18

Poverty and Inequality: Persistent Effects of Pakistan's Formative Development Model

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Pakistan's gross national product has grown almost twenty-fold— by five per cent per year—for more than sixty years.[1] But, the model that produced such rapid growth also perpetuated poverty and increased inequality. The pairing of sustained growth in gross national economic product and increased poverty seems paradoxical to some. But the formative development model, which still holds the most influence in the pattern of economic development in contemporary Pakistan, was based on the pairing of growth with impoverishment. The development model from 1947 until 1971 was based on the principle that an impoverished labour force and increasing inequality were necessary for industrialization, and industrial development was necessary for economic growth. This had enormous consequences for Pakistan, and its effects continue today.

Until Pakistan broke up in 1971, Pakistani political leaders and the economists they hired argued that you could engineer economic growth in a poor (capital scarce) economy only by maintaining subsistence living standards and wages for workers and by promoting economic inequality. In the words of the most influential Pakistani economist of the day, 'there exists . . . a functional justification for inequality. . . .'[2] Pakistan's economic planners in the country's formative years did not give sufficient attention to how wealth would be converted, eventually, into general well-being.[3] Industrialization was organized in the 1950s and 1960s at the expense of human development because concentrated capital only, not social welfare, was theorized to have multiplier effects.

Beyond the scope of this chapter are issues in existence long before Pakistan's first generation, such as 'feudal' and 'tribal' landholding and its political significance, or brain drain—the loss of human capital—for more than two hundred years since areas that are now within Pakistan were first connected to the global economy. Also, beyond the scope of this chapter are issues emergent after the formative generation— such as the impact of structural adjustment on employment and social welfare, and the two generations of continuous war in neighbouring Afghanistan, resulting in violence and insecurity in Pakistan. Pakistan's experience in the past thirty-five years—first, as a front-line state for a decade of war in Afghanistan followed by a decade of International Monetary Fund (IMF) 'structural adjustment', and then, by another decade of service, as a front-line state for war in Afghanistan—have had a profound negative impact on the well-being in Pakistan.

This chapter focuses on the 1950s and 1960s, a period more important to Pakistan's present economic condition than attention to the period would suggest. The chapter identifies the formative period in Pakistan's economic development—the economic development model put into place in the first twenty-five years of Pakistan's existence. The chapter identifies the origins of the institutions that bar greater achievements, education and literacy, and health and life preparedness.

Living and Working in Pakistan

Pakistan is the sixth most populous country in the world. With a population of more than 180 million people in 2010 and a growth rate of 2.3 per cent per year, the Pakistani population is expected to increase to 350 million people by 2050, when it will overtake Brazil and Indonesia and become the fourth most populous country on earth.

Average per capita income, in the latest year for which there are data, i.e. 2005, in purchasing power dollars was 2,566.[4] A problem with estimating per capita income in US dollar terms is that it is distorted by currency exchange rates, the value of which are determined in relationship to other currencies or managed by government, or both, and do not accurately reflect purchasing power within the economy where the currency is issued and used. Purchasing power parity (PPP) dollars can correct this. The estimate of average per capita purchasing power in Pakistan is about $7.03 per day. This would hardly be enough to sustain in the United States a homeless person who is relying on donations or public provision of almost all necessities—shelter, food, water, sanitation, and medical care.

An average per capita share of gross national product, even in purchasing power parity terms, is not a perfect way to gauge well-being, or even wealth. The Human Development Index (HDI) is a composite of four indicators: per capita income in purchasing power parity terms, school enrolment and adult literacy levels (which together account for a third of HDI), and lifespan. HDI estimates well-being more pluralistically than can be captured using GDP per capita alone.[5] Compared to countries with similar per capita income, Pakistan performs very poorly in human development. Among all 187 countries for which the UNDP calculates a value, Pakistan ranks 146, just ahead of Angola.[6]

Averages say nothing either about the depth of poverty and deprivation, nor about the numbers crossing the poverty line—how frequently, and in which direction. Inequality in Pakistan is very high. The poorest 10 per cent of the population consume only 3.7 per cent of total national goods and services; the wealthiest ten per cent of the population consume 28.3 per cent. Many Pakistanis suffer both severe income poverty and high levels of non-income deprivation. Another way of estimating general welfare is to focus on the number and the proportion of the population living below a set of some minimally acceptable levels. By the Multidimensional Poverty Index, which takes into consideration such factors as whether a child has died in the family, whether no household member has more than five years of schooling, and whether the household floor is made of dirt, sand, or dung, few countries—only Ethiopia, Tanzania, Bangladesh, Nigeria, and India—have a larger portion of the population living in poverty than Pakistan.[7]

Millions of people die from preventable illnesses and injuries in Pakistan every year. Every day, thousands of people, mostly children and disproportionately girls, die from treatable illnesses such as malaria, tuberculosis, diarrhoea, and water-borne diseases. Life expectancy at birth in Pakistan in 2009 was under sixty-five years. This places Pakistan well below countries with lower incomes. One out of ten Pakistani children do not survive to their fifth birthday.[8] In cross-national surveys, satisfaction in Pakistan with educational and health services are the lowest in South Asia and below the average for Sub-Saharan Africa, the world region whose populations report being least satisfied with educational and health services.[9]

Female Pakistanis living in Pakistan, in aggregate, are at a great disadvantage over males living in Pakistan. The most recent census

(1998)—the data from the 2011 census is running late but its collation is under way—estimates the ratio of females to males at 915. The natural rate—in the absence of gender discrimination—appears to be 1.06 females per male. At these female-male ratios, more than 4,600,000 females are missing from the Pakistani population. This is attributed to pervasive discrimination against females. Females are more likely to be aborted, more likely to die in infancy, more likely to be deprived of a formal education, and more likely to be illiterate. Women die in childbirth in Pakistan more than women in other countries with a few exceptions, none among countries with similar levels of national income. Governments of Pakistan have not placed an emphasis on family planning for decades. As a result, on average, Pakistani women will bear children, and one of the most life-threatening experiences for Pakistani women will continue to be giving birth.

