Political party unionism refers to the influence of political party-affiliated unions within the union movement. Political party unionism does not necessarily entail union influence over economic policy or even the welfare of workers. While political party unionism can effectively veto government privatization decisions, it is not able to prevent private sector management from illegally shutting down factories, declaring lockouts, or relocating to areas where workers are not unionized. Keeping a factory in the public sector, which political party-based unionism can achieve, does not guarantee workers employment, good working conditions, adequate pay, or even payment for their work.

Indeed, political party-based unionism can prevent workers from exercising influence over government policy and has often exacted a high cost from workers. The 1982–83 Bombay textile strike is a clear example. The strike is the world's largest as measured in workdays lost. Hundreds of thousands of mill workers took up the strike because they wanted an amendment to the Bombay Industrial Relations Act – a colonial legacy – so that the Indian National Congress-affiliated union, the Rashtriya Mills Mazdoor Sangh (National Mill Workers Union) would no longer be the sole collective bargaining agent for all textile workers. The strike resulted in the loss of an estimated one hundred thousand jobs and sharp decline in labor conditions and in terms of employment throughout the industry. It is officially still in force, although the strike leader, Datta Samant, was murdered, allegedly at the request of the Rashtriya Mills Mazdoor Sangh, which continues to be the sole collective bargaining agent for workers in the Maharashtra and Gujarat textile industry.[117] This legally mandated exclusive representation is still strongly opposed by many workers. Not all Indian workers have embraced political party unionism.

Some social institutions form in reaction to, rather than mirror, the political regimes that attempt to harness or to control them. The government of Pakistan's efforts to de-politicize labor by limiting professional or "outside" leadership, over time, has strengthened organized labor as a social movement in Pakistan. Political regimes lay down deep institutional roots, especially in the formative periods of postcolonial economic change. But these institutions are not replicas of the political regimes that attempt to mold them. Rather – as the absence of workplace elections in India and their presence in much of Pakistan's industry imperfectly suggests – social institutions are often formed in reaction to and thus reverse in form the mechanisms used by governments.

The role of labor in fashioning different development strategies is the focus of the next chapter. The chapters that follow move to contemporary events. Chapter three describes the Indian and Pakistani governments' attempts to implement structural adjustment, especially privatization, and assesses the response of Indian and Pakistani labor to the associated industrial restructuring and to increasingly informal terms of employment.

2

THE STATE AND ECONOMIC DEVELOPMENT

> [The enclosed material] is enough to show to you that various suggestions that have been made ... will have to be analysed and ultimately I consider it is the duty of every true nationalist, to whichever party or community he may belong, to make it his business and examine the situation and bring about a pact between the Mussalmans and the Hindus.[1]
>
> Mohammad Ali Jinnah

> I have carefully looked through the various materials to which you have drawn attention in your letter and its enclosures and I find nothing in them which refers or touches the economic demands of the masses or affects the all-important question of poverty and unemployment. ... The peasantry, industrial workers, artisans and petty shop-keepers form the vast majority of the population and they are not improved in any way by your demands. Their interests should be paramount.[2]
>
> Jawaharlal Nehru

This chapter compares the evolution of Indian and Pakistani development strategies and economic ideologies. India and Pakistan developed modern industrializing economies of roughly similar structure and with broadly similar degrees of state intervention. Each economy is predominantly agricultural but hosts a relatively large (20–25 percent of the total labor force) industrial labor force. Each contains a large public sector, or did before implementation of the International Monetary Fund (IMF) structural adjustment measures. Each economy has a large labor force distributed in similar sizes across industrial sectors. These broadly similar economic structures, however, were developed under markedly different political regimes and economic ideologies. India has maintained a record of regular elections unbroken since Independence and a social democratic economic philosophy. The military and the bureaucracy have ruled Pakistan for most of its existence.

Development strategies

Indian and Pakistani officials expressed widely divergent economic ideologies, but used closely similar economic policies and built public sectors of similar proportions and structures. Pakistani officials, as staunch supporters of the United States' anti-Communist alliance, embraced the "neo-classical" economic policies that the United States then promoted. Pakistanis trained in US universities formulated Pakistani economic planning in close collaboration with American economists. Indian officials, in contrast, promoted "a socialist pattern of development" with the aid of allies in central planning, in Western and Eastern Europe. The economic models were similar, while the expressed ideologies, and the ultimate aims for the public sector, were different.

Despite variation in professed economic ideology, each government was, until the adoption of structural adjustment programs, committed to strong interventionism in the service of rapid industrialization. Although the domestic business classes were far stronger at Independence in India than in Pakistan, in each economy, industrialization and the business classes originated in the public sector.

Only the state had the ability to promote industry. Industrialization was the central element of both the Indian "socialist pattern of development" and of the Pakistani combination of export promotion and import substitution. The Indian strategy aimed for progressive expansion of the public sector, inherited from the British. The Pakistani plan was to build the public sector as a springboard for private sector development. In practice, in each country, the public sector – in manufacturing and mining, engineering, oil, power, petroleum, chemicals, pharmaceuticals, fertilizers, as well as basic research and development – was the foundation for subsequent private sector industrial development. Thus, each government adopted, in the main, statist economic policies, but in accordance with very different articulations of economic development ideologies. Governments in Pakistan in the 1950s and 1960s developed public sector enterprises to create the foundation for the private sector. Indian governments in the same period developed the public sector with the intention of gradually bringing the entire economy into the public sector.

While the economic policies following Independence yielded large public sectors, different economic ideologies helped to produce divergent economic outcomes and markedly different degrees of labor incorporation. The Indian government promoted a statist welfare model and encouraged strong political party-based unionism. Pakistan governments followed US economic models and sought to exclude organized labor, forcing the labor movement to develop social bases of power that were independent of political parties and the political process.

Since the Partition of British India and the creation of Pakistan on August 14, 1947 and of India on August 15, 1947, the two regimes pursued

markedly different economic development ideologies. Pakistan, after a decade of indecision, moved toward a strategy aimed at rapid creation of capital through capital-intensive export-oriented manufacturing. The development strategy did not merely tolerate income inequality, but regarded it as essential to economic growth. India and Pakistan exhibit a stark contrast in development ideologies that is rarely seen between neighboring countries, except between countries created by Partition.

Pakistan's Industrial Policy of 1948 described the mandate for state-led industrialization as a "state imperative." The Industrial Policy framed the country's industrialization strategy for over two decades. It declared that in an overwhelmingly agricultural economy, one of the chief mandates of the state was to create industry.[3] Pakistan's industrial strategy was to build a public sector that would serve private sector development, initially in consumer goods. The strategy emphasized export of agricultural products and retained only energy and ammunitions and some transportation and communications for exclusive development by the state.

The rapid creation of a group of Pakistani industrialists, referred to as Pakistan's "22 families,"[4] was one result of the forced industrialization of the 1950s and 1960s. In 1952, the Pakistan Industrial Development Corporation (PIDC) was set up to establish public sector enterprises and industries that, once profitable, would be sold to the private sector. The government operated the unprofitable and unsold factories. Of the 43 large industrial ventures established by the PIDC, 34 were transferred to private ownership, most as public limited companies. Leading industrial families purchased them.[5] The Industrial Development Bank of Pakistan and the Pakistan Industrial Credit and Investment Corporation aided Pakistani industrialists. Pakistani government promoted, with a significant five-year detour in the mid-1970s, a neo-liberal orientation in economic policy.

Within the decade following Independence, India implemented a strategy directed toward the development of heavy industry with socialist features. Whether this was the foundation of socialism or the beginning of state capitalism with socialist pretensions is still much debated. Fabian socialist thought and Soviet industrial achievements inspired many Indian leaders. They adopted an import substitution strategy for economic development, politically buttressed by the rhetorical objective of establishing a "socialist pattern of development."[6]

At Independence, there was very wide official and public support for a strongly interventionist state in India. Government intervention aimed at changing the economic order was the rationale for the Indian state itself. A variety of mechanisms for intervention and programs for economic change were summed up in the concept of planning. Support for economic intervention in India proceeded from the almost unquestionable thesis that as the British state had served British national interests,

then an independent Indian state would serve Indian national interests. Centuries of British colonial rule were seen as a corruption of an Indian tradition of government, traced from ancient times (specifically the Ashoka period) when "the welfare of the whole world was to be promoted in every walk of life."[7] In contrast, "the state in India under British rule was functioning purely from the point of view of an alien government, discharging mostly police functions, having no social stake in India."[8]

Similar industrial structures

The level and character of industrialization with which India and Pakistan found themselves at Independence were central, of course, to their leaders' choice of development strategies. Indeed, the differing character of Indian and Pakistani economies heavily influenced that choice. Nevertheless, India's nationalist struggle was to a large extent a struggle over economic autonomy, while Pakistan's was principally a struggle to define the adherents of a religion as a nation. The struggle for Pakistan was a struggle without an economic development plan. Partition left Pakistan militarily vulnerable and in economic disarray. Pakistan arrived at Independence without a coherent development strategy.

India and Pakistan share basic economic features. India and Pakistan are squarely situated in the middle of lower income developing countries, as ranked by the World Bank according to real per capita income. Per capita income is US$460 in India (or US$2,450 in equivalent purchasing power) and US$420 (or US$1,920 in equivalent purchasing power) in Pakistan.[9] Most of the population in each country live in rural areas and most workers are agricultural laborers. In India, 73 percent of the population live in rural areas; in Pakistan, 67 percent live in rural areas.

Income distribution in the two countries is remarkably similar. In India and Pakistan, respectively, 3.9 percent and 3.7 percent of national consumption is done by the poorest 10 percent of the population; 28.5 percent and 28.3 percent of consumption goes to the wealthiest 10 percent, respectively.

The structure of production is also similar, with 52 and 53 percent of Indian and Pakistani gross domestic product (GDP) in services, 21 percent and 22 percent of Indian and Pakistani GDP in agriculture, and 16 and 18 percent of Indian and Pakistani GDP in manufacturing, respectively.

