? By drawing from Vakulabharanam and De (2016), a component of GDP would be classified as a driver of growth in a period if it satisfies either of the following two conditions: i) the growth rate of component is faster than the growth rate of the GDP; or ii) the contribution share of component is large enough so that it has a significant impact on the GDP growth. Based on this criterion, different periods (regimes) of growth and distribution are identified. This paper uses World Development Indicator (The World Bank) data to measure the drivers of growth in Pakistan’s economy. Unfortunately, data for years

1947-1959 is not available in terms of all the required variables, and for that time period, secondary sources are used to develop an aggregate picture of the economic situation. For distribution, Gini coefficient calculations by Anwar (2005) and the author's own calculations are employed, while using Pakistan's Household Integrated Economic Survey (HIES) data.

3 Periods of Growth and Distribution in the Cost-colonial State of Pakistan

I (a) Planned Capitalist Development Based on Import Substitution Policies: (1947-1958)

Understanding the colonial context in which the post-colonial state of Pakistan has emerged is quintessential to appraising the economic policies it undertook in the aftermath of independence. Prior to independence in August 1947, the British colonial state in the Indian sub-continent was primarily interested in extracting economic surplus in the form of raw commodities to feed manufacturing in the United Kingdom (Azhar, 2016). That is why industries were mainly established around large ports. In the context of the global capitalist system, the role of the Indian sub-continent was restricted to a peripheral territory that served the economic and political interests of the core, the United Kingdom. But if we bring down our scale of analysis from global to national (the colonial state of India), then we can observe the same dynamics of core and periphery playing out within the Indian sub-continent. With the exception of Karachi, all large ports came under the post-colonial state of India and most of the territory that came under Pakistan had a role of a periphery within the British colonial state of India (Ali, 2002: 44-45). For example, the supply of raw jute used to go from East Bengal, which came under post-colonial state of Pakistan, to the jute industry of West Bengal that subsequently became a part of the post-colonial state of India (Ali and Malik, 2009: 37-38). The size of the industrial sector in general and large-scale industry in particular was very small in the newly independent state of

Pakistan (Ali, 2004). It is in this context, the first Industrial Policy Document of Pakistan in 1947 emphasized the need of building an industrial base, by opting for import substitution economic policies (Noman, 1988:15).

The post-colonial state played a proactive role in expediting the processes of industrial development by setting up formal institutions like the Pakistan Industrial Development Corporation (PIDC) in 1952. At the beginning of the 1950s, the share of manufacturing in the total GDP was 6.4 per cent and it increased to around 10 per cent by the end of the decade (Kemal et al. 2006: 273). The share of agriculture was reduced from 60 to 45 per cent of the GDP by end of the 1950s (Griffin and Khan, 1972: 3). Similarly, the share of agriculture in total employment was reduced from 70 per cent to 59 per cent, and the total share of agriculture in exports was reduced from 80 to 70 per cent by late the 1950s (McCartney, 2011:42). By the end of the decade, most of the consumer goods were produced by domestic industries. But capital-intensive goods, such as machinery, were still imported (ibid). The average GDP growth rate was 3 per cent per year under this regime and per capita growth rate was 1 per cent per year (McCartney, 2011:41).

I (b) Dynamics of Distribution and Crises

The primary beneficiary of the policies pursued by this regime was the industrialist class (Noman, 1988:20). The industrialist class used formal and informal institutions to accrue economic benefits for themselves. For example, the role of PIDC (the formal institution set up by the post-colonial state) was to raise capital and initiate new industrial projects. But once these new industrial projects were set up, PIDC gave their operations to the private sector, based on political networks (an informal institution) that existed between state functionaries (civil bureaucracy) and the emerging capitalist class from the colonial period (ibid, Ali and Malik, 2009: 40). Here, we can see in action the interplay of formal and informal institutions mediating processes of economic development to serve the interest of industrialist class (see Khan, 2010). This 'political settlement' between the post-colonial state and the capitalist (industrialist) class meant that the latter received preferential treatment (tax exemptions etc.) from the former. For example, a policy instrument (formal institution) used by the post-colonial state to benefit the capitalist industrialist class was inflation of the rupee (local currency) during the Korean War to boost industrial development [viii] (Noman, 1988:16). One of the side effects of this policy was that exports that were primarily agricultural commodities were negatively affected. These economic policies had a clear implication on the dynamics of distribution at a sectoral level: economic surplus was transferred from agriculture to industry. That explains why agricultural output remained stagnated through this regime, and later in the decade, this became a major constraint on the industrial growth of the economy as well. But it is important to point out here that industry or agriculture do not represent a singular class interest because different classes compete within industry and agriculture (Boddy and Crotty, 1975). For example, within the industrial sector, the economic position of workers did not improve despite growth in manufacturing. In fact, average real wage of an industrial worker decreased by 3 per cent from 1954 to 1958 (Noman, 1988: 20).

Although the agriculture sector at an aggregate level did not do well in this period, large landholders did quite well in protecting their strategic class interests. For example, while, redistributive land reforms were undertaken during this time period in neighboring India, in Pakistan, large landholders were successful in avoiding land reforms. This can be explained due to their strong historical networks with state institutions that date back to the colonial period (Ali, 2002). On the other hand, small and landless peasants saw decline of six per cent in their real income during this period (Noman, 1988:19).

Another key aspect of distribution was the growing regional inequities within the post-colonial state of Pakistan. The economic disparity between East Pakistan (current Bangladesh) and West Pakistan (current Pakistan) increased under this regime. The per capita income of West Pakistan was 17 per cent higher vis-à-vis East Pakistan in 1949, and this gap increased to 32 per cent by 1958 (Griffin and Khan, 1972: 3). Again a key explanation of this is rooted in the interplay of formal and informal institutions. Most of the civil-military bureaucracies in the post-colonial state of Pakistan came from Punjab and Urdu speaking migrants from Uttar Pardesh (Alavi, 1971), who played a central role in allocating state resources. But social classes in East Pakistan did not share similar levels and types of political networks with state functionaries as compared to their counterparts in West Pakistan (Ali, 2004: 37; Khan, 2018). This illustrated that the regional/ethnic origin of state functionaries (informal institutional networks) played an important role in influencing development outcomes in post-colonial Pakistan.

The dynamics of growth and distribution discussed above had an impact on the processes of capital accumulation. Due to stagnation in the agricultural growth, import bills steadily increased due to high levels of food imports. The percentage share of food grains and flour in total imports was only 0.5 per cent in 1952 but it jumped up to 14.6 per cent in 1959 (Hussain, 1980:16). By 1957-58, 20 per cent of wheat consumption (wheat being the most popular staple diet in Pakistan) was met by imports (Hasan, 1998: 100). The imports of food grains comprised more than 25 per cent of the total imports of the country by 1957-58 (Hasan, 1998: 105). As a result, scarce foreign exchange resources that were supposed to be utilized for imports of capital-intensive goods to fuel industrialization were instead used for import of food commodities (Noman, 1988:18). This resulted in decline in the growth of the manufacturing sector. From 1956 to 1958, the growth of the manufacturing sector reduced by 6.5 per cent (Kemal et al, 2004: 296). The balance of payments fell by negative 293 per cent in a short span of three years from 1955 to 1958 (Kemal & et al, 2006: 296). Collectively, these factors meant that this regime of growth and distribution could not sustain smooth accumulation of capital and had to be replaced.