Most of the Pakistani labour force works in the informal sector where workers are not recognized as employed by the person for whom work is being done. The law rarely guides terms of pay and the conditions of work that are performed informally. Rather, the terms of pay and conditions of work in the informal sector are determined by a 'moral economy', that is often exploitative of people who need money (for their labour) more than they afford another's labour (for their money). Even labour law applies only to formal sector workers.

Two-thirds of Pakistan's 180 million residents work and live in rural areas. Although agriculture generates less than a quarter of Pakistan's GDP, it is the sector with the largest employment. Pakistan's largest industry, by accounting value added, is textiles. Owners of textile industries are not infrequently large landholders who have labourers (though not always employees) on the farm and in the factory.

The dearth of employment in Pakistan is suggested by the fact that Pakistan is a major labour exporter. Foreign remittances as a percentage of gross national product (GNP) and overseas workers as a percentage of the total labour force has been substantial since the mid-1970s as many skilled workers have had to find employment outside the country.

Pakistan is marked by conspicuous consumption by a minority which has massive disposable income; privation and servitude by the majority, who have little or no disposable income and crushing debts; and rising income inequality and social exclusion. These conditions can be traced to the neoclassical economic development model that guided Pakistan's for its first twenty-five years. We identify four major institutions defining the pattern of economic growth in Pakistan. These are a poorly defined economic development model within the movement for Pakistan; the theory of growth and inequality; the practice of public sector industrialization; and the economic, social, and political suppression of labour. We begin with the economic vision of the movement for Pakistan or, more precisely, the surprising absence of any economic development agenda.

Imagined Economy and Real Economy

The demand for Pakistan was, to put it very succinctly, the continuation after independence (dominion status) of Her Majesty's governments' creation of separate electorates for Muslim candidates in Muslim-majority elections. One might expect then that the leaders of the movement for Pakistan would have articulated a vision for economic development, if not since 1906, when the entire construction of Indian Muslims as a separate 'nation' began, then, at least since 1940, when the admittedly precipitous process of independence began. The notion that real independence was not merely political but also economic was very much in the air in the South Asian subcontinent in the 1930s and 1940s. Muslims, particularly in Bengal and elsewhere in eastern India, embraced the movement for Pakistan as a struggle against economic exploitation. The origin of the movement for Pakistan was, as it has been aptly described, 'the realization of being an underprivileged socioeconomic community.'[10]

Sentiments in favour of the economic development of the Muslim community through industrialization are sprinkled through speeches, resolutions, and documents of the All-India Muslim League. The Quaid-i-Azam (Great Leader), Muhammad Ali Jinnah (1876–1948), and other Muslim League leaders, had no firm plans, much less ideological moorings, for the desired nature or direction of the Pakistani economy other than that it should grow and that Pakistan needed to industrialize.[11] The All-India Muslim League's (AIML) social programme never had more detail than that of the Lucknow Session's resolution of 1937 which called for economic reforms, including the fixing of a minimum wage and maximum daily working hours, improving health and hygiene, clearing slums, and abolishing usury and debt.[12]

The All-India Muslim League established a Planning Committee in response to the Indian National Congress's establishment of a Planning Commission to chart the pattern of economic development in independent India.[13] The Committee was tasked to focus on areas that would likely become Pakistan, but it issued only a first draft of an economic plan, and did not produce a final draft report.

On 14 August 1947, Pakistan had very little manufacturing. Official sources describe Pakistan at independence as an 'economic wasteland'.[14] The public sector built by the British—and the informal industries that surrounded these—were in India. Most of the industry, commerce, and finance in the region that became Pakistan was in the hands of Hindus and Parsees—most of them migrated to India at Partition—and the British, who left the subcontinent. The two major industrial families in Pakistan after Partition, the Ispahani and the Adamjee, were both in tea production.[15] The principal manufactured products in Pakistan at Partition were cotton yarn in West Pakistan and jute and tea in East Pakistan. Cotton from the Pakistan side of Punjab fed mills in Ahmedabad and Bombay, while jute from East Pakistan fed the mills in Calcutta. Pakistan's decision not to join the United Kingdom and India in currency devaluation led to India's suspension of trade with Pakistan in 1949. Industrialization in Pakistan was badly disrupted by Partition. Even before independence, India and Pakistan were at war in Kashmir.

Forced Industrialization

Pakistan's Industrial Policy Document of 1948 described the mandate for state-led industrialization as a 'state imperative'. This 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.[16] Pakistan's original industrial strategy was to build a public sector that would be the foundation for private sector development. The strategy emphasized the export of agricultural products and retained only energy, armaments, and some transportation and communications for exclusive development by the government.