Each country is a petroleum importer and labor exporter. Foreign remittances as a percentage of gross national product (GNP) and overseas workers as a percentage of the total labor force have been substantially higher in Pakistan than India since the mid-1970s. This has helped to weaken trade unionism in Pakistan, as skilled workers have found employment outside of the country.[10]

Table 2.1 India and Pakistan: distribution of gross domestic product by sector, 2002

India	*% of GDP*
Agriculture, value added	21.1
Manufacturing, value added	16.1
Services, value added	51.7
Pakistan	*% of GDP*
Agriculture, value added	22.3
Manufacturing, value added	17.6
Services, value added	52.7

Source: World Bank Development Indicators.

The Indian and Pakistani states also have broadly similar structures of economic intervention. Government consumption is 11 percent of GDP in India and 14 percent of GDP in Pakistan. Each country has a large public sector, a fact which is often obscured by Pakistan's professed economic conservatism. The share of the public sector in total investment is also high in both countries. Prior to the adjustment efforts, in 1987–88, public sector investment was 57.9 percent of total investment in Pakistan.[11] In India, at that same pre-adjustment time, gross domestic capital formation in the public sector was 45.3 percent of total capital formation.[12] Each country commits a far greater portion of expenditure, as a percentage of GDP, to the military than to education or health.[13]

In India and Pakistan, government industrial policy since Independence has encouraged the development of indigenous business classes. Industrial policy in the first two decades of Independence excluded private investors from key areas of industry, but protected Indian industrialization from foreign competition. In the early years, at the same time that the growth of big business in India was being closely regulated, industrial policy sought to provide special opportunities for small and medium sized businesses. The late 1960s marked a transition toward a pronounced antagonism between Indian business and the Indian state. But overall, Indian industrial policy has facilitated the development and consolidation of the private sector in India. While the private sector and government have often opposed and undermined each other, under the guise of socialist ideology, the Indian government has facilitated the growth of the private sector. The creation of an industrial elite in Pakistan was not the product of a long history of indigenous economic development, but rather the product of the post-Independence political elite's strategic efforts to foster an indigenous capitalist class. While it was also central to India's development strategy to strengthen domestic industry and indigenous industrialists, in Pakistan the challenge was far greater.

Industrialization through the public sector

While India's economic ideology favored public sector investment and Pakistan's gave priority to the private sector, each developed massive public sectors. The Indian and Pakistani governments have also maintained the dominant role in industrial financing of private sector development. In Pakistan, before the extensive privatization, government sponsored corporations held assets valued at more than Rs. 700 billion, au amount equal to Pakistan's entire annual GDP.[14] The Pakistani public sector's share of total investment in 1987–88, prior to the adjustment measures, was 57.9 percent. The public sector's share in total non-agricultural economic activity was 13.7 percent in Pakistan in 1987–88.[15] Before the privatization drive, government-owned companies and firms could be found in the automobile, banking, cement, chemicals, engineering, fertilizer, iron and steel, oil exploration and refining, and agricultural processing sectors. The government held monopolies in the telecommunications, power, railways, and air transport services.[16]

In both India and Pakistan, as in most developing economies, a significant proportion of domestic businesses engages in trade, finance, and other activities that require little or no investment in manufacturing. Both the Indian and Pakistani governments have faced a reluctant, short-term-profit seeking, investment-inhibited private sector. Governments have responded with a combination of policies. Some governments in each country have reacted to low investment and high corruption in the private sector by nationalizing industry. They have also backed private sector firms with soft loans and generous credit from public sector institutions with very little oversight. Especially well-rewarded firms are those that threaten to close due to industrial "sickness."[17] The system of industrial credit and tax concessions, however, has encouraged some industrialists to overvalue their investments so as to pocket subsidized loans and to run enterprises as magnets for funds rather than as productive enterprises.

Families, who possess only a minority stake in their enterprises, control and manage India's major business houses in the private sector. Aceording to the Public Interest Research Group, "there are 297 private sector companies in which public financial institutions along with state level industrial development corporations, central and state governments, jointly held 25 percent of more of equity capital."[18] Public financial institutions often possess the commanding share of private sector companies, but government representatives on company boards exert little or no influence over management. Contemporary management in India and Pakistan still owes much to the managing agency system, which operated in the earliest industrial ventures in India, most notably in the textile industry. In the management agency system, a group of individuals manage and operate a business on behalf of the owners. Managers collect a commission

based on their performance. Control of company management is not a function of ownership. It is rather a function of the managing agents' ability to raise capital. Indeed, it is widely believed that some government officials who represent public sector financial institutions are bribed by the families that manage these companies. These private sector industrialists allegedly ensure, thereby, that officials from the financial institutions do not interfere in company operations. Public financial institutions and their officials who sit on private sector boards do grant private sector industries credit at concessionary rates. This led one commentator to remark that "the only difference between the private and the public sector is that in the public sector, profits and losses belong to the public; in the private sector, profit is the promoter's while the loss is that of the public."[19]

Nationalism and economic thought in colonial India

Indian economic nationalism

That foreign rule was responsible for India's poverty and that only a strong state – with the ability to deny market access to foreign capital – could assure India of economic progress were popular convinctions in India. These convictions served as powerful impetuses for central planning in India.

Dadabhai Naoroji was the first to assess and document the unequal relationship between British public finance in India and exports from India. Naoroji's model involved an early version of the calculation of terms of trade.[20] According to the de-industrialization thesis, "throughout the eighteenth century and the early part of the nineteenth century, local commercial and manufacturing activity was undermined, first through outright plunder and later by calculated neglect and the use of discriminatory tariff restrictions."[21] The de-industrialization thesis is also now well established.[22] Nationalist leaders and economic historians pointed to the decline of India's textile industry as evidence that colonial economic policy had arrested India's economic development. As a result of the decline in employment, India suffered "re-ruralization," and a rise in rural unemployment.[23]

The de-industrialization thesis was more than an economic argument about the detrimental effects of British tariff and trade policy or "internal drain" through British government public financing on India's industrial advance. It was an argument about the very development of "the mind and spirit of India."[24] As Jawaharlal Nehru put it:

> A society, if it is to be both stable and progressive, must have a certain more or less fixed foundation of principles as well as a dynamic outlook ... Without the dynamic outlook there is stagnation and decay, without some fixed principle there is ... disintegration and

> destruction. In India from the earliest days ... the dynamic outlook was ... present ... When the British eame to lndia, though technologically somewhat backward, she was still among the advanced commercial nations of the world. Technical changes would undoubtedly have come and changed lndia as they have changed some Western countries. Normal development was arrested by the British power. Industrial growth was checked and as a consequence social growth was also arrested. The normal power-relationships of soeiety could not adjust themselves and find equilibrium, as all power was concentrated in the alien authority, which based itself on force and encouraged groups and classes which had ceased to have any real signifieance.[25]

This passage from Nehru's *History of India*, written from prison in Ahmadnagar Fort in 1944, expresses the central movement in the orchestration of an economic philosophy that places the state at the center of Indian society's economic equilibrium. As Partha Chatterjee shows in his reconstruction of the derivative maneuvers of lndian nationalism:

> The specific ideological form of the passive revolution in India was an *étatisme*, explieitly recognizing a eentral, autonomous and directing role of the state and legitimizing it by a specifically nationalist marriage between the ideas of progress and social justice ... It is an ideology of whieh the eentral organizing principle is the autonomy of the state; the legitimizing principle is a conception of social justiee.[26]

To Nehru, socialism and the potential of a nationalism based on scientific humanism was also the best weapon against the religious rally of narrow nationalism. Governance over the expanse of an independent India required an immensely powerful and intrusive Indian state.[27] Socialism, for Nehru, was the mechanism by which the state could ensure Indian unity, state autonomy, and economic development.

The Congress first took a stand on the desired direction of India's eeonomie policy in Karaehi, at the 1931 session of the All India Congress Committee. While the resolution advocated "nationalisation of key industries and services, and various other measures to lessen the burden on the poor," it was a "mild and prosaic resolution," which "a eapitalist state could easily accept."[28] Until the Karachi Congress, according to Nehru, who spoke at the Congress for the resolution on Fundamental Rights and Economic Poliey, "Congress had thought along purely nationalist lines, and had avoided facing economie issues, except in so far as it encouraged cottage industries and *swadeshi* generally." The Congress resolution on Fundamental Rights and Economic Policy angered the British government, which

saw the move as the work of M. N. Roy, a well-known lndian communist and member of the Soviet Comintern.[29] Depending on the source, later Roy either "drifted from the orthodox Comintern" or was expelled. Roy wrote a program for trade union unity that helped to unite the ranks of the All lndia Trade Union Congress and the lndian Federation of Labour. Roy himself, in keeping with his analysis of Nehru and the Congress, considered the resolution a "typical product of a *bourgeois* reformist mentality." Nehru wrote the resolution, with substantial assistance from Mohandas Gandhi. The precedent for formulating such a resolution, according to Nehru, was the United Provinces (UP) Provincial Congress Committee which had been "agitating ... to get the AICC [All lndia Congress Committee] to accept a socialist resolution" for some time. In the 1929 session, the UP Provincial Congress Committee had persuaded the AICC to accept "to some extent" a socialist economic policy resolution.[30]

The Bombay Plan and the needs of industry

Some critiques of lndia's central economic planning have treated Indian planning as if government control over the economy were the design of a newly independent nationalist political elite bent on autarky. It is often neglected that central economic management was instituted by the British Colonial Office as an instrument of colonial management in British India.[31] The British Labour government's White Paper, issued in 1945, originally defined in detail a system by which the state would exercise direct control over "strategic" areas through public enterprises and indirect control over the rest of the economy through industrial licensing.