II (a) Industrialization and Green revolution (1959-71)

In this period, the average rate of economic growth was 6.4 per cent per year (see Table 1) and the average per capita growth rate was 3.3 per cent per year. The average percentage growth rate per year of private consumption (C), government expenditures (G), investment (I), exports (X), and (M) imports were 7.7, 11.9, 14.5, 7.5, and 5.7 respectively. The percentage contribution shares of C, G, I, X and M were 90, 16, 68, 12 and 51 respectively (see Table 1). The growth rates of investment and contribution share of private consumption were higher than the rest. We can therefore identify private consumption and investment as the main drivers of growth in this regime (period).

To address economic bottlenecks, this regime[ix] prioritized development of the agricultural sector through improvement in its productivity. The government of Pakistan hired a group of Harvard economists and land reforms were undertaken in 1959 (Hussain, 1989). The historical networks between the civil bureaucracy and large landholders allowed the latter to minimize the impact of land reforms by allowing intra-family transfers of land (Ali, 2002). These land reforms failed to curtail the monopsony power of large landowners in agricultural markets, because land ceilings were kept high and necessary institutional reforms in credit and product markets were not implemented (Hussain, 1989: 64; Griffin, Khan and Ickowitz, 2002). Interestingly, emphasis on land reforms substantially withered away as soon as 'Green Revolution' technologies were introduced in Pakistan in early 1960s, given growth rather than equity was the motive for land reforms. The introduction of high-yielding varieties (HYV) of rice and wheat increased the agricultural output by 4.1 per cent during this period (Hussain, 1999: 15).

Another major economic concern for this regime was the depletion of foreign exchange reserves. To improve the state of foreign reserves, this regime introduced the Export Bonus System (EBS) to increase exports (Hussain, 1999:17). But informal networks between state functionaries and social classes exploited this policy to extract rents for themselves. For example, exporters, instead of using these vouchers, sold them to importers at up to 180 per cent more than their face value through informal means (Hussian, 2004: 72). As a result, a small segment of business elites (exporters) amassed huge sums of profit and the economy's reliance on foreign aid increased as foreign reserves did not increase (Rahim, 2001). By 1965, the foreign aid inflows were 624 per cent more than what they were in 1955 (Hussian, 2004:74). This was accompanied by another important structural shift in the nature of aid inflows. In the 1950s, aid was given as grants, whereas in 1960s, it came in the form of interest loans (ibid.). As a result, the share of debt servicing as a percentage of foreign exchange earnings increased by 26 per cent by the end of 1960s as compared to the beginning of the decade (ibid.).

The relationship between state functionaries and economic elites was further cemented during this period. To incentivize private investment in industry, this state followed the dominant economic mantra of the time: 'functional inequality for growth' (Ali, 2002). It was argued that marginal propensity to save is higher among rich households. Therefore, the state should use its policy instruments to redirect income from low-saving groups to high-saving groups. The targeted national savings rate was set at 25 per cent of the GDP, but in reality it never exceeded more than 12 per cent of the GDP (Griffin and Khan, 1972:133). One of the main reasons behind low saving rates was that high income groups engaged in Veblen's conspicuous consumption rather than in productive investments (ibid: 141-42). But despite this, policies of functional inequality continued throughout this regime.

II (b) Dynamics of Distribution and Crises

The economic policies under this regime favored large landholders and industrial capitalists at the expense of landless, small peasants and working classes. Albeit domestic terms of trade improved for agriculture as compared to 1950s especially after introduction of green revolution technologies but the benefits were mainly accrued by large landholders (Niazi, 2004: 242). Land reforms were ineffective to empower landless and small peasants because large landholders used intra-family transfers to keep land within their families (ibid). In fact, impoverishment of small peasants increased due to introduction of green revolution technologies, as large landowners moved away from sharecropping to hiring wage labor (ibid). As a result, farmed area for landless, small and medium size peasants declined throughout the 1960s and 0.8 million erstwhile tenants became landless (Hussain, 2004: 77). Similarly, in urban and industrial sectors, the rapid concentration and centralization of wealth took place (Griffin and Khan, 1972). Forty three business families owned most of the large manufacturing industries and insurance companies in Pakistan (Hussain, 2004:75; Ali and Malik, 2009:41). PIDC was under the complete influence of these business families (Hussain, 2004: 75). The seven families owned banks that had 92 per cent of all domestic deposits and 84 per cent of earning assets in Pakistan (ibid.). On the other hand, real wages of workers during this period in the industrial sector declined by 12 per cent and 19 per cent in West and East Pakistan, respectively (ibid.: 76).

As shown in Figure 7, the Gini coefficient increased during 1963-64 to 1966-67 from 0.37 to 0.41 for urban areas but declined from 0.35 to 0.31 for rural areas (Anwar, 2005). The decline in the rural Gini coefficient can be explained by the fact that landless and small peasants moved to urban centers in the aftermath of the green revolution, due to push factors (Hassan, 2010; Siddiqi, 1989). Economic disparity between East Pakistan and West Pakistan also increased substantially in this period. The per capita income in East Pakistan was 45 per cent less than West Pakistan in 1965 and this gap increased to 61 per cent by 1969 (Noman, 1988: 41).

These dynamics of growth and distribution manifested themselves in a new form of economic crisis. As mentioned above, household consumption and private investment were among the main drivers of growth in this regime. But as the concentration of wealth kept increasing, the real wages of working people stagnated and even declined. The growth of household consumption fell to 1.4 per cent in 1968-69. This was accompanied by stagnation in investments. On the other hand, the rapid increase in disparities across socio-economic and regional lines created mass resentment against political and economic elites. This anger was channeled in the sudden rise of the left-wing populist Pakistan People's Party (PPP) and succession of East Pakistan (creation of Bangladesh) from West Pakistan in 1971. This regime could not sustain the processes of capital accumulation and a new regime had to replace it.

III (a) Social Democracy and Hegemony of Landed Elites (1972-77)

The average GDP growth rate during this period was 4.02 per cent per year. The average percentage growth rate per year of consumption, government expenditures, investment, exports, and imports were 4.4, 9.0, 7.9, 4.5, and 4.2 respectively (see Table 1). The percentage contribution share of consumption, government expenditures, investment, exports, and imports were 58, 20, 42, 8.8, and 34 respectively (see Table 1). The growth rate of government expenditure was the highest during this regime with 8.8 per cent per year, and its contribution share also increased to 20 per cent. The contribution share of consumption remained the highest at 58 per cent. We can therefore argue that government expenditures and consumption were the two main drivers of growth during this regime.