The result has been that Pakistan developed a large public sector. The size of the Pakistani public sector has been obscured by Pakistan's professed economic conservatism. Before privatization began in 1988, Pakistan's public sector was roughly equivalent to India's as a percentage of total investment. The public sector was provided for private sector development; government maintained the dominant role in the industrial financing of private sector development. Before privatization, government-sponsored corporations held assets valued at more than 700 billion rupees, an amount equal to Pakistan's entire annual GDP.[17] The Pakistani public sector's share of total investment was 57.9 per cent in 1987–88, prior to the initiation of International Monetary Fund (IMF) designed and financed 'structural adjustment' measures. The public sector's share in total non-agricultural economic activity was 13.7 per cent in 1987–88.[18] Before privatization, 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 industries. The government also held monopolies in telecommunications, power, railways, and air transport services.[19]

Pakistani governments have faced a reluctant, short-term profit-seeking and long-term investment-inhibited business community. Governments backed private sector firms with soft loans and generous credit from public sector institutions with very little oversight. The pressing concern of the Pakistani state in 1947 was to assist in the development of industry and business. As the situation has been 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 to predominate politically in the

> first decade of independence had almost no role in industrial development.[20]

Although there was some emphasis on tariffs, as called for in the Industrial Policy Document of 1947, that emphasis did not appear as a matter of economic strategy, but as a necessity for government revenue. Tariffs were not high enough to stimulate domestic industry.[21] Pakistan's early import restrictions were motivated by the compulsions of a serious foreign reserve crisis.[22]

When the United Kingdom devalued the pound in September 1949, India followed suit. When Pakistan chose not to devalue its currency, India suspended trade with Pakistan. The Finance Ministry claimed that the decision not to devalue was made 'entirely by economic considerations, 'that conditions favourable to industrialization should be created and maintained.'[23] Maintaining an overvalued currency allowed Pakistan to receive higher prices for (not completely market driven) exports, while reducing the cost of imported machinery and capital goods.

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, would be sold to the private sector.[24] Leading industrial families purchased them.[25] Of the forty-three large industrial ventures established by the PIDC, thirty-four were transferred to the private sector, most as public limited companies. Some were sold to the leading industrial families.[26]

One result of the forced industrialization of the 1950's and 1960's was the rapid creation of a group of Pakistani industrialists, referred to as Pakistan's 'twenty-two families'.[27] The Industrial Development Bank of Pakistan (IDBP) and the Pakistan Industrial Credit and Investment Corporation (PICIC) aided Pakistani industrialists. Pakistani industrialists were also aided by liberal credit from the IDBP and the PICIC. The government operated the unprofitable and unsold factories. In spite of all the government-supported industrialization, the industrial labour force, however, is less than a quarter of the recognized labour force and is still in decline.

The result of Pakistan's early industrial policy was that the economy grew rapidly before 1958. The country was almost self-sufficient in food grains, pulses, and flour, except during the crop failure of 1952–53. Only in 1956, food imports began to rise dramatically. In 1947, Pakistan was an importer of textiles, but, by 1952 was a substantial exporter. The percentage of growth of GNP originating in manufacturing in 1953–54 reached 29.6 per cent, a level higher than at any time during Ayub Khan's development decade (1958–1969), despite a machinery import bill five times lower than in 1959–60.[28]

Government industrial policy since independence has encouraged the development of indigenous business classes. 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.

Enforced Inequality

The emergence of the National Awami Party (NAP) in East Pakistan in 1949 created the danger that the non-Punjabi electorate would vote for parties committed to dismantling the one unit system which undergirded the control of the state apparatus by a predominantly Punjabi civil bureaucracy and Army. The potential for popular unrest in both rural and urban areas caused President Iskander Mirza (1899–1969; President 1956–1959) to request that the Commander-in-Chief of the Armed Services, General Muhammad Ayub Khan (1907–1974; President 1958–1969), to assume political power. In a gentlemanly affair, Ayub agreed. The General then asked the President to resign, which he did on 27 October 1958.[29] Ayub declared Martial Law, banned political parties, and pronounced himself Chief Martial Law Administrator, and then, President. The 1958 coup was an orderly transfer of power from a civilian to a military leadership and not the result of a violent struggle between the armed services and an elected government. The bureaucracy, however, maintained its grip on the state. The 1958 declaration of martial law did not transform the political regime although Ayub remained 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 Pakistan's problems.

According to one senior Pakistani economist, 'to him the economic profession has reasons for remaining profoundly grateful because of the honour [Ayub] has conferred on it, and the responsiveness he has shown toward professional advice.'[30] In keeping with this professional approach to economic development, Ayub 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. The result was that numerous American advisors worked in Pakistan during this period.[31] According to one, the National Planning Commission was 'insidiously take[n]-over' by American advisors.[32] In the wake of World War II, the United States was attempting to demonstrate that its political and economic system could serve as the model for developing countries. Technical assistance to Pakistan in the 1960s was provided by the US government, US educational institutions, and major private foundations with an opportunity to prove the benefits of US economic management.