India's nationalist leadership placed high priority on protecting the newly independent eountry's economy so as to guarantee national independence. But central planning was not a government initiative imposed upon an unwilling business community. State control of the country's financial institutions, management of commerce and ownership of basic industry were accepted features of capitalist development, supported by strong constituents in the business eommunity. Economic planning was not merely the defensive reaction of a newly independent state to colonial exploitation. Economic planning had its origins in colonial administration, and was supported by Indian business leaders. The Indian business community, prior to Independence, demanded that these instruments of central planning be strengthened rather than minimized. That lndian industrialists were generally strong advocates of state planning is typically ignored by much scholarship on economic reform in India, which often promotes the view that the state is by nature predatory and business is free-market minded and progressive.

Indian industrialists, somewhat concerned about the socialist rhetoric of a few nationalist leaders, were nevertheless strongly in favor of a planned

economy. According to analysis by Raghabendra Chattopadhyay, "the Indian business community ... play[ed] a crucial role in developing the concept of planning, particularly during tbe two decades before Independence."[32] Indeed, as early as 1934, G. D. Birla, India's leading industrialist, in a speech before the annual session of the Federation of Indian Chambers of Commerce and Industry (FICCI), made a plea for central planning.[33] While a group of Bombay liberals and British loyalists did criticize Nehru's support for a socialist solution to Indian poverty, a solution for which he argued passionately at the Lucknow session of the Indian National Congress in 1936, most industrialists opted to work with Nehru to temper the more radical of his economic proposals.[34] What concerned Indian industrialists was not a centrally managed economy but the threat of expropriation through government nationalization.

The most important pre-Independence document on India's economic development was the *Brief Memorandum Outlining a Plan of Economic Development for India*, popularly known as the Bombay Plan. India's leading industrialists and economists wrote tlie plan, presented in separate parts in January 1944 and January 1945. The authors included Purshotamdas Thakurdas, J. R. D. Tata, G. D. Birla, Ardeshir Dalal, Shri Ram, Kasturbhai Lalbhai, A. D. Shroff, and John Matthai.[35] The industrialists argued that "a central directing authority" in eeonomic affairs was integral to India's political unity. The plan also claimed that:

> During the greater part of the planning period ... in order to prevent the inequitable distribution of the burden between different classes ... practically every aspect of economic life will have to be so rigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse.[36]

The principal objective of the Bombay Plan was "a doubling of ... per capita income within a period of fifteen years," which with an estimated additional annual population of five million people would require "a trebling of the present national income."[37] The Bombay Plan devoted considerable attention to calculations on what constituted "the minimum requirements of human life," estimating this in numbers of calories, yards, square feet, clinics and schools, and houses per eapita. In addition, a committee of the Indian Federation of Labour, the predeeessor of the Indian National Trade Union Congress, drafted a People's Plan. Both the industrialists' plan and the labor plan reeommended a commanding role for the state.

The labor plan, like the Bombay or business plan, emphasized comprehensive economic planning to engineer industrialization, employment, and growth. The movement in favor of centralized planning was not without its critics. There were Marxist critiques of central planning. K. B. Krishna issued a short, sharp critique of the "cult of planning."[38] The Gandhian

Plan, the alternative to both the labor plan and the industrialists' plan, which did not advocate a commanding role for the state, received less attention.

Economic nationalism in the movement for Pakistan

Indian economic planners and nationalist leaders were powerfully influenced by the economic theory and ideology of early twentieth-century Europe, and the Soviet Union. Pakistani nationalist leaders had no ideological moorings or firm convictions on the Pakistani economy, other than that it should grow and that it would need to industrialize. The demand for Pakistan was a reaction to the British government's strategy of gradually devolving a measure of political authority to indigenous elites in British India according to the religious community they were assumed to represent. The All India Muslim League made the demand for Pakistan in March 1940,[39] a mere seven and one half years before the British would agree to Partition India into two independent states. The Muslim League was formed by conservative Muslim landlords in December of 1906 in reaction to promises by the new Liberal Viceroy, Lord Minto, that Muslim loyalty would be rewarded by an "administrative reorganization" that would safeguard the "political rights and interests as a community" of the "Mohomedan community."[40] Muslim parties of British India did not support the movement for Pakistan. Indeed, the Jamaat-ul-Uleme-e-Hind, Jamaat-e-Islami, and Ihrar opposed the creation of Pakistan.

The provision of separate electorates for the Muslim community was made in the 1909 Indian Council's bill, which provided for six reserved seats for Muslims on a central council of 28 non-official members. Minto appointed an additional two Muslim members to raise the number to eight, a ratio greater than Muslims in the total population of British India in 1909.[41] Over the next three decades, the movement for separate Muslim representation would lie dormant. Mohammad Ali Jinnah himself, the father of the country, wonld play the role of "Ambassador of Hindu-Muslim Unity" until the middle of the 1930s. But the principle of providing separate electorates for Hindus and Muslims was upheld in the constitutional reforms of 1919 and the Government of India Act of 1935.

From its origins to its precipitous conclusion with the founding of Pakistan, economic nationalism was not a significant component within the All Indian Muslim League's movement for Pakistan. If economic independence did inspire Muslims to support a separate Muslim state, this was largely lost on the All Indian Muslim League representatives of the Indian Muslim population. The All India Muslim League's economic program never went further than the Lucknow session's resolution of 1937, to institute a program of economic reforms, including the fixing of a minimum wage and

maximum daily working hours, to improve health and hygiene, to clear slums and abolish usury and debt.[42] Some have argued that the origin of the movement for Pakistan was "the realization of being an underprivileged socioeconomic community."[43] According to Hasan Gardezi, the movement for Pakistan, like the struggle for an independent India, had economic underpinnings. "The founder of the Muslim League, as well as many workers in the movement," he argues "portrayed the struggle for independence from colonial rule as freedom from exploitation by the big-city financial and capitalist interests."[44] Gardezi makes the point to lend weight to his general assertion that Pakistan has constituted a "betrayal of the people" whom it was intended to protect. Muslim peasants, particularly in Bengal and elsewhere in Eastern India, may have embraced the movement for Pakistan as a struggle against economic exploitation by Hindu landlords. However, no such commitments are found in the arguments for Pakistan advanced by the Quaid-i-Azam (Great Leader), Mohammad Ali Jinnah, or in the resolutions of the All India Muslim League.

The deliberations and the resolutions of the All India Muslim League between 1906 and 1924 do reveal some material of interest to the consideration of the origins of Pakistan's early industrial development strategy. Speaking as President of the First Session of the League in Karachi in 1907, Muslim industrialist Sir Adamjee Peerbhoy concurred with the assumption that progress requires industry. "The history of the British people has shown that industrialization leads the way and on that foundation they build great superstructure of the arts."[45] But, this was largely by way of an excuse for his "laboring" in industry rather than in politics and a means to underscore the value of education and to remind listeners of his generous contribution to the Aligarh Muslim University. At the 1910 session, Maulana Syed Ahmad, the Imam of the Juma Masjid of Delhi, said that:

> commerce and trade that have made European countries prosperous and powerful ... if we aspire to our legitimate place in the British Empire, we must concentrate our mind on our economic development. ... For our people the question of economic development overshadows all others.[46]

Other sentiments in favor of economic development of the Muslim community through industrialization are sprinkled through the speeches, resolutions and documents of the All India Muslim League. But no coherent economic development program was articulated.

This characterization of the social and economic thinking of the All India Muslim League has been challenged by Ian Talbot in a consideration of previously unexamined material of the All India Muslim League Planning Committee, formed in September 1944.[47] The Muslim League Planning Committee's program for poverty alleviation and economic reform, recommended

in the draft of a first volume of an economic plan, clearly questions the textbook account of the Muslim League as completely lacking an economic plan and social welfare concern. That the Planning Committee did not produce a final draft and that the promised second volume, which was to focus on Muslim majority areas, was not issued, however, suggest that although the Committee may have given voice to progressive social policy, the League's commitment to social welfare and radical economic reform was rather weak.

India's "socialist pattern of development" 1947–91

The economic nationalism that animated the Indian nationalist movement structured the approach to development chosen by the Indian state.[48] The "developmental" Indian state, spearheaded by the establishment of a large public sector in basic and capital goods, succeeded in stimulating high levels of growth in manufacturing until the mid-1960s. Both external crises, including a border conflict with China in 1962 and a war with Pakistan in 1965, and internal crises, including a serious drought and devastating famine in 1965 and 1966, forced India to readjust its development strategy and to curtail planned public sector investment in the mid-1960s. After consolidating her hold on the Congress, Prime Minister Indira Gandhi's populist economic policies in the early 1970s, which involved a spate of nationalizations of financial institutions and failing private sector enterprises, further distorted the developmentalist orientation of the Indian state. In 1975, Mrs. Gandhi declared a state of Emergency, which she ended 18 months later, but this nevertheless raises questions about the compatibility of Indian democracy and command capitalism.

The ideological foundations of Nehruvian socialism

Jawaharlal Nehru was a leader of the Independence movement and Prime Minister of India from its Independence in 1947 until his death in 1964. He was the chief architect of India's political economy. His vision of the economy of an independent India was self-professedly socialist. Although Nehru described himself as non-doctrinal, even poorly schooled in socialist theory, he regarded himself as a socialist worker.[49] Nehru expressed sympathy and agreement with the socialist thought of British Fabians, a society founded by Sidney Webb and Beatrice Webb in 1918. Fabians then held an "organic" view of social change. Fabians argued for social ownership through a program of gradual nationalization beginning with utilities, thus earning them the name "gas and water socialists." Socialism would be realized through economic democracy. Fabians argued for the turning over of rents from land and capital to experts in science and statistics who would provide for the public good.[50]

In keeping with Nehru's conviction that progress was dependent upon the state's decisive role in economic management, the state's role in securing the social good was enshrined in the 1950 Indian Constitution. Nowhere is the commitment to workers' welfare as explicitly articulated as in the Directive Principles of State of the Indian Constitution. According to Directive Principle of the State Thirty-Nine:

> The State shall, in particular, direct policy toward securing: (a) that the citizens, men and women equally, have the right to an adequate means of livelihood; (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

The well functioning economy in the developing world, where investment in infrastructure and basic industry was low, required strong state intervention. Concentration of wealth was thus seen not only as a social evil but as economically undesirable.