The political economic situation created by the policies of previous regime meant that there was a massive pressure from below to undertake redistributive policy measures. It is in this context that the land reforms of 1972 were undertaken. Although land ceilings were lowered as compared to the 1959 land reforms – 150 acres for irrigated and 300 acres for un-irrigated land for an individual – these ceilings were still very high in the regional context (Noman, 1988: 93). Large landholders used intra-family transfers (an informal institution) to keep land under their de facto control. It is estimated that only 1 per cent of the landless and small peasants benefited from these land reforms (ibid: 94). As a consequence, the dynamics of rural markets did not change even after these land reforms. Here again, we saw the dynamic interplay of formal institutions, informal institutions and class power mediating agrarian markets in the post-colonial Pakistan.

In the industrial sector, this regime undertook nationalization[x] of industry in two different phases. The first phase started in 1972, led by leftist elements within the ruling party PPP. Forty three large capital and intermediate goods industrial units were nationalized on the pretext of equity and efficiency (Ali and Malik, 2009). This was accompanied by the nationalization of private banks and insurance companies (Hussain, 1999:23). As expected, panic spread among medium and even small scale enterprises. To calm down the situation, the government officially announced that it would not nationalize medium and small size industries (Hussian, 2004:78). But contrary to its earlier claims, the government undertook selective nationalization of medium and small size industrial units in 1976 in the second wave of nationalization (ibid.). The second phase of nationalization was merely used as a tool to punish political opponents of the government. Throughout the nationalization process, the existing formal and informal networks between state functionaries[xi] (civil bureaucracies), politicians and industrial classes played a significant role in determining which enterprises would be nationalized and which would be left alone (Noman, 1988:79).

III (b) Dynamics of Distribution and Crises

The large landholders in the Sindh province were the main beneficiaries of this regime. This period can also be seen as a resurgence of the agrarian landed elite against the urbanized bourgeoisie (Ali, 2002). The chairman of PPP and Prime Minister of Pakistan during this period, Zulfiqar Ali Bhutto, also hailed from a feudal family of Sindh province. Most of the large landholders of Sindh allied with the PPP government and they consolidated their political and economic power. The socio-economic conditions of working classes in urban centers improved as labor unions were allowed to bargain collectively and the minimum wage was introduced (ibid.). Two of the most pronounced redistributive (social democratic) programs of this regime were the National Development Volunteer Program (NDVP) and the Peoples Work Programme (PWP). Both were introduced to provide mass employment to unskilled labor (Hussain, 1989: 82). But due to an ever-rising fiscal deficit, the government was not able to allocate sufficient funds to sustain these programs (Ahmed and Amjad, 1984: 98). The policies of this regime were most detrimental to the urban industrialist classes, due to appropriation of their productive assets.

Private investment plummeted in response to nationalization. To compensate decline in private investment, this regime increased public sector investment. But industries, which were nationalized, incurred huge losses due to mismanagement (over staffing) and lower productivity

(Ahmed and Amjad, 1984:98). One option for government was to reduce high defense expenditures, but instead, this government withdrew subsidies on consumption goods to avoid the rise in fiscal deficit. Moreover, the currency was devalued, which resulted in inflationary pressure (Ahmed and Amjad, 1984: 93). As a result, the working and middle classes felt a major squeeze on their real incomes (ibid.). The consumption of working and middle income groups declined, resulting in the further deepening of the economic crisis due to decline in aggregate demand (Hussain, 2004: 87). It was therefore not just large industrialists and medium size capitalists and merchants who were disgruntled: the middle classes in cities were also disillusioned by the policies introduced by this regime. As data shows, the Gini coefficient increased from 0.33 in 1971 to 0.37 by 1977-78 (Kemal et al, 2006: 311). In the midst of economic crisis, the opposition parties alleged the PPP government of rigging the general elections in 1977. Thus, when opposition parties started a protest movement against the government, a coalition of multiple classes came together and brought the country to a standstill (Noman, 1988: 81). The internal dynamics of growth and distribution of this regime by 1977 were such that they could not support rapid and smooth accumulation of capital. Push came to shove as the army chief at the time, General Zia ul Haq, seized the opportunity and overthrew an elected government in a military coup.

IV (a) Aid and Remittance Economy (1978-88)

The average GDP growth rate during this period was 6.5 per cent per year. The average percentage growth rate per year of private consumption (C), government expenditures (G), investment (I) , (X) exports, and (M) imports were 5.6, 8.8, 5.5, 10.0, and 3.6 respectively. Their percentage contribution shares were 70, 14.3, 17, 13, and 16 respectively (see Table 1). The contribution share of private consumption and exports increased in this regime vis-à-vis the previous regime. These two are considered the main drivers of growth in this regime.

This regime de-nationalized nationalized industries. To restore investor confidence, this regime also incentivized industrialists by offering cheap credit (Ahmed and Amjad, 1984: 100). The banking sector remained nationalized under this regime and this allowed the government to expand patron-client networks by offering cheap credit to political cronies (Noman, 1988: 163). The budget deficit and debt-servicing improved due to two exogenous shocks to the economy during early 1980s[xii]. Firstly, the United States provided generous aid to combat USSR forces in Afghanistan. Secondly, there was exponential growth in remittances after mass emigration of Pakistani workers to Saudi Arabia and other Gulf countries. Most of these workers came from low and middle-income households, and remittances provided a positive shock to their incomes. Remittances increased by 540 per cent in a short span of six years, from 1978 to 1984 (Hussian, 2004:86). There were twofold benefits of remittances: on the one hand, it resolved the problem of balance of payments, and on the other hand, it increased the consumption of lower and middle income groups. Due to the large inflow of remittances, housing and construction market experienced a rapid growth as the size of middle class increased (Qadeer, 1996: 457). As a result of large-scale overseas migration, workers who remained in Pakistan also experienced increases in their real wages due to temporary shortages of labor in urban centers. Annually, wages of all workers increased at the rate of 7.6 per cent, with the exception of civilian government employees during this period (Noman, 1988: 161). Islamic banking was introduced, with 2.5 per cent Islamic tax ‘Zakat’ on every saving deposit in banks. In response, people preferred to hold real estate and other assets rather than savings[xiii] deposits in banks (ibid: 167). While public spending on the provision of public goods and infrastructure declined, this did not help the government to reduce budget deficit[xiv] as defense expenditures kept on increasing[xv].

IV (b) Dynamics of Distribution and Crises

For the first time in Pakistan, intermediate classes emerged as a major player in the political economy of Pakistan, namely traders, religious clergy[xvi] and temporary overseas migrant workers. The income share of the lowest 20 per cent of households increased by one per cent during this period, mainly due to the inflow of remittances (Kemal et al, 2004: 321). This also reflects in decline of Gini coefficient from 0.37 to 0.35 under this regime (Anwar, 2005). In urban centers, industrial capitalists regained their nationalized enterprises and reacquired their economic power and influence. Overall, all segments of the bourgeoisie (merchant, industrialists, etc.) supported this regime, as they were the beneficiaries of denationalization. But due to the Zia government's refusal to privatize the banking sector, the bourgeoisie associated with financial capital felt betrayed. They preferred privatization and deregulation of the financial sector in line with the economic changes of flexible accumulation that were taking place in the global north (Harvey, 1987). Moreover, for the first time at the large scale, industrial and merchant (traders) capitalists actively involved themselves in the political processes (by contesting elections and by assuming political offices) to minimize their reliance on civil-military bureaucracies to protect their economic interests[xvii] (Cheema, 2003).