Under Ayub's economic development strategy, the main goal was capital accumulation. The private capitalist was expected to perform an important function through savings and the 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.[33] Pakistan's economic strategy, characterized as a 'functional inequality' approach,[34] did not view the concentration of capital as a social danger, but rather a necessity. Western economists advising the Pakistan government argued that economic growth required an inequitable, but temporary, concentration of wealth.[35] 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 of the General Economic Section of the Pakistan Planning Commission from 1959 to 1962, wrote a brief tract on Pakistan's economy, assessing which leading economic development model was best suited to Pakistan.[36] The solution 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, Rahman argued. The Keynesian, or government-spending-driven model, was rejected. For, while it includes, 'a prescription for dealing with the curse of *unemployment*', it assumes a level of idle industrial capacity that is not found in underdeveloped countries. The only model suitable to Pakistan, he argued, was Lewis' model.

> . . . 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.[37]

The Lewis model challenged the Nurksian assumption that savings are low in underdeveloped countries because people are poor. According to Lewis, people are poor because savings are low.[38] Lewis' model postulated 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 subsistence sector, their wages need only be 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.[39] 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.'[40] 'The capitalist class is the sole producer of wealth;' labour is unlimited; the state . . . 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.'[41] As Rahman acknowledged, these ideas were not his alone, but were those of the government.

In the late 1950s and early 1960s, Pakistani economists and officials viewed Pakistan's economic 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, underscored Pakistan's 'need for a growth economy' and summarized Pakistan's development challenge as '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.'[42]

Gustav Papanek declared Pakistan's efforts to use private incentives to achieve social goals a success.[43] Papanek, an economist and American advisor to Pakistan's Planning Commission, misunderstanding Adam Smith as an efficiency ideologue rather than a moral philosopher, espoused the 'social utility of greed', without which, he argued, no economy could develop.[44] He and contemporary economic planners of the day 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 as Ayub revised Pakistan's 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 Scheme employed a system of multiple exchange rate vouchers granted to firms according to the share of exports in their overall production.[45] 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, was a central requirement of Pakistan's early development strategy. In 1954–55, foreign loans constituted only 1.1 per cent of GNP. Under Ayub, dependence on foreign loans increased sharply to 8.7 per cent of GNP by 1964–65. The seventeen-day war with India in 1965 led to a drastic fall in foreign investment. With political unrest after Ayub's removal in March 1969, foreign borrowing as a percentage of GNP declined to 3 per cent in 1969–70.[46]

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. The then Chief Economist of the National Planning Commission, Mahbub ul Haq, in 1968 estimated that 'the top twenty industrial families control about sixty-six per cent of the total industrial assets, about seventy per cent of the insurance funds and about eighty per cent of the total assets of the banking system.'[47] Contrary to the predictions of the doctrine of functional inequality, growth in large-scale manufacturing in Pakistan was actually higher in Pakistan under the regime preceding Ayub's coup than during his development decade. From 1950 to 1957, the annual growth of GDP averaged 18.6 per cent as against 12.8 per cent from 1958 to 1968. While the decade of development may have fostered economic growth, it also contained the seeds of its own destruction.[48] Ayub's strategy of 'functional inequality' demonstrated that even under a military dictatorship, income inequality cannot be sustained indefinitely.

In December 1952, the government promulgated the Pakistan Essential Services (Maintenance) Act. It is still in effect today. It gave the government wide discretion to restrict or ban trade unions and collective bargaining in any industry deemed by the government to be essential to the welfare of the nation. The Act makes absence from or stoppage of work, whether paid or unpaid, a crime worthy of incarceration. No court has jurisdiction to entertain complaints about the application of the law. In 1952, the government applied the law to the transport, energy, communications, and educational sectors. From 1950 to 1955, the Government of Pakistan also required that at least half of the office bearers in any given union be workers at the workplace of the union. This limited both the number of professional trade unionists permitted to operate in the trade union movement and the time that trade union officers could devote to union work.[49] The ban on the Communist Party of Pakistan in 1954, and the suppression of trade union organization associated with it, further impeded the exercise of trade union rights.[50]

THE SUPPRESSION OF LABOUR

The government of Ayub Khan denied workers fundamental rights of association and representation in the name of rapid industrial development. The denial of these rights caused major industrial unrest in Pakistan. Labour leaders such as Bashir Ahmed Bakhtiar, M. A. Khatib, Usman Baloch, and Mubarak Haider organized waves of strikes in Karachi, Lahore, and other industrial centers in 1969.[51] On 22 February 1969, union leaders organized a major procession in Lahore attended by workers from the private and the public sector. Workers carried banners with such slogans as 'We are not interested in any form of government but food', 'Down with Capitalism', and 'Down with the Jagiridari [feudal] system'. WAPDA employees in Islamabad, farmers in Multan, doctors and hospital employees in Lahore, and railway workers in Quetta demonstrated against the government. The major demand of workers at these rallies was restoration of the right to form associations and the right to form trade unions.[52] In response to the repressive legislation and the arrest and victimization of trade union leaders, trade union organizations called a one-week general strike on 17 March 1969, in which industry and utilities were shut down nation-wide.[53] The movement against Ayub was fought in the streets and in the factories. In March 1969, the police shot demonstrators at the Colony Textile Mills in Multan.[54]