Sukhamoy Chakravarty provides a rich account of the tenets of Indian economic planning. Chakravarty presented six foundational tenets, economic assumptions, which inclined Indian economists and planners to adopt "a socialist framework of economic policy in the mid-fifties."[51] First, a serious deficiency of capital was perceived as the chief structural constraint to development. Second, a low propensity to save limited capital accumulation. Third, even if savings could be raised their conversion into productive investment was unlikely. Fourth, agriculture faced diminishing returns and low employment potential, whereas industry had no such constraints on returns or employment generation. Fifth, market forces would produce excessive consumption by the wealthy. Sixth, although income inequality was perceived as negative, "a precipitate transformation of the ownership of productive assets was held to be detrimental to the maximization of production."[52]

These tenets were largely in keeping with British economic thought of the 1930s and 1940s. The last tenet, that growth should precede equity, requires elaboration, especially in comparison to Pakistan's early development strategy where growth was seen to require inequity. As Chakravarty points out, "while Nehru and others did talk about letting the national cake grow larger before an adequate standard of living could be provided for all, they were not growth maximizers in any sense of the term."[53] Since the institution of central planning, Indian economic managers have been concerned with preventing the growth of income inequality. A number of the industrial regulations established in the 1950s and 1960s aimed to prohibit the concentration of capital.

Planning for development, 1950–65

In 1937, the National Planning Committee was founded under the auspices of the Indian National Congress. The principle objective of the Planning Committee, chaired by Jawaharlal Nehru, was to help eliminate poverty in India by promoting industrialization. It was thought that the only way to reduce poverty was to shift the sectoral distribution of labor away from agriculture and into industrial production. Economists M. Visvesvaraya and K. T. Shah, as well as numerous industrialists, served on the Committee, indicating the broad support with which Indian industrialists greeted state planning. In 1947, the Indian National Congress established an Economic Program Committee, headed by Nehru, which in 1948 recommended the establishment of a permanent Planning Commission. It first met and issued the First Five-Year Plan in 1950. The Planning Commission was created by executive order, drawing on the justification of the Directive Principles of State, the guiding principles of the Indian Constitution.[54] The Planning Commission has been responsible for formulating both annual and five-year plans for the development of the Indian economy for nearly five decades. Each plan is considered, modified, and approved by the National Development Council, a body composed of the Prime Minister, in his or her role as Chairperson of the Planning Commission, and the chief ministers of all Indian states and union territories.

The First Five-Year Plan (1950–54), issued shortly before India's first general election, was as much a statement of the Congress's broad economic development goals as it was a concrete economic program. The plan was declared a success because of particularly good monsoons in 1954 and 1955, and because its overall target growth rate was achieved. Toward the end of the First Five-Year Plan, India's development strategy was more clearly articulated. In December 1954, the Parliament adopted a resolution declaring a "socialist pattern of society" as the goal of economic policy. In 1955, the Avadi session of the Congress endorsed the program of a large public sector. The Industrial Policy Resolution of 1956 excluded private enterprises from specified basic and strategic industries, giving emphatic support for a strong and exclusive public sector.

> The adoption of the socialistic pattern of society as well as the need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector.[55]

The Indian state reserved for the public sector future enterprises in electricity, irrigation, coal, steel, fertilizer, pharmaceutical and chemical plants, mineral and metal exploitation, and heavy engineering. According to one Western economist who served as a technical advisor in India in the 1950s,

"[t]he most important fact of government of this past decade [the 1950s] is the great widening of the area of government responsibility in the field of economics."[56]

Comprehensive planning began in earnest with the Second Five-Year Plan, presented in 1956. The Second Five-Year Plan placed increase in per capita income at the center of the planning process. Other principal goals of the plan were to ensure that economic growth would be self-sustaining, to shift dependence away from foreign aid and extractive and traditional industries, to increase employment, and to diminish income inequality between individuals, groups, and regions. Central to these objectives was the state-guided build-up of heavy industry. According to official thinking at the time:

> the rate of industrialization and the growth of [the] national economy would depend on the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals, and the heavy industries generally which would increase the capacity for capital formation.[57]

Nevertheless, modernization was understood in a richer though solely economic manner. India's economic development placed high priority on the tenets of a welfare state, one of which was the promotion of labor rights and standards. Government planning at the highest levels has defined the welfare of working people as a central purpose of the Indian state. A strong trade union movement was central to the project of uplifting the poor and working classes. "The attitude towards trade unions," according to the government's First Five-Year Plan (1950–55), "should not just be a matter of tolerance but they should be helped to function as part and parcel of [the] industrial system."[58] The second plan was theoretically explicit. It recognized the "utter necessity of a strong trade union movement for safeguarding the workers' interest and achieving the targets of the plan," declared that the "creation of industrial democracy is a pre-requisite for our cherished goal of establishing a socialist society," and stressed that industrial democracy would not be possible without a "strong and healthy" trade union movement.[59] Subsequent plans similarly endorsed and encouraged strong trade unionism, giving greater emphasis in later plan documents to the potential for unions to promote efficiency and productivity.

The challenge to Nehruvian planning, 1965–66

The Swatantra party, founded in 1959 on a platform of opposition to the Congress's commitment to state control of the economy, performed well in the 1962 elections, replacing the Communist Party of India as the largest opposition party. The Communist Party of India had criticized the Congress

for not proceeding toward socialism quickly enough.[60] An even greater challenge to Nehru's economic development strategy came in the form of the 1962 Sino-Indian war. The Indian debacle resulted in the resignation of Nehru's "most ardent socialist colleagues from the cabinet," including the Defence Minister, Krishna Menon. Further, the war was devastating to the philosophy of Third World solidarity and prompted a dramatic recognition of government expenditure; within the year, military expenditure was doubled.[61] Nehru forced the resignation of conservative ministers within the party and was able to secure a reaffirmation of the socialist commitment of the Congress in a resolution on "Democracy and Socialism" at its annual session in January 1964. But while Prime Minister Nehru was able to maintain the Congress's rhetorical commitment to socialism, by his death in May 1964 the Indian socialist development model was faced with a serious economic crisis combined with political opposition, both against and from within the Congress.[62]

The failure of both the 1965 and 1966 monsoons caused massive food shortages in India, resulting in a drop in agricultural production of 20 percent and requiring India to purchase food supplies from the United States. Food shortages and increased military expenditure after the 1962 Sino-Indian war fueled inflation. In fiscal year 1964–65, inflation rose by 10 percent, followed by 7.6 percent in 1965–66, and 14 percent in 1966–67, the highest level in India since the introduction of economic planning.[63] With the war with Pakistan over Kashmir in September 1965, the United States suspended foreign aid to both countries. In June 1966, Mrs. Gandhi announced that the rupee would be devalued. The measure was designed to secure renewed foreign assistance.

The economic crises of the early 1960s considerably weakened the Planning Commission's role in economic policy making. A three-year "holiday" from the Five-Year Plans was declared in 1965. Even with their resumption in 1970, the Planning Commission never regained its commanding role in directing Indian economic development. The Planning Commission and its development goals would become increasingly irrelevant to Indian economic development. Instead, the fundamental economic decisions and guidance would come from the Prime Minister's Office and the Finance Ministry. The Planning Commission has traditionally been at odds with the Ministry of Finance, a relatively conservative gathering within the Indian government. The Minister of Finance from 1950 to 1956, C. D. Deshmukh, later became a leader in the Swatantra party, which had challenged Nehru's economic strategy.[64] Another conservative, Morarji Desai, served as Finance Minister, in the belief that without his supervision Prime Minister Indira Gandhi "would sell the country to the communists."[65] The relocation of economic decision making to the Finance Ministry would later become important both to attempts to strengthen the socialist features of the economy and, later, to liberalize the economy in the 1980s.

On Nehru's death in 1964, Lal Bahadur Shastri was made Prime Minister of India. Shastri was a Gandhian who enjoyed the respect of the business community. The economic policies of his 19-month tenure, ended by his death in January 1966, were eonsidered by leftists to be a "deviation" from Nehruvian socialism. For the famine caused Shastri to divert governmcnt expenditure from industrial development toward agriculture and required greater reliance on market-driven controls. For example, the recognized inefficiency of fertilizer production, which had been the exclusive domain of the public sector, was opened to private investors, both domestic and foreign. But these "deviations," which Shastri defended as a necessary part of democratic governance, were marginal.[66] What is most remarkable about India's handling of the severe economic crisis of the mid-1960s was the decision, despite considerable political pressure on the Congress from within and without, not to abandon or to substantially re-negotiate Nehruvian socialism.

Indian socialism and economic populism, 1967–73

With the death of Prime Minister Shastri, the Congress Parliamentary Party chose Nehru's daughter, Indira Gandhi, who had served in Shastri's cabinet, to succeed him as Prime Minister. A general election was held in February 1967. The Congress, which had previously dominated parliament, was reduced to so slim a majority that "the defection of only 25 members could [have brought] about the downfall of the government."[67] Further, the Congress faced not only its traditional opposition from the Communist parties, but also the opposition of two strong rightist parties, the pro-business Swatantra party and the Hindu-ehauvinist Jan Sangh. More fundamentally, the Congress faced a deep division within the party between leftists, committed to deepening Nehruvian socialism, organized under the Congress Forum for Socialist Action, and rightists, a collection of older Congress cabinet ministers and chief ministers known as the Syndicate.

In the June 1967 Working Committee of the Congress, Mrs. Gandhi was able to persuade the party to adopt a Ten-Point Programme aimed at deepening Indian socialism. The program committed the government to state control of banking for the social good, the nationalization of general insurance,[68] expansion of state trading of import and export goods, public food grain distribution, consumer cooperatives and fair price shops, regulations to curb the growth of monopolies and the eoncentration of capital in the private sector, guaranteed provision of goods to fulfill minimum living requirements, reduction in poverty, rural works programs, land reform, eredit to landless agricultural laborers, supply of clean drinking water, and withdrawal of the privy purses granted to former princes. But despite the appearance of unity in June 1967, the division within the Congress over Indian economic development deepened.