The reliance on remittances meant that the economy was highly volatile. The remittances started to stagnate as Saudi Arabia and other Gulf countries diversified their migrant labor force by bringing workers from other countries as well (Noman, 1988:175). Moreover, with the defeat of the USSR in Afghanistan, the inflow of generous US aid also declined. When these two factors were combined together, they resulted in the manifestation of two major economic challenges:

the balance of payment crisis and the reduced growth of private consumption[xviii]. As a result, the internal dynamics of growth and distribution could not further support the rapid accumulation of capital. Moreover, there was a qualitative shift in the accumulation regime at the global level at this period of time. The new economic mantra that started to gain currency was that the government should reduce its role in the economy to resolve fiscal crises and promote growth (Harvey, 1987). Benazir Bhutto[xix] provided political tutelage to this new economic mantra and she advocated for neoliberal[xx] economic reforms (Zaidi, 2015: 146).

V (a) Neoliberalism and Informalization of the Economy (1989-2016) [xxi]

The average GDP growth rate during this period was 4.0 per cent per year. The average percentage growth rate per year of (C), (G), (I), (X) and (M) were 4.0, 8.8, 6.1, 4.2, and 2.4 respectively. Their percentage contribution shares were 81, 9.7, 25, 12, and 12 respectively (see Table 1). The contribution share of private consumption and investment increased in this regime vis-à-vis the previous regime. These two are considered the main drivers of growth during this period. This regime has oscillated between elected civilian and military governments. From 1989-1999, elected governments of the PPP and the Pakistan Muslim League (PML) were in power twice each. In 1999, the military dictator General Pervaiz Musharaf took over the government via military coup d'état and ruled until 2008, followed by the elected governments of PPP (2008-2013) and PML-N (2013-present). But throughout this period, irrespective of who was in power, neoliberal economic policies were consistently enacted. Therefore, this period is treated as a single regime of growth and distribution.

The PPP government, under the leadership of Benazir Bhutto adopted the Structural Adjustment Programme (SAP) of the International Monetary Fund (IMF) and the World Bank (WB). The main contours of SAP[xxii] included economic liberalization, privatization, trade liberalization and reduction in public expenditures to minimize fiscal deficit (Zaidi, 1999:7). International Financial Institutions (IFIs) advised the government(s) of Pakistan to maintain fiscal deficit below 4 per cent of the GDP to avoid economic crises. It is important to point out that tax base is very narrow in Pakistan and the governments are unable to expand and collect taxes from powerful economic elites of the country. For example, due to the entrenchment of landed elites in political parties and civil-military bureaucracies, they have successfully avoided taxes on their agricultural income and wealth since 1947 (Hussain, 2004; Cheema, 2003). In the neoliberal economic period, the successive governments in Pakistan opted for reduction in public spending to keep the fiscal deficit low (Zaidi, 1999: 7). For example, in 1997 the public sector development expenditure of the government was reduced to merely 3.5 per cent of the GDP, whereas it was 9.3 per cent of the GDP in 1981.

Trade liberalization meant that the government reduced tariffs from 125 per cent to 45 per cent by the late 1990s on imports (Zaidi, 1999: 7). To compensate for the large revenue forgone from tariffs, the government increased the administered prices of electricity and natural gas that severely burdened low-income households (ibid.). Moreover, the trade liberalization resulted in an increase in trade deficits and as of 2016, Pakistan is running huge trade deficits (see Figure 5). Another impact of liberalization was the devaluation of the Pakistani Rupee. This led to high inflation rates throughout the 1990s (see Figure 2) and created a major burden on low and middle income households (Zaidi, 1999: 7). This was accompanied by the privatization of state-owned enterprises that in turn led to an increase in unemployment (see Figure 3). One of the consequences of these policies was expansion of the informal sector of the economy (Zaidi, 2014: 51). The share of the informal economy has steadily increased since mid-1980s in line with the trends of other developing countries (see Heintz and Pollin, 2003). 39 per cent of the labor force in Pakistan was employed in the informal economy in 1975 and in the 1990s, this number jumped up to 64 per cent (ibid: 12). According to the International Labour Organization (ILO), the informal sector of Pakistan's economy absorbs 73 per cent of the total workforce (ILO, 2012). These workers are not protected by labor regulations and minimum wage laws. In other words, the impoverishment of workers has increased substantially due to neoliberal policies.

In terms of the performance of the neoliberal regime in Pakistan, September 11, 2001 came as a watershed moment. From 1989 to 2001, the average rate of GDP growth was 3.7 per cent per year. From 2002 to 2016, the average rate of GDP growth was around 4.5 per cent per year. After the tragic 9/11 attack in the United States, Pakistan observed a rapid repatriation of capital from Pakistani diaspora in North America to Pakistan. Moreover, Pakistan received large aid inflows from the US for its role as a frontline state in the 'war against terrorism' (Akhtar, 2010). In addition to aid, Pakistan's external debt was readjusted by the Paris Club on favorable terms due to Pakistan's role as an ally of the United States and NATO in Afghanistan (Zaidi, 2015: 524). As a result, Pakistan did undergo rapid economic growth, especially from 2002 to 2007. Due to these high growth rates, demand for electricity increased but Musharraf's government did not undertake any major investments in the power sector and Pakistan experienced large-scale power blackouts from 2007 onwards. As a result, a substantial chunk of the manufacturing industry had to relocate to other countries in the region due to lack of continuous and affordable power supply within Pakistan (Reuters, 2011). Similarly, until 2014, power shortage was the biggest bottleneck in the economic growth of Pakistan. The massive inflow of capital under China-Pakistan Economic Corridor (CPEC) into power sector has now improved the energy situation (Solzam and Page, 2016). But declining exports have not picked up as yet.

V(b) Dynamics of Distribution and Crises

In addition to traditional economic elites (large landholders and industrial capitalists), a new class of urban high-income professionals has emerged from banking, corporate and telecommunication sectors as a result of the privatization and liberalization of the economy (Alam, 2015). Deregulation of the banking sector resulted in a credit boom and it fueled asset bubbles in real estate and the stock market from 2002 onwards. A small segment of the population, which has strong networks with political elites and civil-military bureaucracies, have made fortunes by engaging in real estate and stock market speculation (Bokhari, 2017). On the other hand, the working classes in both urban and rural areas have not seen increase in their real incomes (Anwar, 2005). The Gini coefficient increased to 0.42 in 1999 whereas it was 0.36 in 1988 (see Figure 7). In 2005-06, it was 0.48[xxiii] and then it trended slightly downwards to 0.42 in 2010-11 (see Figure 8). Inequality again started to rise and reached to 0.44 in 2015-16 (see Figure 8).