On 30 January 1969, the West Pakistan Federation of Trade Unions, the Pakistan National Federation of Trade Unions, and the West Pakistan Workers Federation formed a Joint Labour Council. In their founding meeting, the Joint Labour Council called upon the government to restore the right to strike and 'condemned the *lathi*-charge[s], tear-gassing, imposition of Section 144 of Cr.P.C., and enforcement of curfew.'[55] Other bodies, too, took form, giving organizational expression to a rising tide of social movements opposed to the policies of Ayub. The Democratic Action Committee, on 14 February, organized a one-week general strike to begin on 1 March.[56] In response, the government attempted to negotiate with representatives of organized labour but these negotiations had little chance of reducing industrial conflict because the labour movement demanded fundamental rights—the right to form associations, the right to bargain, and the right to strike—which would have required the government to dismantle its only legal structure for the control of labour. On 20 February

1969, Labour Minister Malik Allahyar Khan convened a meeting of the West Pakistan Labour Advisory Board, the government's West Pakistan wide joint body of worker and employer representatives. Labour representatives at the meeting staged a protest over the government's inaction on their earlier demands on the right to collective bargaining, to form associations, and to strike.[57]

The press gave considerable support to the workers movement. An editorial from the *Morning News* reflected sympathetically on industrial workers:

> Caught in a web of static wages, spiralling prices, and shrinking opportunities, these salaried groups have over the years provided the filling for the economic sandwich. They dutifully paid their taxes. With resignation they met the demands of the extortioners in the market. They meekly took their places at the end of the queue. And when belts had to be tightened, it was also theirs that were taken in another notch. . . . [T]he workers quite naturally have turned to [mass upsurge] to bring changes in their own position.[58]

In March 1969, a broad popular movement against Ayub, in which students, industrial labour, and other sections of the urban middle classes participated, forced him to step down. 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 action which left hundreds dead, he handed over power to his Commander-in-Chief, General Agha Muhammad Yahya Khan (1917–1980; President 1969–1971), on 25 March 1969.[59]

Ayub's development strategy was based on the assumptions that capital for economic development could only be generated by extracting surplus value from labourers, and that only coercion could guarantee the successful implementation of that strategy. The military government neglected to consider the social and political consequences of fostering extreme inequality.[60] Economic policy makers, who were working for a military government, did not propose policies with a view to popular needs. Economic policy in Pakistan from 1947 to 1969 was largely insulated from popular pressures. Such economic calculations later had significant political consequences as made obvious by the mass protests against Ayub.

The Pakistani government changed its colonial-era labour laws only after organized labour's involvement in a successful movement to end martial law. In response to the threat of an unruly labour movement, the interim military government under General Yahya Khan promulgated an ordinance in 1969 that imposed the system of enterprise unionism on organized labour. Through each of these phases of authoritarian political rule, Pakistani military and civilian political regimes did not incorporate organized labour, bureaucratically or politically. Instead, Pakistani authoritarianism sought to prohibit and limit labour organizing, to exclude organized labour from politics, and to decentralize labour organizationally.[61]

In 1969, President Ayub Khan announced his resignation. He appointed an interim military government to govern the transition to civilian rule. The new martial law government of General Yahya Khan quickly sought to appease workers. In response to the challenge posed by the workers' movement, within a month of taking over, the Martial Law Administration of Yahya Khan announced a new labour policy. He made Air Marshal Nur Khan, Deputy Martial Law Administrator, and responsible for restructuring the administration of labour and education.

Following three weeks of meetings with trade union leaders, Nur Khan invited labour leaders and industrialists for an open format tripartite labour conference in Karachi. The conference began on 15 May 1969. The product of the tripartite discussions was the Industrial Relations Ordinance, 1969. The Ordinance subsumed the Trade Union Act and the Industrial Disputes Act. It remains the most important piece of legislation on industrial relations in Pakistan. The policy conformed to the broad objectives announced when the Martial Law Administration originally proposed its labour policy in April 1969.

The Industrial Relations Ordinance (IRO), 1969, affects the structure of the trade union movement in Pakistan more than any other piece of legislation. Promulgated in November 1969, the Ordinance was the product of six months of deliberation between government and labour, after a broad popular movement, in which labour played an important role, and successfully challenged the martial law government of General Ayub Khan. Organized labour forced the military government to negotiate with it, but the military government set the terms. The IRO gave industrial workers fundamental rights which the labour movement had demanded since 1965: the right to form trade unions, the right to collective bargaining, and the right to strike.[62] Labour was granted a high minimum wage and assurances for better implementation of labour law (e.g. labour-selected rather than management-selected labour representation on Works Committees). The government however retained the authority to ban and to call off strikes. Workers in many 'essential services' and public utility services remained prohibited from trade unions. Most importantly, the IRO instituted enterprise unionism in Pakistan. The IRO restricts effective trade unionism (i.e. those with collective bargaining authority) to factory-level unions.

The inspiration for the IRO was Nur Khan's experience in Pakistan International Airlines (PIA). When he assumed control of the military-founded and military-run airline in 1959, the standard procedure was to imprison workers who attempted to form a union. Nur Khan decided that PIA would run better if these workers were released from jail, brought back to PIA, and permitted to form a union, provided that the union could be insulated from professional trade unionists.[63]

During the deliberations leading to the institution of the new labour policy, workers' agitations continued and trade union leaders continued to complain of victimization by industrialists. Wages in a number of industries were lowered as the proceedings of Industrial Courts entrusted to adjudicate labour disputes were suspended.[64] While working on the new labour policy, Nur Khan expressed particular concern over Pakistan's low productivity. A team of experts was constituted to develop a profit-sharing scheme by which workers would be induced to increase productivity in exchange for higher wages.