In an opening move to oust Mrs. Gandhi, the Syndicate was successful in nominating Sanjiva Reddy for thc Presidency of the Republic of India at the All India Congress Committee in Bangalore in July 1969. The Syndicate had calculatcd that Mrs. Gandhi could be removed from office with Sanjiva Reddy's assistance. Mrs. Gandhi, after a three and a half year period in the Prime Minister's office in which she managed to maintain a distanee from an obvious alliance with the left faction of Congress, directly challenged the Syndicate by dismissing the conservative Morarji Desai as Finance Minister and assuming control of the ministry herself. She also promulgated an ordinance to nationalize the 14 largest banks in India, which was greeted by wide public support. The Syndicate began negotiations with the two national rightist parties, the Swatantra Party and the Jan Sangh, and secured the necessary support in parliament for the election of their Presidential eandidate. Mrs. Gandhi, in turn, gained the support of the Communist Party of India and regional parties so as to secure the election of her chosen candidate, V. V. Giri, as President of India. "[I]n the maneuvers to censure and discipline her ... the party split into two in November 1969."[69] The rightist faction that opposed Mrs. Gandhi, which consisted of 60 of the 283 members of the Congress, formed the Indian National Congress (O).[70] Given the constraints of an electoral democraey, Mrs. Gandhi made a decision about the direction of the Congress. Referring to thc conservative elements in the party, she explained years after the Congress split that:

> if their way would havc been followed, Congress would have been completely finished. As you saw, in the next election, that part of the Congress was practically finished. Had we been with them, we would also have [been] finished.[71]

In an eleetoral political system, entailing periodic public evaluation of government policy at the polls, Mrs. Gandhi ealculated that Indian public opinion was moving to the left. Her evaluation was enthusiastically reconfirmed by thc 1971 general election, in which her Congress Party (R) seeured more than two-thirds of the seats in the Lok Sabha.[72] The electorate continued to support the Communist Party of India, while strengthening the Communist Party of India (Marxist), but cut down the Jan Sangh and especially the Swatantra party and the Indian National Congress (O). By delinking state elections from the national election, Mrs. Gandhi assured that the national election would scrve as a popular referendum on her, in which her slogan of *garibi hatao* (remove poverty) was designed to appeal to the masses. What is most significant about the division of the Congress over the two faetions' differing economic philosophies is that it was played out in an electoral political systcm.

The move to bring 85 percent of bank assets into the public sector through her bank nationalization program had been a long-standing

demand of the left. The report of the All India Congress Committee's (AICC) Economic Programme Committee in January 1948 had recommended that banking and insurance be nationalized, and had been adopted later in the year by the AICC. The central bank, the Reserve Bank of India, was nationalized in 1949. And in response to demands through the 1950s for nationalization of all commercial banks, the Imperial Bank of India and eight banks belonging to formerly princely states were nationalized in 1956. "Two resolutions were moved in Parliament during 1963 for bank nationalization."[73] Thus, Indira Gandhi's 1969 bank nationalization ordinance had precedence in government policy. It was followed by a series of economic policy maneuvers which would command Mrs. Gandhi popular support for her commitment to socialism. Other such policies include the Monopolies and Restrictive Trade Practices Act of 1969 and the Industrial Licensing Policy of 1970, which expanded the domain of industries excluded from private sector investment. The real "triumph of ideology" over economic rationality came with the nationalization of the entire coal industry, the Indian Iron and Steel Company, as well as two refineries needed for the newly acquired steel plant, the Indian Copper Corporation, and over one hundred textile mills.

Stagnation before Emergency 1974–75

India was faced with a new and serious economic crisis in the early 1970s. The average annual growth in India's GNP between 1970 and 1975 was less than 1.3 percent.[74] With a population rising at nearly 2.5 percent per annum, per capita income was declining. The United States suspended both economic aid and the supply of food grains at concessionary rates in response to the Indian intervention in the civil war in East Pakistan in 1971. The cost of caring for nearly ten million refugees (and nearly one hundred thousand Pakistani prisoners of war) also considerably taxed the Indian economy. The October 1973 hike in oil prices by the Organization of Petroleum Exporting Countries (OPEC) further added to inflationary pressures and government expenditure.

In addition to these renewed economic challenges to Indira Gandhi's socialist economic program, the Prime Minister was also faced with serious political challenges. A student agitation had toppled the Congress government in Gujarat. And the subsequent elections brought to power one of Indira Gandhi's chief rivals, Morarji Desai. Under the leadership of Jayaprakash Nayaran, popular political movements threatened the entire Congress. Further, in May 1974, the socialist trade union leader George Fernandes led a railway strike which paralyzed the country. In this context of economic crisis and political unrest, Mrs. Gandhi's economic policy moved rightward, while holding to the underlying economic position that economic growth necessitated capital accumulation in the state sector. The

railway strike was crushed by force. Thirty thousand workers were arrested. In July 1974, the government impounded state workers' wage and cost of living increases, or dearness allowances.[75]

A decisive shift rightward occurred in the early hours of June 26, 1975 when Mrs. Gandhi declared a national state of Emergency. Two days earlier, the Supreme Court of India found the Prime Minister guilty of minor election violations by which the courts had no choice under the Constitution other than to annul her election and bar her from public office for six years.[76] Official rationale referred to mounting foreign and capitalist threats to India's independent socialist development. But the government's economic initiatives were decidedly pro-business. The government lowered the maximum tax rate for industry and permitted investment allowances against corporate taxes. The government also removed the dividend ceiling, which had accompanied the earlier measure impounding workers' wages, cost of living increases, and dearness allowances. Further, industrial licensing was relaxed and unauthorized capacity installation was legalized. But the relaxation of controls on industry was not as great as the tightening of the controls on organized labor. Strikes in what were defined as essential industries, such as civil services, power and water supply, police and railways, were banned. At the same time, Mrs. Gandhi appealed to the leaders of the Indian National Trade Union Congress and the All India Trade Union Congress to prevent strikes for a period of one year.[77] Leaders of the rival Centre for Indian Trade Unions and the Hind Mazdoor Sabha had already been "crushed into submission."[78] The government arrested or drove underground Marxist and socialist labor leaders, except those affiliated to the AITUC. The number of offieially recognized labor disputes dropped dramatically.

In Latin America, more than ten years before the Emergency in India, democracy had also suffered authoritarian intrusions. Guillermo O'Donnell's well known thesis on the rise of bureaueratic-authoritarianism argued that the military coups in Brazil in 1964 and in Argentina in 1966 were the structural consequences of import substituting industrialization. O'Donnell's thesis that import substitution industrialization provokes authoritarianism is an economistie extension of Huntington's thesis that modernization creates levels of political participation that can not be politically incorporated without government created institutions of mass control. "If high modernization results in mass praetorianism," argues O'Donnell in his tenth proposition, then "the assessment by technocratic role-incumbents of their combined capacities is likely to generate a coup coalition."[79]

There were two major differences between Mrs. Gandhi's Emergency and the rise of bureaucratic authoritarianism as theorized by O'Donnell. These suggest that the Indian Emergency was not a bureaueratic authoritarian intervention provoked by the exhaustion of an import-substituting pattern

of industrialization. In the first place, India's import substitution was not concentrated in easily achieved but quickly exhausted domestic substitution of consumer good imports as O'Donnell argued it had been in Brazil and Argentina.[80] Indian import substitution was concentrated in the capital goods sector. More importantly, the Emergency did not generate a coup coalition. The Indian military remained neutral during the Indian Emergency and resisted attempts by Mrs. Gandhi's son Sanjay Gandhi "to insinuate himself into national security decisions."[81] Perhaps the distance that India was able to maintain from the United States and the US military help to explain India's resilience to anthoritarianism. The Emergency, however, did confirm a fundamental shift in the state's treatment of organized labor, in evidence since the police break-up of the 1974 railway strike. The gradual adjustment of the Indian economy and the dissolution of a relationship between organized labor and the state began under the Emergency. We consider the transformation of state–labor relations in greater detail in chapter five, where the rationalization of labor and organized labor's responses are examined.

Pakistan: neoliberal growth models 1947–88

The Partition of British India in 1947 left Pakistan with very little modern organized industry. Official sources describe Pakistan at Independence as an "economic wasteland."[82] Per capita income in Pakistan at Partition was 32 percent lower than in India.[83] The principal manufactured products in Pakistan at Partition were cotton yarn in West Pakistan and jute and tea in East Pakistan. The cotton crop from Pakistani Punjab continued to feed the mills in Ahmedabad and Bombay, while the jute crop from East Pakistan fed the mills in Calcutta. But Pakistan's decision not to join the United Kingdom and India in a currency devaluation led to India's suspension of this trade in 1949.

At Independence, most of the industry, commerce, and finance in the regions that became Pakistan tended to be in the hands of Hindus, Parsis, and Europeans, most of whom migrated at Partition. There were only two major industrial families in Pakistan after Partition, the Ispahani and Adamjee, both in tea production.[84] The pressing concern of the Pakistani state in 1947, therefore, was to assist in the development of industry and business. As Angus Maddison summarized:

> [t]he new industrial class in Pakistan was formed largely of a small group of refugee families who had previously been traders in India, and who were able to discern the new industrial profit opportunities. The landlord class which was predominate politically in the first decade of Independence had almost no role in industrial development.[85]

Stimulating original industrialization, 1947–58

After Partition, Pakistan met the challenge of developing basic industry without a well-defined industrial policy or coherent economic philosophy. Although there was an emphasis on import-substituting industrialization, as called for in the Industrial Policy Document of 1947, it did not appear as a matter of economic strategy, but as a necessity for government revenue. Tariffs were not high enough to stimulate widespread import-substituting industrialization.[86] Pakistan's early import restrictions were motivated less by import-substitution convictions than by the compulsions of a serious foreign reserve crisis.[87]

When the United Kingdom devalued the pound in September 1949, India followed suit. Allegations that Pakistan had refused to devalue its currency to assert its independence from India, its largest trading partner, were countered by the Pakistani government. The Finance Ministry argued that the decision not to devalue was made "entirely by economic considerations," that "conditions favorable to industrialization should be created and maintained."[88] "The prominence given to industrialization was symbolized by the controversial decision of not devaluating the rupee in 1949."[89] Maintaining an overvalued currency allowed Pakistan to receive higher selling prices for its exports, chiefly composed of such raw materials as jute and cotton, while reducing the cost of imported machinery and capital goods. But as a result of Pakistan's decision not to devalue its currency, India suspended trade with Pakistan.