The growth and distribution dynamics of this regime have recurrently produced fiscal and debt crisis. The current account deficit increased to alarming levels in 2008 and the reserves of the country fell to $3.4 billion – approximately one-months' worth of imports (Shah, 2008; Bokhari, 2017). The IMF bailed out Pakistan's economy on stringent conditions. The deeper structural aspects of neoliberal capitalism in Pakistan are expected to keep producing fiscal and terms-of-trade crises. In the author's opinion, without the reversal of the neoliberal economic policies, the perpetually worsening terms of trade cannot be sustained in the long run. But how long this current regime of accumulation would sustain itself is contingent on political economic factors both within and outside of Pakistan.

4 Conclusion

This paper has illustrated that the dynamic interaction between the post-colonial state, the informal institutions and the social classes is integral to mediating development processes in post-colonial Pakistan. In a marked departure from canonical Marxian and institutional analyses, this paper does not assign a deterministic role to either class processes or institutions. Instead, it envisages a dialectic of class and institutions (including informal institutions) as mutual determinants of development outcomes (see Wolff and Resnick, 1989; Khan, 2010). By delineating the role of informal institutions in mediating development outcomes, this paper has illustrated that similar policies can result in divergent development outcomes due to differences in distribution of political power. In other words, development outcomes cannot be reduced to any single factor (developmental state or class dynamics). It is instead mediated by the interplay of both institutions and class forces.

By undertaking historical analyses of Pakistan's development trajectory, this paper has identified five distinct periods of growth and distribution for the period of 1947 to 2016. The first period lasted from 1947 to 58, and the emphasis was on import substitution industrialization policies. The post-colonial state created a class of national bourgeoisie to steer the capitalist industrial development. But in the process, agriculture sector was ignored and it became a major bottleneck in the industrialization drive, leading to an economic crises. The second regime spanned from 1959 to 71. This regime undertook land reforms to improve the productivity of the agriculture sector but land reforms were not effective because landed elites used informal institutions to maintain their hegemonic position in the rural economy. Due to an exogenous shock of 'Green revolution' technologies, the overall yield in agriculture increased and the industrialization project was advanced. The doctrine of functional inequality was the ideological foundation of this regime. Although this regime was successful in achieving high growth rates, the inequities across class and regional lines increased during this period and this provided a fertile ground for the emergence of the quasi-socialist political party, the PPP and succession of East Pakistan (current Bangladesh) from the federation of Pakistan.

The third regime lasted from 1972 to 1978. The nationalization of large and medium size industry was the defining feature of this regime. Land reforms were also undertaken during this period and paradoxically, despite land reforms, the landed elite allied itself with this regime. This apparent puzzle can be explained by the fact that like the earlier land reforms (1959), the effectiveness of these land reforms was very minimal if any at all, because large landholders used informal mechanisms to sustain their economic privilege. The power asymmetries in the rural economy remained in favor of large landholders, and small and landless peasants remained under the patronage of large landholders. This regime antagonized urban merchant and industrial capitalists, and these classes allied with the military to eventually overthrow this regime. The fourth regime lasted from 1979 to 1988. This regime reversed the nationalization policies of the previous regime and introduced a new dimension in the political economy of Pakistan – 'Islamization' of state, society and economy. Intermediate classes (the religious clergy and temporary overseas migrant workers) emerged as a new social and political force. Like in the 1960s, the fiscal crises were resolved by two exogenous shocks: the rise in remittances from the emigration of Pakistani workers to Saudi Arabia and Gulf countries and the inflow of generous aid from the United States as a result of the post-colonial state's clientelistic role in the war against the USSR in Afghanistan. These two factors collectively eased the external sector of the economy and provided a stimulus to domestic aggregate demand. But this became unsustainable once the United States started to cut its aid inflows, and remittances stagnated as Saudi Arabia and Gulf countries started to bring in workers from other countries. This created a fiscal and balance-of-payment crises in the national economy and paved the way for the neoliberal economic regime. The fifth regime spanned from 1990 to 2016. To address recurring fiscal and balance-of-payment crises, this regime opted for neoliberal economic policies (privatization, deregulation of trade and financial sector etc.) in line with the shift in global regime of accumulation. A new class of high-income urban professionals has emerged that works in banking, insurance and IT. This is accompanied by the slowdown in the growth of formal sector employment and the expansion of the informal sector. Albeit the post-colonial state has cut its development expenditure which directly impact welfare of the marginalized segments of the society but yet fiscal deficit is well intact. This situation can explode anytime contingent on internal and external political economic factors.

To recapitulate, this paper has illustrated that claims over the distribution of economic resources in the post-colonial state of Pakistan are highly contested between different classes. The networks between social classes and state institutions (including informal institutions) played an integral role in regulating and mediating development processes and outcomes. In short, to understand processes of post-colonial development, the point of departure is to analyze the dialectical relationship between institutions and social classes.

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Tables & Figures

Table 1: Growth Rates and Contribution share of components of GDP at Constant US $2010

Years	g of GDP	g of C	g of G	g of I	g of X	g of M	Con. C	Con. of G	Con. of I	Con. of X	Con. of M
1961-71	6.4	7.7	11.9	14.5	7.5	5.7	90	16	68	12	51
1972-77	4.02	4.4	9.0	7.9	4.5	4.2	58	20	42	8.8	34
1978-88	6.5	5.6	8.9	5.2	10	3.6	70	14.3	17	13	16
1989-2016	4.0	4.0	8.8	6.1	4.2	2.4	81	9.7	25	12	12

Note: g stand for growth rate and Con. stands for contribution share.

The following years have not been included for estimating the contribution share of government expenditures and investment: 1965, 1968, 1999, 2001, 2007, and 2008. These years had either negative growth rate or less than 1 per cent. For robustness of the analysis author did not include the above-mentioned years in estimating contribution share of government expenditure and investment