The new Labour Policy, drafted by the Labour and Social Welfare Division of the Government of Pakistan, was officially announced by Air Marshal Nur Khan on 5 July 1969 and promulgated, as the Industrial Relations Ordinance, on 3 November 1969.[65] The major trade union federations of Pakistan welcomed the new policy.[66]

Industrial dispute statistics assist in understanding the impact of the IRO on Pakistani unionism. Workers and workdays lost in disputes climbed steadily until the 1958 military coup, after which they declined. Each began to rise again in the early 1960's, until slowed by the 1965 war.

The IRO instituted the Collective Bargaining Agent (CBA) system. The CBA system determines how trade unions are officially recognized and empowered to negotiate with management on the behalf of labour. The system requires that trade unions gain one third of the workers of a single enterprise as members. If more than one union is so organized, then a secret ballot election is held across the enterprise to select the official CBA. Elections of the CBA are held biannually. The government of Pakistan's use of workplace elections to control organized labour may appear paradoxical, in light of democratic India's lack of elected labour representation. The IRO requires that seventy-five per cent of the officers of a registered trade union are able to declare the same employer. Thereby, the CBA system effectively places the responsibility for collective bargaining and worker representation to workers and at the factory-level, not with politicians, lawyers, aspiring political party candidates or other professionals, or at higher levels, as in India.

It remains the most important piece of legislation on industrial relations in Pakistan. The policy conformed to the broad objectives announced when the Martial Law Administration originally proposed the labour policy in April 1969. During the deliberations leading to the institution of the new labour policy, worker agitations continued, and workers involved in trade unions continued to complain of victimization by employers. Wages in a number of industries were lowered as the proceedings of Industrial Courts entrusted to adjudicate labour disputes were suspended.[67] While working on the new labour policy, Nur Khan expressed particular concern over Pakistan's low productivity. A team of experts was constituted to develop a profit-sharing scheme by which workers would be induced to increase productivity in exchange for higher wages.

This chapter has identified four major institutions defining the pattern of economic growth in Pakistan. These are a poorly conceived economic development model by the leaders of the movement for Pakistan—the theory that growth and welfare were inimical; state enforced sector industrialization, and the economic, political, and cultural suppression of labour.

Before concluding, we consider the influence of the United States, Pakistan's largest economic and military ally, in the Pakistani economy. The US government has not played an altogether positive role in the Pakistani economy. Unlike Japan, South Korea, and Taiwan, which were granted unlimited US market access, Pakistan was not given quota-free access to the gigantic US market. Pakistani officials, as staunch supporters of the United States' anti-Communist alliance, embraced the 'neoclassical' economic policies that the United States then promoted and US university-trained economists formulated Pakistan's economic planning in close collaboration with American economists. The Harvard Advisory Group was particularly active.

Elected governments tend to support a social welfare ideology. In low-income countries, they often embrace a strong public sector and protection of domestic industry. Pakistan's strategic alliance with the US government brought with it an anti-social welfare economic ideology. Pakistan planners opted for a capital concentration strategy through capital-intensive, export-oriented manufacturing. This development strategy not only tolerated income inequality, but regarded it as essential to economic growth.

One of the most influential forces in the Pakistan economy is the US government. As a front line-state, first in the fight against communism and then against terrorism, Pakistan has received not merely advice but also huge amounts of economic and military aid.

Given the professed promotion of democracy as a major goal of US foreign policy, it is troubling that the US relationship with Pakistan has been largely through its government, not steering investment to Pakistan nor giving sufficient US market access to Pakistani goods, labour, and services.

Pakistan's overall impressive growth rates of GDP have not been translated into corresponding improvements in well-being because it is difficult to transform a capital intensive, human extraction model of economic development, as was pursued in the 1950s and 1960s, into the kind of human capacity investment oriented model, as is needed today.

National governments were not elected in the 1950s and 1960s and were not responsive to public needs, such as basic education, gainful employment, and public health. These governments laid seeds that took deep roots in the economy. Economic institutions laid down during the formative period of postcolonial modernization, which extended to the mid-1960s, were especially influential.

It is evidently difficult for a pro-inequality economic development model to be transformed into a pro-human development economic model. Today, sixty-seven years since the creation of Pakistan, the people of Pakistan face severe economic hardship. With the projected growth of the population, that hardship for a large and growing percentage of its people will continue, and the hardship will become more severe. Many institutional features of the economy—planted in Pakistan's formative years, render policy reforms alone inadequate. Institutions—the habits of thought and patterns of behaviour[68]—are also in dire need of reform. Undesirable economic conditions evident in Pakistan such as educational inequality; substandard terms of employment and conditions of work; and concentration of assets, including land—

to name three of the larger national crises, can be transformed only when institutional barriers to a pro-human development model are removed.