The Government of Pakistan developed a strong public sector in the attempt to develop an indigenous capitalist class. It was not a public sector based on an ideological commitment to state ownership, as in India. Rather, the Pakistani public sector was intended to be the foundation for the development of private industry. In 1950, the Pakistan Industrial Development Corporation (PIDC) was set up to establish public sector industries that, once viable, could be sold to the private sector.[90] Of the 43 large industrial ventures established by the PIDC, 34 were transferred to the private sector, most as public limited companies. Some were sold to leading industrial families.[91] Pakistani industrialists were also aided by liberal credit from the Industrial Development Bank of Pakistan and the Pakistan Industrial Credit and Investment Corporation. Despite considerable political instability, Pakistan made major progress in economic development prior to 1958. The country was almost self-sufficient in food grains, pulses and flour, except during the crop failure of 1952–53. Only in 1956 did food imports begin to rise dramatically. In 1947, Pakistan was an importer of textile goods, but by 1952 was a substantial exporter of textiles. The percentage of growth of GNP originating in manufacturing in 1953–54 reached 29.6 percent, a level higher than at any time during Ayub Khan's development decade, despite a machinery import bill five times lower than in 1959–60.[92]

The development decade of Ayub Khan, 1958–69

A general election was scheduled in Pakistan for February 1959. The most senior managers of the state bureaucracy, however, were generally not prepared to face voters. The bureaucracy had formed a political party with an eye to ensuring that the Muslim League would be defeated, but their Republican Party lacked the popular support necessary to win an election. More importantly, the emergence of the National Awami Party in East Pakistan created "the danger of the non-Punjabi electorate in West Pakistan voting for parties committed to dismantling the one unit system" which under-girded the control of the state apparatus by a predominantly (West-Pakistan) Punjabi civil bureaucracy and army. The potential for popular unrest in both rural and urban areas caused President Iskander Mirza to request that the Commander-in-Chief of the Armed Services, Field Marshal Mohammad Ayub Khan, assume political power. In a gentlemanly affair, Ayub Khan agreed. The Field Marshal asked the president to resign, which he did on 27 October 1958.[93] Ayub Khan declared martial law, banned political parties, and pronounced himself Chief Martial Law Administrator.

The 1958 coup was more an orderly transfer of power from a civilian to a military leadership than a struggle between an elected government and the armed services. The bureaucracy maintained its grip on government. This perspective is widely shared by scholars of Pakistani politics. This observation is central to the consideration of the affinity of political regime type to economie policy. It signifies that the 1958 declaration of martial law did not transform the political regime.

Ayub Khan would remain in office for ten years. One of the most significant features of his self-proclaimed development decade was his reliance on Western economic techniques to solve to Pakistan's problems. According to one senior Pakistani economist "to him the economic profession has reasons for remaining profoundly grateful because of the honor [Field Marshal Ayub Khan] has conferred on it, and the responsiveness he has shown toward professional advice."[94] In keeping with this professional approach to economic development, Ayub Khan not only made use of Pakistani economists who had been trained in the United States but also invited US economists to assist him in engineering rapid economic growth. Numerous American advisors worked in Pakistan during Ayub Khan's development decade.[95] According to one such advisor, the National Planning Commission was "insidiously take[n]-over" by American advisors.[96] In the wake of World War II, the United States was attempting to demonstrate that its political and economic systems could serve as the model for developing countries. Technical assistance to Pakistan in the 1960s provided the US government, US educational institutions, and major private foundations an opportunity to prove the benefits of US economie management. Ayub

Khan also invited Western financial assistance. In 1954–55, foreign loans constituted 1.1 percent of GNP. Under Ayub Khan, dependence on foreign loans increased sharply to 8.7 percent of GNP by 1964–65.[97]

On March 1, 1962, after three and one half years in office, Field Marshal Ayub Khan proclaimed a new constitution for Pakistan. The 1962 Constitution dissolved Pakistan's parliamentary system and instituted a Presidential system, with Ayub Khan at its head. In its limited curbs on the powers of the President by the legislature, according to Huntington, "the system approximated more the model of a *Rechtsstaat* than of a liberal democracy."[98] The 1962 Constitution provided for indirect elections through Ayub Khan's system of Basic Democracies. Political parties were banned.[99] Samuel Huntington at this time was preparing his argument that public participation in politics, unstructured by order-preserving institutions, is a danger to political development. Field Marshal Ayub Khan's system of basic democracies, found great promise "for the tempered expansion of power."[100]

Field Marshal Ayub Khan's political leadership combined political command and control with an effort to stimulate growth by facilitating the concentration of capital. Under his economic development strategy, capital accumulation was the main goal of Pakistan's economic policies. "The private capitalist was expected to perform an important function through savings and reinvestment of profits. Thus the government was prompted to encourage the private sector through a variety of incentives with little or no curb on profits."[101] Pakistan's economic strategy, characterized as a "functional inequality" approach,[102] did not view the concentration of capital as a social danger, as did India's early development strategy, but rather saw capital concentration as necessary to rapid growth. It was argued by the Western economists who advised the Pakistan government in the late 1950s and 1960s that economic growth required an inequitable, but temporary, concentration of wealth.[103] Economic models of the period laid great stress on domestic investment as the source of economic growth.

Habibur Rahman, Chief of the Economic Research Section and then the General Economic Section of the Pakistan Planning Commission from 1959 to 1962, wrote a brief but telling tract on Pakistan's economy, assessing which leading economic development model was best suited to Pakistan.[104] Telling is his approach, in which the answer to Pakistan's problem of underdevelopment is to be found in the selection and fitting of one of eight possible Western economic models to Pakistani conditions. The Keynesian, or government spending driven, model is rejeeted. For while it includes "a prescription for dealing with the curse of *unemployment*" it assumes a level of idle industrial capacity which is not found in underdeveloped countries. The classical, neo-classical (i.e., neo-liberal), and Harrod-Domar models are similarly rejected for being unsuitable to underdeveloped countries. The only model suitable to Pakistan, he argues, is Lewis's model, which, like the classical model, assumes that it is only the capitalists who save:

> The landlords do not save ... The middle-classes and the wage-earners also do not save. ... Saving for the purpose of investment is done *only* by one class in the community, and that is the *capitalist* class. And they can progressively save more only "if the share of profits in the national income is increasing." This is why the capitalists' profit is the *king-pin*, the *primum mobile* of economic growth in the Lewis model. Public policy for economic development must, therefore, be oriented towards creating the circumstances which lead the *share of profits* in the national income to *increase*. ... All private and public policies must be geared to this continuous expansion of the capitalist sector.[105]

The Lewis model challenges the Nurksian assumption that savings are low in underdeveloped countries because people are poor. According to Lewis, people are poor because savings are low.[106]

Lewis's model postulates two sectors, a capitalist sector and a subsistence sector. "The former is the *progressive* sector; the latter is *stagnant*." Because workers are drawn from the snbsistence sector, their wages are subsistence wages, "equal to the average product per man in the subsistence agriculture, plus a margin" large enough to draw them away from their villages.[107] At such wages, "[t]hey will always produce more than what they are paid; the *residue* builds up the capitalist profits as in the classical model."[108] In the Lewis model the state:

> abandons the classical requirement of *laissez-faire* and ... play[s] a vigorous role in economic development investing directly in business, regulating industries, trade commerce and using all its powers ... bringing about rapid economic growth.[109]

As chief research economist Rahman acknowledges, these ideas were not his own invention, but reflected the thinking within the government. In the late 1950s and early 1960s, Pakistani economists and officials viewed Pakistan's economie options in the dichotomous terms of growth through capital concentration or equity and the vague notion of a welfare state. In 1963, Mahbub ul Haq, Chief of the Planning Commission and Pakistan's most influential economic planner, underscoring Pakistan's "need for a growth economy" summarized Pakistan's development challenge as follows:

> It would be tragic if policies appropriate to a Keynesian era were to be tried in countries still living in a Smithian or Ricardian world ... the best (and, perhaps, the only) form of social security is ... through the creation of sufficient capital by some. There exists, therefore, a functional justification for inequality of income ... The

> road to eventual equalities may inevitably lie through initial inequalities.[110]

Gustav Papanek declared Pakistan's efforts to use private incentives to achieve social goals a success.[111] Papanek, an economist and advisor to Pakistan's Planning Commission, espoused the "social utility of greed," without which, he argued, no economy could develop.[112] He and contemporary economic planners claimed that "the real [development] problem [was] the creation of surplus value." Thus, regional and functional disparities were welcomed. Papanek pointed to the fact that Pakistan had tripled its foreign investment between 1960 and 1965 and showed strong industrial growth through the Second Five-Year Plan.

American advisors as well as Pakistani economists trained in US institutions were able to direct Pakistan's economic policy toward an export-oriented industrialization strategy. Under General Ayub Khan, Pakistan revised its import substitution-oriented development strategy and promoted exports. The chief institutional vehicle for this shift of productive capacity was the Export Bonus Scheme of 1960. The Export Bonus Scheme employed a system of multiple exchange rate vouchers granted to firms according to the share of exports in their overall production.[113] The aim of stimulating exports of manufactured goods constituted an incentive for capital intensive techniques and a bias against agricultural exports.