Figure 1: GDP Growth Rates 1951-2016

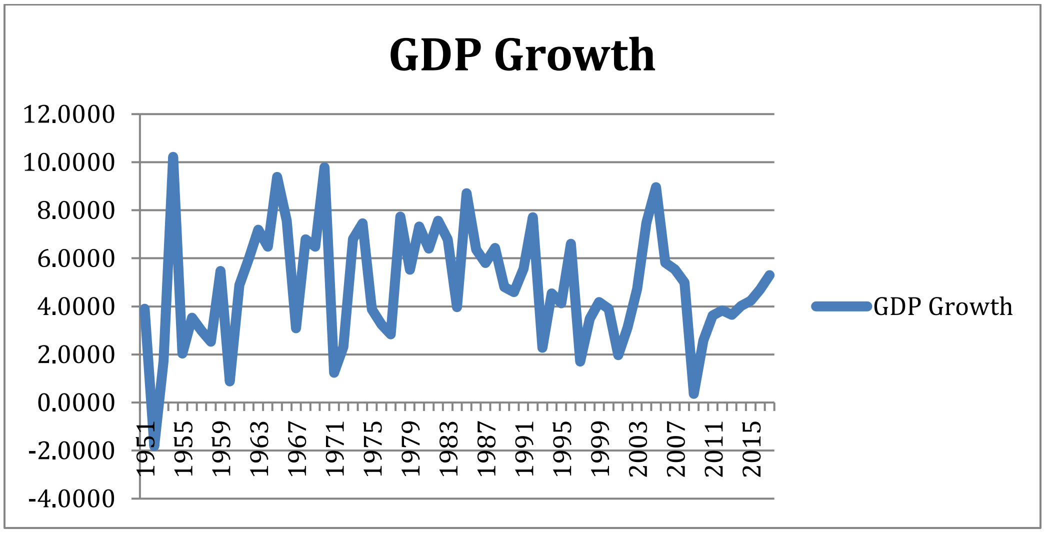


Figure 2: CPI Inflation Rate 1951-2015

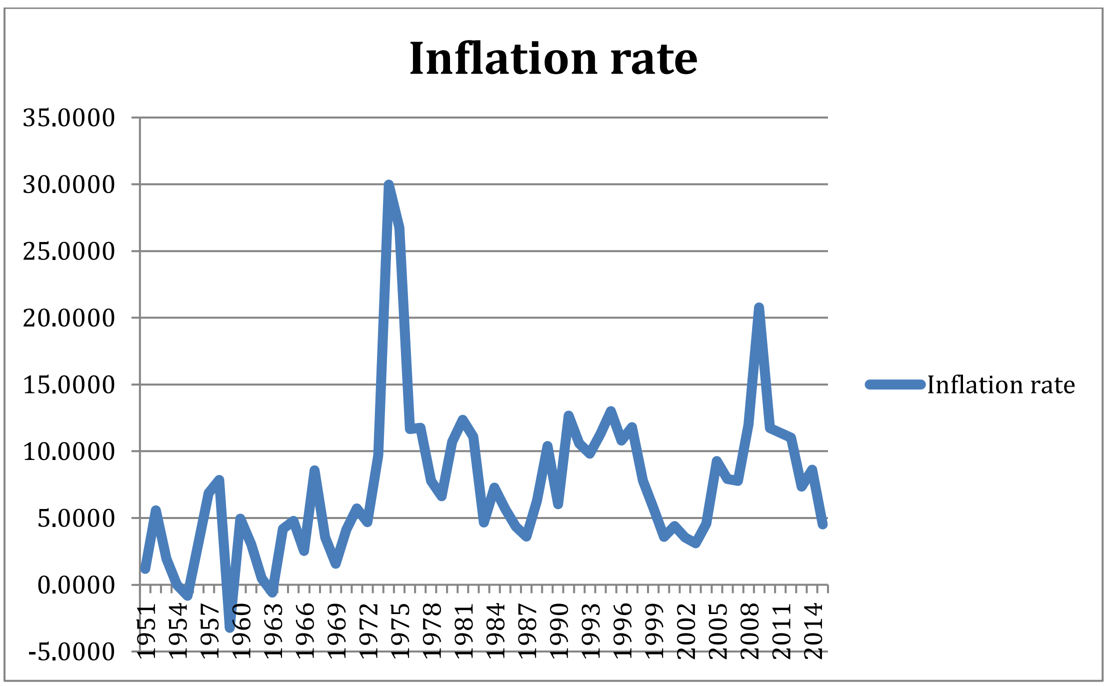


Figure 3: Unemployment Rate 1964-2015

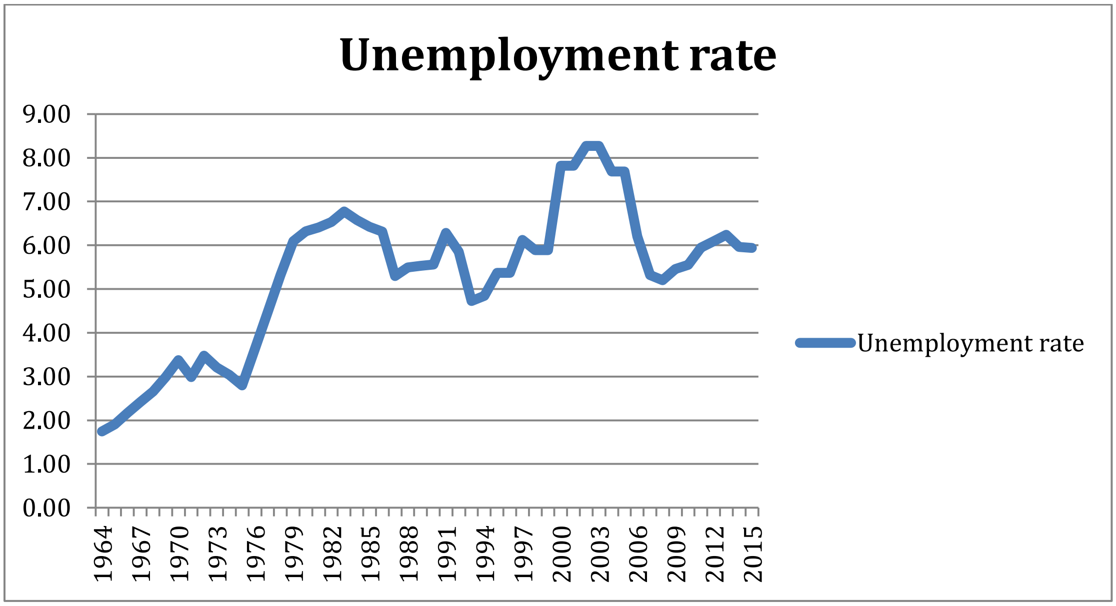


Figure 4: Sectoral Share in GDP 1950-2015