NOTES

1. I am grateful to Roger Long for his comments on an earlier draft of this chapter. Figures here are for 1952 to 2012 and from Trading Economics at www.trading economics.com
2. Mahbub ul Haq, *The Strategy of Economic Planning* (New York: Oxford University Press, 1963), 1.
3. For a comparative study of the role of labour rights institutions in converting wealth into wellbeing, see Christopher Candland, *Labour, Democratization, and Development in India and Pakistan* (London: Routledge, 2007).
4. United Nations Development Programme, *The Rise of the South: Human Progress in a Diverse World* (New York: United Nations Development Programme, 2013), 146.
5. This is Amartya Sen's main point in his 'A Decade of Human Development', *Journal of Human Development*, 1, 1 (2000), 17–23, that the advantage of HDI over GDP per capita is that it is a plural indicator.
6. United Nations Development Programme, *The Rise of the South*,146.
7. United Nations Development Programme, *The Rise of the South*, 30.
8. Third Annual Emergency Medicine Conference on Emergency Care for Children, Aga Khan University Hospital, 16 Mar. 2013. See Zachary Keck, '10 per cent of Pakistani Children Die Before Their 5th Birthday', *The Diplomat*, 21 Mar. 2013.
9. United Nations Development Programme, *The Rise of the South*, 28, 168, and 172.
10. Hasan Gardezi, 'Neocolonial Alliances and the Crisis of Pakistan', in Kathleen Gough and Hari Sharma, eds., *Imperialism and Revolution in South Asia* (New York: Monthly Review Press, 1973), 137.
11. See Syed Sharifuddin Pirzada, ed., *Foundations of Pakistan: The All-India Muslim League Documents: 1906–1947*, Volume III, (1906–1947), (Karachi: National Publishing House, 1970).
12. Ibid.

13. Ian Talbot, 'Planning for Pakistan: The Planning Committee of the All-India Muslim League 1943–46', *Modern Asian Studies*, 28, 4, (1994), 875–89. Also see, Khalid Shamsul Hasan, ed., *Quaid-i-Azam's Unrealized Dream: Formation and Working of the All India Muslim League Economic Planning Committee with Background Material and Notes* (Karachi: Shamsul Hasan Foundation for Historical Studies and Research, 1991).
14. Government of Pakistan Planning Commission, *The Sixth Five-Year Plan, 1983–88*, (Islamabad: Government of Pakistan Planning Commission, 1983), 1.
15. Angus Maddison, *Class Structure and Economic Growth: India and Pakistan Since the Moghuls* (London: Allen & Unwin, 1971), 158. See Gustav Papanek, *Pakistan's Development: Social Goals and Private Incentives* (Cambridge, MA: Harvard University Press, 1967), 40–6 for details on trading communities and Pakistan's early entrepreneurs.
16. Cited by Istaqbal Mehdi, former Pakistan Minister of Production, 'State Intervention and Public Enterprises in the Market Place—Some Issues and Problems with Special Reference to Pakistan', manuscript, n.d., 4.
17. A. R. Kemal, 'Privatisation: The Experience of Pakistan', in V. Kanesalingam, ed., *Privatisation: Trends and Experiences in South Asia* (New Delhi: Macmillan, 1991), 132. The date of the figures is not noted, but is presumed to be before much fiscal adjustment and industrial restructuring.
18. Ibid., 139.
19. World Bank, 'Pakistan: Country Economic Memorandum FY93: Progress Under the Adjustment Programme' (Washington, DC: World Bank, 23 Mar. 1993), 49.
20. Maddison, *Class Structure and Economic Growth*, 139.
21. Ibid.
22. Ayesha Jalal, *The State of Martial Rule: The Origins of Pakistan's Political Economy of Defence* (Cambridge: Cambridge University Press, 1990), 32–7.
23. Government of Pakistan, Ministry of Finance, *Fiscal Policy in Pakistan—A Historical Perspective*, Volume 1 (Islamabad: Government of Pakistan Printing Press, 1972), 71. Cited in Viqar Ahmed and Rashid Amjad, *The Management of Pakistan's Political Economy, 1947–82* (Karachi: Oxford University Press, 1984), 68–9.
24. Maddison, *Class Structure and Economic Growth*, 139.
25. Emajuddin Ahmed, *Bureaucratic Elites in Segmented Economic Growth: Pakistan and Bangladesh* (Dacca: Dacca University Press, 1980), 87.
26. Ibid.