Grants and loans from sympathetic governments, chiefly the United States, were a central requirement of Pakistan's early development strategy. In 1954–55, foreign loans constituted only 1.1 percent of GNP. Under Ayub Khan, dependence on foreign loans increased sharply to 8.7 percent of GNP by 1964–65. With the political unrest after Ayub's removal, foreign borrowing as a percentage of GNP declined to 3 percent in 1969–70.[114] The 17-day war with India in 1965 over Kashmir lead to a drastic fall in foreign investment.

As a result of a strategy of generating surplus capital, capital in Pakistan became highly concentrated in the hands of a small group of industrial families. Government statistics are unreliable. But the then Chief Economist of the National Planning Commission in 1968 estimated that "the top twenty industrial families control about 66 percent of the total industrial assets, about 70 percent of the insurance funds and about 80 percent of the total assets of the banking system."[115] Contrary to the predictions of the doctrine of functional inequality, growth in large-scale manufacturing in Pakistan was actually higher under the parliamentary regimes preceding General Ayub Khan's coup than during his development decades. From 1950 to 1957, growth averaged 18.6 percent as against 12.8 percent from 1958 to 1968.

While Ayub Khan's decade of development may have fostered economic growth, it also contained the seeds of its own destruction.[116] Ayub Khan's

strategy of "functional inequality" demonstrated that even under a military dictatorship, income inequality and rapid growth can not be sustained indefinitely. In March 1969, a broad popular movement against Ayub Khan, in which students, industrial labor and other sections of the urban middle classes participated, forced him to step down. In evaluating Huntington's thesis that institutionalization should precede participation, it is instructive that Ayub Khan's system of Basic Democrats, which Huntington embraced as an ideal for institution-building in the developing world,[117] rather than achieving any success in institution-building was overthrown in 1969 in a massive national upheaval that the military, the strongest institution in Pakistan, could neither ignore nor suppress. After six months of street protests and failed attempts to crush the movement through arrests, prohibitions against demonstrations under the Defence of Pakistan Rules and military actions which left hundreds dead, President Ayub Khan handed over power to his Commander-in-Chief, General Yahya Khan, on March 25, 1969.[118] The following chapter details the role of industrial labor in the unrest that brought down Ayub Khan and discusses how Yahya Khan's regime instituted more effective mechanisms for controlling organized industrial labor. The interim military government's chief tool in this regard was the Industrial Relations Ordinance of 1969 which legally ensured the political marginalization and organizational fragmentation of labor in Pakistan.

General Ayub Khan's development strategy was based on myths and oversights. Economists of developing areas believed that the native farmer was unresponsive to price incentives; that the capital required for national economic development could only be generated by extracting surpluses from agricultural laborers; and that coercion could guarantee successful implementation of government policy. Further, the military regime underestimated the social and political consequences both of fostering industrial concentration and of creating a small, well-paid labor force above a large underemployed labor force.[119]

As Pakistan's economic policy makers worked under an authoritarian political regime, they did not propose policies with a view to elections. Such economic calculations later had significant political consequences, as evidenced by the mass protests against Ayub Khan. Economic policy in Pakistan from 1947 to 1969, however, was largely insulated from popular pressures. Only toward the end of that period did rural and urban popular movements gain strength. When economic populism was harnessed by Zulfikar Ali Bhutto's campaign against Ayub Khan and his victory in Pakistan's first general election, Pakistan's economic philosophy and policy mechanics were transformed. Just as Indian economic policy under Nehru was largely managed by the Planning Commission but became centralized in the Ministry of Finance under Indira Gandhi, so too Pakistani economic policy became centralized in the Finance Ministry and eventually the Prime Minister's Office, with Pakistan's first transition to electoral democratic rule.

Zulfikar Ali Bhutto's populist detour, 1970–77

Pakistan's first national election in 1970 and the subsequent ascendance of Zulfikar Ali Bhutto iu 1972 re-oriented of Pakistan's economic philosophy. Bhutto campaigned on a platform of Islamic socialism, promising to return to the working classes the wealth which was properly theirs. The often repressive and reckless manner of his economic populism through a program of nationalization ultimately helped to strengthen the hand of his political opponents. Pakistan's second experiment with a large public sector was undermined by his authoritarianism and his party's indulgence in vote-rigging during the 1977 election.

Zulfikar Ali Bhutto began his career in politics in October 1958 when Pakistan's first President Iskander Mirza appointed Bhutto, an attorney, to be the central government's Minister of Commerce. President Mirza was ousted within the month by General Ayub Khan, but Ayub Khan retained Zulfikar Ali Bhutto. In January 1960, Bhutto was moved to the Ministry of Information and in January 1963 was made Pakistan's Foreign Minister.[120] The 1965 war with India over Kashmir gave Bhutto national recognition. Field Marshal Asghar Khan, who served as Commander-in-Chief of the Pakistan Airforce in the early 1960s and founded both the Justice Party and the Tehrik-e-Istaqlal (Red Banner Movement), claimed that Bhutto encouraged Ayub Khan to go to war with India in 1965 so that Bhutto could advance his own political career.[121] Official reports from the front in Kashmir led Pakistanis to believe that the war was being won. "[W]hen it transpired that they had, after all, not won, public opinion attributed this result to betrayal at the highest level in government."[122] Bhutto's hostility toward India during the cease-fire negotiations in the United Nations Security Council and his well performed displeasure with the peace accord negotiated by President Ayub Khan at the Soviet-sponsored negotiations in Tashkent gained Bhutto a considerable degree of public support.[123]

Asked to leave Ayub Khan's administration in June 1967, Bhutto was greeted as a national hero.[124] In anticipation of Ayub's fall, Bhutto announced the formation of the Pakistan Peoples Party in September 1967 and held a founding convention in November and December 1967. The program of the party was drawn up with the assistance of J. A. Rahim, Mubashar Hasan, and K. H. Meer in Lahore.[125] The program, called the *Foundation Documents*, consisted of a series of papers which analyzed the nature of economic development instituted by previous regimes and made the case for the nationalization of heavy industry so as to ensure greater social welfare than had been previously achieved.[126] The industries to be nationalized, according to document four, were "banking and insurance, iron and steel, metallurgy, heavy engineering, machine tools, chemicals and petrochemicals, shipbuilding, armaments, automobiles, gas and oil, mining, generation and distribution of electric power, shipping, railways and air and road transport."[127]

Responding to long-term demands by Pakistan's trade union federations, the *Foundation Document* also called for a national minimum wage, a guarantee of the right to organize and to strike, and the formation of nationwide unions in major industries. These had been legally pre-empted by Yahya Khan's Industrial Relations Ordinance of 1969.

The Pakistan Peoples Party *Election Manifesto* was issued shortly after Yahya Khan announced in November 1969 that elections to the National and Provincial Assemblies would be held in October 1970.[128] The *Election Manifesto* went far further than the *Foundation Documents* in its analysis of the Pakistani political economy as a feudal system and its argument that only the nationalization of "all major sources of the production of wealth" could restore the surplus value of labor that rightfully belonged to workers and peasants.[129]

The 1970 election was Pakistan's first national election, coming some 23 years after Independence.[130] The election was held in December 1969, having been postponed from October 1969 due to severe flooding in East Pakistan. In addition to the Pakistan Peoples Party (PPP), the Awami League, three factions of the Muslim League and four Islamic parties, together with numerous independents contested. The PPP captured nearly two-thirds of the seats in West Pakistan, while the Awami League, led by Mujibur Rahman, took 160 of the 162 seats allocated to East Pakistan.

Neither Bhutto nor Yahya Khan was prepared to accept the Awami League's demand for provincial autonomy in East Pakistan, despite the fact that the 1970 election gave the Awami League 160 seats in a National Assembly of 300. Yahya Khan had made it a condition for convening the National Assembly that the new government be agreed upon first. Thus, it was not until December 1971, after the breakup of Pakistan and the creation of Bangladesh, that Zulfikar Ali Bhutto was sworn in, in a truncated Pakistan, as President and Chief Martial Law Administrator. Public dissatisfaction over the loss of East Pakistan demanded that Bhutto create "a new regime, substantially different from its predecessors in both structure and orientation. ... it would comfort the disadvantaged, while they had made the rich richer."[131]

In his first address to the nation as President of Pakistan, Bhutto promised to usher in a period of social and economic justice. He enjoined industrialists not to dismiss workers and, in words echoing his *Election Manifesto*, referred to workers as "our masters" and the "producers of wealth."[132] Within two weeks of assuming office, Bhutto made good on his election pledge to nationalize most basic industries, assuming the management of 33 private businesses through the proclamation of the Economic Reform Ordinance of 1972. "[T]he brunt of the nationalizations and economic reforms fell on the large family conglomerates controlled by the twenty-two families who had beeome the target of economie reprisals and public attacks."[133] As many of these businesses were of low productivity,

suffered financial losses, or were badly managed and were only a modest proportion of the economy, the Economic Reform Ordinance was hased more on "high drama than hope of substantial material gain for the common man."[134]

Two weeks after the nationalization under the Economic Reform Ordinance, Bhutto abolished the managing agent system, whereby an industrialist "family could dominate and control a large number of publicly owned companies by acting as a conglomerate holding company,"[135] often with the benefit of public financing. Other nationalization proclamations followed, despite repeated assurances to the business community that each measure was to be the last. In March 1972, Bhutto nationalized the life insurance companies and private schools and colleges. In June 1973, the government assumed control over the rice export trade and the procurement of raw cotton. Later, Bhutto nationalized the vegetable ghee industry, which had raised prices dramatically in the wake of the devastating monsoon of 1973. Finally, in January 1974, domestic banks, which had already been placed under stricter control by the state, were nationalized. Then, in June 1976, after he had relieved from office the economic advisors who might have been able to steer the state's newly acquired assets toward better management, Bhutto nationalized thousands of small wheat flour, rice-husking and cotton gin mills. It was this challenge to the small entrepreneur who had supported him in 1970, as opposed to the major industrial families, which caused irreparable political damage to his government.