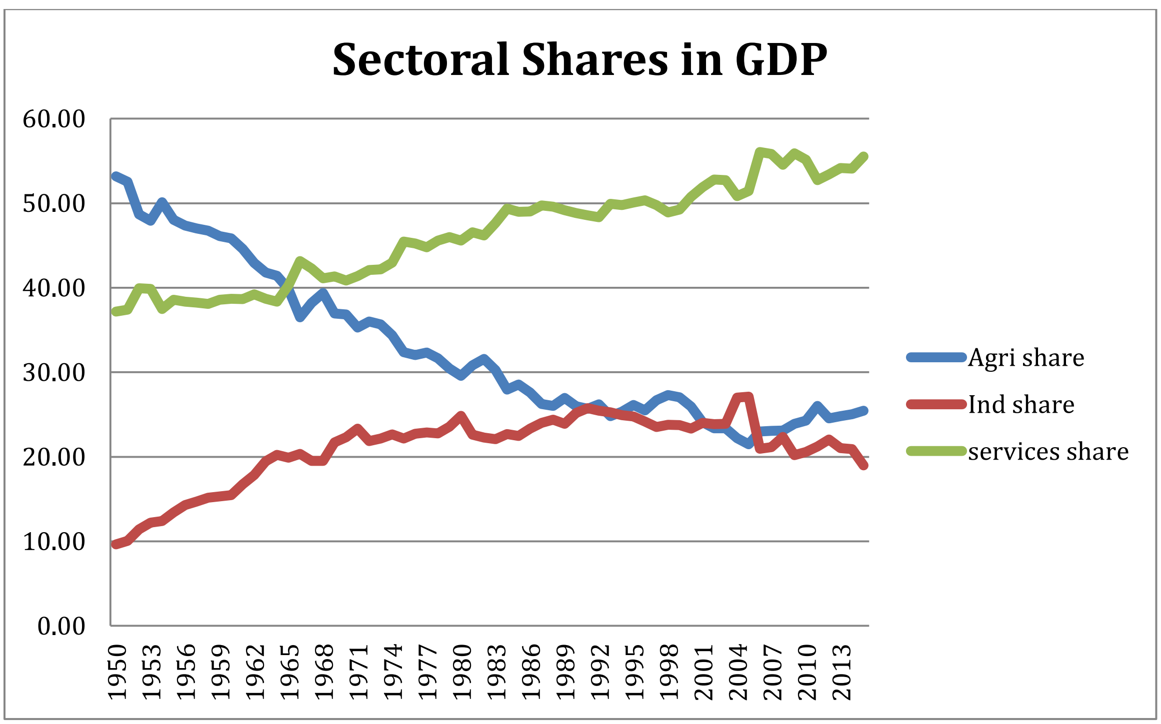


Figure 5: Balance of Trade ($million) 1949-2015

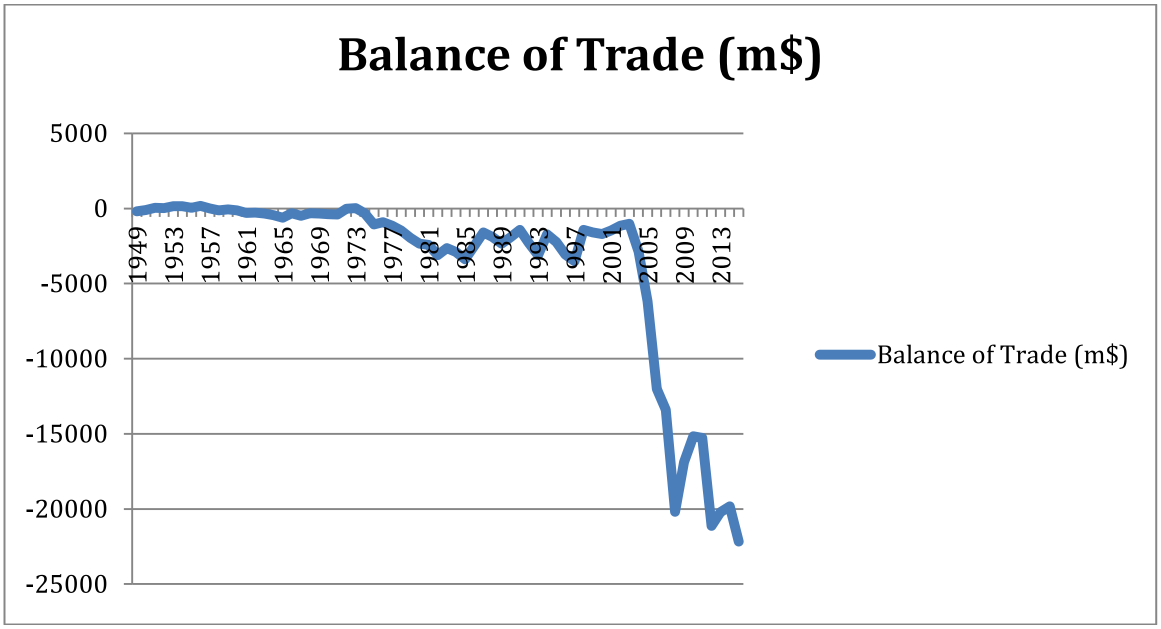


Figure 6: Terms of Trade Adjustment 1967-2015

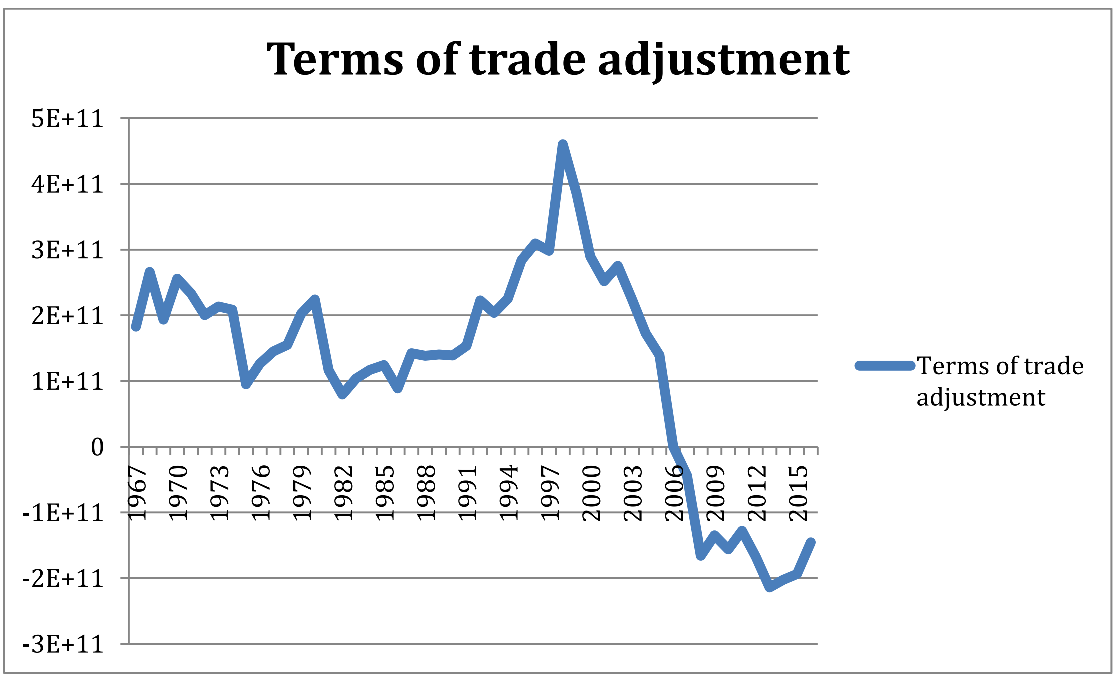
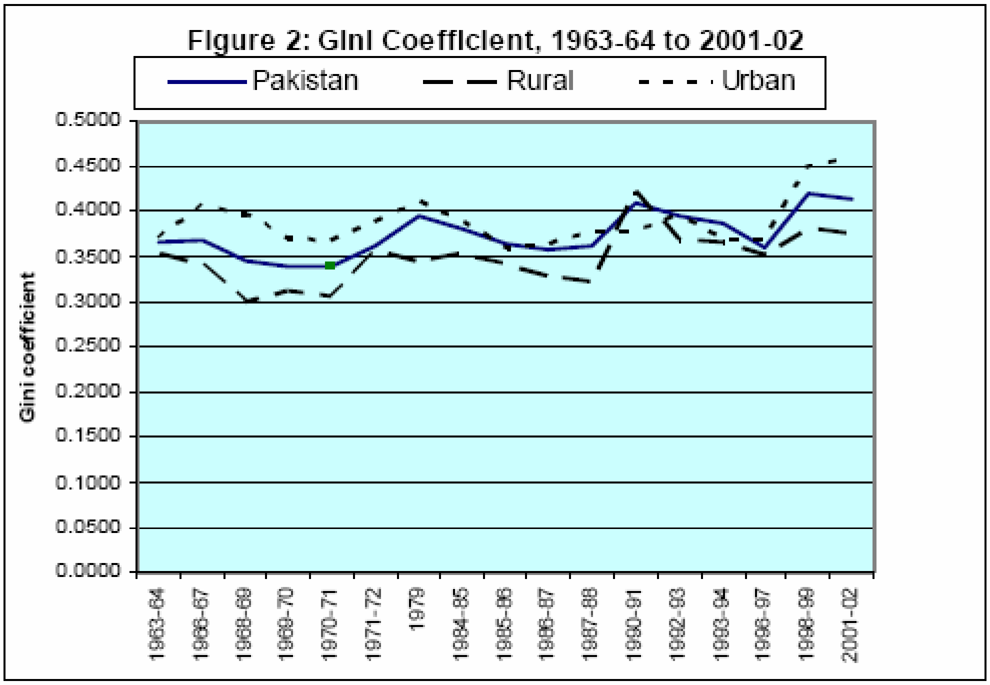
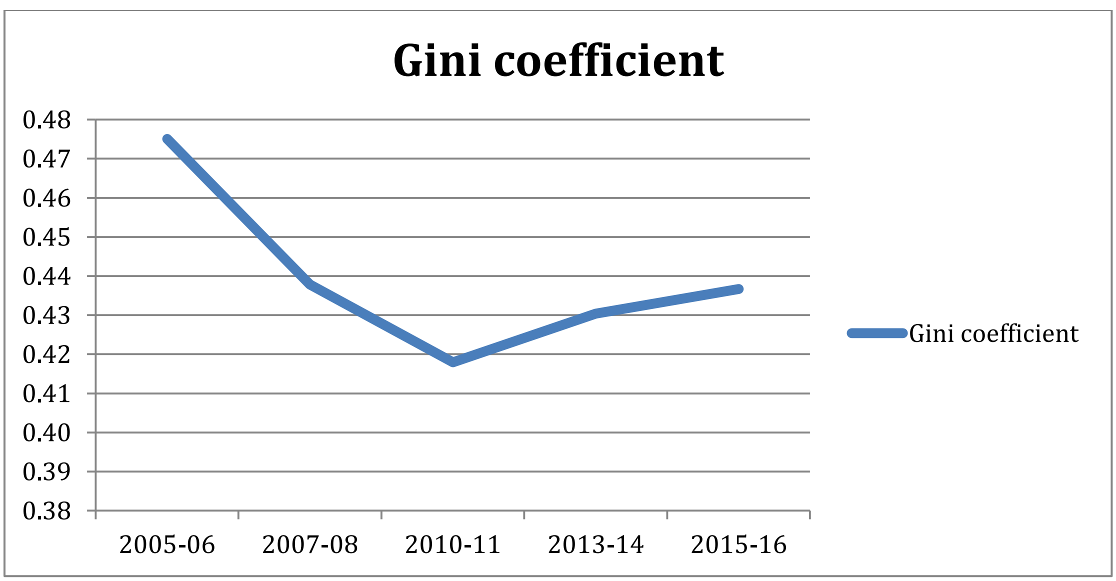