27. Mahbub ul Haq first spoke of the 'twenty-two families' in a talk to the Applied Economics Research Centre at the University of Karachi.
28. Government of Pakistan, *Pakistan Statistical Yearbook* (Islamabad: Pakistan Government Printing Press, 1964), 163; and Papanek, *Pakistan's Development*, 7, cited in Gardezi, 'Neo-colonial Alliances and the Crisis of Pakistan', 139.
29. Tariq Ali, *Can Pakistan Survive? The Death of a State* (New York: Penguin Books, 1983), 62.
30. Habibur Rahman, *Growth Models and Pakistan: A Discussion of Planning Problems* (Karachi: Allies Book Corporation, 1962), 5.
31. US economists working as advisors to the Planning Commission included David Bell, Gustav Papanek, Emile Despres, Lionel Hanson, and Richard Mallon. Gardezi claims that there were thousands of US professionals in Pakistan. Gardezi, 'Neocolonial Alliances and the Crisis of Pakistan', 139, citing Embassy of Pakistan, *Pakistan's Third Five-Year Plan, 1965–70*, Interim Report Series, December 1969, 2.
32. Albert Waterston, *Planning in Pakistan*, 1963. Waterston was an advisor to the Planning Commission who has detailed its administration by American experts.
33. Ahmed and Amjad, *The Management of Pakistan's Political Economy*, 13–14.
34. Maddison, *Class Structure and Economic Growth*, 1971.
35. Hussain, *Strategic Issues in Pakistan's Economic Policy*, 367–73.
36. Rahman, *Growth Models and Pakistan*, 1962.
37. Ibid., 70.
38. W. Arthur Lewis first published his model as 'Economic development with Unlimited Supplies of Labour', *Manchester School of Economic and Social Studies*, 22, 2 (May 1954), 139–91, and republished it in *The Theory of Economic Growth* (London: Allen & Unwin, 1955).
39. Lewis, 'Economic Development with Unlimited Supplies of Labour', 189.
40. Rahman, *Growth Models and Pakistan*, 72.
41. Ibid., 69.
42. Mahbub ul Haq, *The Strategy of Economic Planning* (New York: Oxford University Press, 1963), 1–3.
43. Papanek, *Pakistan's Development*.
44. The phrase is the title of the concluding chapter of Papanek's book.
45. Adams and Iqbal, *Exports, Politics, and Economic Development: Pakistan 1970–1982* (Boulder, CO: Westview Press, 1983).
46. Ahmed and Amjad, *The Management of Pakistan's Political Economy*, 11.

47. Mahbub ul Haq, 'A Critical Review of the Third Five Year Plan', in M. A. Khan, ed., *Management and National Growth* (Karachi: West Pakistan Management Association, 1968), 27. Cited and quoted in Maddison, *Class Structure and Economic Growth*, 158. Mahbub ul Haq's widely cited claim was originally made in a lecture in Karachi in 1968.
48. On the negative consequences of economic concentration under Ayub, see Keith Griffin and Azizur Rahman Khan, eds., *Growth and Inequality in Pakistan* (London: Macmillan, 1972); Stephen Lewis, *Economic Policy and Industrial Growth in Pakistan* (London: George Allen & Unwin, 1969); and *Pakistan: Industrialisation and Trade Policies* (Karachi: Oxford University Press, 1970).
49. Badiuddin A. Khan, 'The Myth of Labour Policy', *Industrial Relations Journal*, 9, 3, (1992), 29–33.
50. Shaheed, 'Union Leaders, Work Organization and Strikes', 185.
51. Riffat Hussain, interview with the author, Rawalpindi, 24 Sept. 1992.
52. 'Workers' Processions, Meetings', *Morning News*, 24 Feb. 1969.
53. Khurshid Ahmed, General Secretary, All-Pakistan Federation of Trade Unions, interview with the author, Lahore, 3 Sept. 1992.
54. Interviews of the author with Maher Mohammad Akram, President, and Syed Akhter Hussain Shah, Deputy General Secretary, Colony Textile Mills Labour Union, Multan. See also '6 Workers Hurt in Firing by Multan Mills' Watchmen', *Dawn*, 18 Mar. 1969.
55. 'Labour Body Conference Held', *Morning News*, 1 Feb. 1969.
56. 'Labour Federations Support Friday's General Strike Call', 13 Feb. 1969.
57. 'Workers Walk Out of Joint Council Meeting', *Morning News*, 22 Feb. 1969.
58. 'Labour Unrest', *Morning News*, 7 Mar. 1969.
59. For analyses of the composition of the movement against the Ayub Khan regime, see Muneer Ahmed, 'The November Mass Movement in Pakistan', in *Aspects of Pakistan's Politics and Administration* (Lahore: University of the Punjab, 1974); and Shahid Javed Burki, 'Ayub's Fall: A Socioeconomic Explanation', *Asian Survey*, 12, 3 (1972), 201–12.
60. Adams and Iqbal, *Exports, Politics, and Economic Development*.
61. See Christopher Candland, 'Workers' Organization in Pakistan: Why No Role in Formal Poltics?' *Critical Asian Studies*, 39, 1 (2007), 35–57.
62. 'Fair Wages, Right of Strike for Labourers', *Dawn*, 26 Apr. 1969.
63. Nur Khan, interview with the author, Karachi, 28 and 29 Mar. 1995.

64. 'Government Urged to Announce Revised Labour Policy Soon', *Dawn*, 1 July 1969.
65. The Industrial Relations Ordinance, 1969 repealed four pieces of labour law, two acts passed by the Constitutional Assembly and two martial law ordinances. The annulled labour law was the East Pakistan Trade Unions Act, 1965; the East Pakistan Labour Disputes Act, 1965; the West Pakistan Industrial Disputes Ordinance, 1968; and the West Pakistan Trade Unions Ordinance, 1968.
66. On record for their support were the All-Pakistan Confederation of Labour (M. A. Khatib); the All-Pakistan Federation of Labour (Rehmatulah Khan Durrani); the West Pakistan Textile Mills Employees Federation (Akhtar Husain Kiyani); and the West Pakistan Textile Mills Mazdoor Union (Ghulam Husain). 'New Labour Policy Hailed', *Dawn*, 8 July 1969.
67. 'Government Urged to Announce Revised Labour Policy Soon', *Dawn*, 1 July 1969.
68. Thorstein Veblen, *Theory of the Leisure Class* (London: Allen & Unwin, 1899).

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