Bhutto's assault on big business in the form of his seemingly relentless nationalization programs succeeded in achieving an organizational solidarity among Pakistani businesses which they had previously been unable to forge themselves. The Karachi Chamber of Commerce and Industry made "repeated representations for reversing the policy of nationalisation." But it was the regionally based, industry-specific business associations which were most active against Bhutto, particularly the Pakistan Pharmaceutical Manufactures Association and the All-Pakistan Textile Mills Association. Galvanized against Bhutto and the Pakistan Peoples Party by the time the 1977 elections were declared, "[b]ig business ... supplied financial support to the PNA,"[136] the PPP's chief rival. The PPP may have been the response to the disastrous consequences of authoritarian economic development, but the party was unable to sustain authoritarian populism.

After five years in office as Prime Minister, Bhutto declared new national elections, as prescribed by the 1973 Constitution, expecting to consolidate PPP rule. The elections were rigged, giving the nine-party alliance against Bhutto, the Pakistan National Alliance (PNA), the grounds for organizing a national movement against the election results. Traders, shopkeepers, and urban middle class professionals formed the backbone of the PNA agitation against the PPP. The PNA's call for military intervention was granted on July 5, 1977, when Army Chief of Staff Zia ul-Haq placed Prime Minister

Bhutto under detention and declared himself Chief Martial Law Administrator. Bhutto was hanged later.

Despite Zia's declaration that the military would step out of politics within 90 days, after overseeing a fair election, the General remained in office for 11 years, until his death in a plane crash in August 1988. The longevity of the Zia government owed much to the Soviet invasion of Afghanistan in December 1979, which elevated Pakistan to the status of front-line state to Soviet aggression. Thus, the Government of the United States, other Western, and Middle Eastern governments provided the Zia government with billions of dollars in economic and military aid. The Zia government was also able to defuse potential social unrest over unemployment by successfully increasing the export of mostly unskilled laborers to oil-producing Gulf states.[137] By 1984, remittances from Pakistani workers in the Gulf amounted to 8 percent of Pakistan's gross national product.[138]

Economic ideology and organized labor

The evolution of differing development strategies and the selection of economic models in India and Pakistan were largely shaped by the different nationalist movements and political regimes in the two countries. India's electoral democratic regimes supported populist economic programs. Pakistan's authoritarian regimes dispensed with economic populism and followed the guidance of technocratically inclined economic advisors. Democratically elected regimes in the developing world have tended to support social welfare ideology, often embracing a strong public sector and import substitution industrialization. In South Asia, modern economic populism has resulted in government nationalization campaigns and the extension of state welfare programs (e.g., Sri Lanka from 1970 to 1977 under Prime Minister Mrs. Sirimavo Bandaranaike, India from 1971 to 1975 under Prime Minister Indira Gandhi, and Pakistan under Prime Minister Zulfiqur Ali Bhutto from 1972–77).[139] Authoritarian regimes in the developing world have been more inclined to support market ideology and to pursue export-oriented industrialization. Modern authoritarian regimes have aggressively promoted export industrialization (e.g., Pakistan under Ayub Khan from 1958–68, South Korea under President Pak Chung Hee from 1961–80, and China under Deng Xiao Ping since 1979).

Economic ideologies are not simply adopted by political regimes according to their predilections upon assumption of office. In formerly colonized societies, economic policies are infused with the ideologies of the Independence movement and influenced by the incentives of existing and past regimes. Thus, more significant than the regime type operative during the implementation of a structural adjustment program and policies adopted, or not adopted, are social institutions and organizations.

India's nationalist struggle and Nehruvian socialism placed national economic sovereignty at the center of the ideological project of constituting an Indian nation. The "fissiparious tendencies" that were predicted to divide India,[140] one of the world's most culturally, linguistically, and religiously diverse countries, were to be contained largely by the Indian government's ideological commitment to national economic sovereignty. Similarly, India's political independence in the postcolonial world was to be secured by economic independence. According to the leadership of the national movement, this required massive state's intervention in heavy industrialization.[141]

In contrast, the movement for Pakistan, at least as articulated by the All India Muslim League, gave virtually no attention to its economic foundation. Only after the economic catastrophe caused by the Partition of British India did the Muslim League leaders define a program for Pakistan's economic development. This strategy nevertheless fell short of a national economic philosophy. The absence of a national economic program was among the major causes in the eventual break-up of Pakistan in 1971, for it allowed economic advantage to flow to the politically empowered in West Pakistan.[142] Consequently, the economic content of the Indian nationalist struggle and its virtual absence from the movement for Pakistan have left a powerful legacy for subsequent efforts in the two countries to restructure and liberalize the economy.

The character of the nationalist movements, and their underlying social bases, led to the Partition of British India and the creation of the independent states of India and Pakistan. It also powerfully influenced choice of postcolonial development strategies and economic ideologies. The regimes that emerged after Independence organized labor differently, according to their political requirements. The development of trade unionism under an electoral regime, especially given its professedly socialist ideology, facilitated the development of political party-based unionism in India. An authoritarian political system, which was confronted by labor and mass movements, led Pakistani leaders to design enterprise unionism in Pakistan. Indian and Pakistani political regimes, and the economic ideologies that they adopted, molded organized industrial labor as a social institution.

Organized labor and the state before 1975

State-guided industrial development was an imperative of the post-Independence period in the former colonial world. In South Asia, as elsewhere in poor countries, the legitimacy of the state vitally depends upon its ability to generate economic growth and employment and to advance social justice and welfare. The Indian and Pakistani regimes tackled this double-edged legitimacy challenge quite differently. India's economic model, based on comprehensive economic planning and state ownership and management of heavy industry, was rooted in British national social welfare economic

thought of the 1930s and 1940s. Pakistan's economic model, based on state facilitation of industrial growth through the concentration of capital, was rooted in American neo-liberal economic thought of the 1950s.

The models shared some important assumptions but also differ in consequential ways. Both models assumed a linear path to economic development and regarded a shortage of capital as the chief cause of underdevelopment. Whereas the Pakistan state explicitly privileged economic growth, the Indian state placed greater emphasis on social welfare. Moreover, Indian planning under Nehru, despite its faith in technocratic solutions, carried a moral imperative.

India and Pakistan, despite the differing economic development models, managed to build rather similar economies with large public sectors. Their economic development models shared important assumptions. Both models assumed a linear path to economic development and regarded a shortage of capital as the chief cause of underdevelopment. But while the Pakistani state explicitly privileged economic growth, the Indian state placed greater emphasis on social welfare.

The fiscal crises facing the poor states of the world are not necessarily the consequences of unsound economic policies. Rather, structural adjustment programs are brought on by a tendency within the international financial system. That tendency produces balance of payment crises in most poor economies. Extrication of the state from its central role in the economy and in industrial relations is a common response to fiscal crisis.

The depth of the fiscal crisis of the Indian and Pakistani states are especially acute, reflecting the degree of difficulty in achieving both legitimization and accumulation objectives within a lower income economy.[143] In direct competition with their legitimization tasks, the central justification for the current economic adjustment in India and Pakistan is that the state must withdraw from economic engineering. This is a complete reversal of the former justification for a strong state in developing societies, namely that social groups in the developing world are weak and therefore incapable of independently forming strong social institutions.

The character of the fiscal crises faced by India and Pakistan differ markedly because the character of state-ness differs markedly. As the Indian state withdraws from its social welfare responsibilities, what can substitute for the autonomous state committed to promoting the social welfare of the masses? The question is of consequence for the very integrity of India. As Nehru argued, "without some fixed principle there is likely to be disintegration and destruction."[144] While the avowed goal of Indian development, a "socialist pattern" of growth, remains unfulfilled, common public expectations and institutional mechanisms have been developed. Thus, the economic liberalization being touted by senior government officials does not merely involve a re-allocation of the distribution of wealth and power in Indian society; it necessarily entails the reform of the Indian state.

The Pakistani state, in contrast, has not fostered *étatisme* as its legitimating ideology. The threshold for legitimate performance is far lower for the state in Pakistan. The public sector, before the privatization measures accompanying structural adjustment, was as large as India's. But the rationale was to build industry and then transfer it to help establish a Pakistani bourgeoisie. Economic liberalization in Pakistan, therefore, is not as much a program to reform the Pakistani state. This may have made it easier in the short run for Pakistani governments to effect structural adjustment.

The relative economic conditions prevailing in India and Pakistan in the aftermath of their Partition explain many of the differences in their early economic development strategies. Indian planners could envision a strategy of import substitution industrialization that would promote the self-reliant development of Indian industry because they had the economic resources to do so. In contrast, Pakistani planners had the more essential and difficult task of establishing a central administrative apparatus and a defense force capable of securing two territories separated by over a thousand miles across an unfriendly neighbor and creating the basic industry that could finance these apparatuses. Had India found itself with such a weak economic infrastructure, it might have pursued a more heterodox combination of export promotion and import substitution, as Pakistan did. Similarly, had Pakistan found itself with significant industrial infrastructure it might have pursued a more inward, state-guided industrial development strategy. The political options available to the leadership of the Indian nationalist movement, of the movement for Pakistan, and of the two postcolonial governments were presented by the economic structure upon which each regime was based.

Economic conditions, however, were not the only factors. The economic agendas that nationalist movements articulated were crucial to the subsequent negotiation and consolidation of newly independent states' economic development programs. A socialist economic ideology combined with economic populism under electoral democracy provides, as in India, compulsions for the formation of economically important social organizations, such as political parties and trade unions. That India opted for state-controlled central planning while Pakistan opted for rapid economic growth through "functional inequality" is well enough known. The reasons for the difference in development strategies, the focus of this chapter, have not been thoroughly studied, especially from a comparative historical perspective.[145]