Figure 7: Gini From 1963-2002



Source: Anwar (2005)

Figure 8: Gini Coefficient from 2005-2015



End Notes

[i] Currently in Sindh Pakistan, Thar coal power plant is under construction by private corporations and local residents of Thar are resisting this project as they fear their livelihoods will be negatively affected due to it.
[ii] East Asian economies and China are the examples where state played an active role in the processes of economic development.
[iii] Institutions (both formal and informal) are defined as "the rules and norms that govern behaviour" (Di John and Putzel, 2009: 6). The de jure system, e.g. laws and regulatory frameworks are formal institutions.
[iv] Informal institutions are those which are not coded in law but they are "systematic enough to be identified" (Khan, 2010: 10). Patron-client networks are classic example of informal institutions
[v] Under colonial rule in India, state was the major instrument in the hands of the British to extract surplus from India and transfer it to Britain. For that reason British invested heavily on the 'development' of the colonial state namely civil-military bureaucracies. At independence in 1947 Pakistan inherited this state-society dualism --- 'developed' state and 'underdeveloped' society (Alavi, 1972).
[vi] One of the critiques on Alavi (1972) framework is that it is static in nature and does not assign any agency to politics (see Khan, 2018, 2016; Zaidi, 2014).
[vii] Uneven state spatiality refers to uneven development of state apparatus and its hegemony across Pakistan (see Khan, 2018 for details).
[viii] The decision by the government to not devalue the currency was made in the context of keeping the cost of importing machinery low for industrialists.
[ix] On the political front this regime was headed by a military dictator General Ayub Khan and he was set out to undertake modernization reforms in the country.
[x] The economic rationale presented to justify nationalization of large-scale industries was that these were monopolies and were not economically efficient.
[xi] This regime introduced civil service reforms to bring civil bureaucracies under the control of political offices.
[xii] Gulf States accumulated huge sums of petro-dollars in 1970s and by late 1970s they initiated massive domestic infrastructural projects and Pakistani workers were a cheap supply of labor to them.
[xiii] Domestic savings rate fell to 5.4 per cent of the GDP in 1984 (Noman, 1988: 166).
[xiv] Public fixed investment was 19 per cent of the GNP in 1976-77 and it declined to 14.8 per cent in 1982-83 (Noman, 1988: 171). Overall, annual Development Programme share of GDP declined from 7.4 percentage points to 6.2 percentage points as compared to previous regime (Hussain, 2004: 87).
[xv] The defense spending went up to 30 per cent of total government expenditures (Noman, 1988: 174).
[xvi] The post-colonial state of Pakistan, in collusion with the United States and Saudi Arabia, promoted an ideology of violent Jihad to mobilize religiously inclined people in Pakistan to fight against the USSR in Afghanistan. As a result, political Islam became a powerful political economic force that empowered religious clergy and ultra-conservative forces in Pakistan (Ali and Malik, 2009).

[xvii] The three time Prime Minister of Pakistan Nawaz Sharif also emerged on political landscape during this period. His family's businesses were nationalized under Zulfiqar Ali Bhutto's government.
[xviii] The growth of household consumption was reduced to 0.8 percent of the GDP in 1989 --- substantially lower than the average rate throughout this regime.
[xix] She was the daughter of the former Prime Minister Zulfiqar Ali Bhutto who was hanged in 1979 by the military dictator General Zia ul Haq. Ms. Bhutto marked a major departure from socialism and she championed market oriented capitalism in Pakistan.
[xx] These policies include privatization of state-owned enterprises, deregulation of financial sector and crack down on labor unions.
[xxi] This regime spans from 1989-present, as we have data only up to 2016, that is why we have listed 1989-2016.
[xxii] These neoliberal policies have been adopted by eighty countries worldwide on the advice of IMF and WB. This marked a structural shift in the global economic world order from state-led development to market-led development.
[xxiii] The data from 2005-2015 is available online at PBS and author has used it to measure Gini coefficient.