

Political and Economic Dimensions of Nationalization of Industries under Zulfikar Ali Bhutto

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ABSTRACT

The Pakistan Peoples' Party (PPP) was launched by Bhutto in 1967, which pledged to have reforms in industrial and agriculture sector, after coming into power. Moreover, the manifesto of the party reflected a strong socialist tendency and election campaign was also directed towards creating an aura of socialist longings. It was partly expected to yield dividends in the backdrop of the popularization of the famous twenty-two families' phenomena. Zulfikar Ali Bhutto came into power as a result of the first general elections held in 1970. Pakistan had lost East Pakistan in December, 1971 and state of Bangladesh appeared on world's map. Amidst these crucial times, political, social, and economic stresses were overwhelming for the country. Thus, after winning elections, Bhutto started economic reforms on massive scale. Through these reforms, a series of nationalization of industries was carried out; and such steps distressed not only the large-scale but the medium-scale industries also.

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These reforms had a potential of immediate and long term effects not only on Zulfikar Ali Bhutto and the PPP era (1970-77) but for the economic future of the country as well. The mandate of this paper is to explore and examine the short and long term effects of the 'policy of nationalization' on Pakistan's economy in general and industrial sector in particular.

Introduction

Zulfikar Ali Bhutto's reformist policies have evoked considerable scholarly attention. While Khalid Bin Sayeed found 'Bonapartist' tendencies in him, Heeger described him as 'patrimonial,' and Lawrence Ziring viewed him as a 'typical Sindhi landlord.' Saeed Shafqat analyzed Bhutto as a 'reformist' political leader who attempted to introduce incremental change in various aspects of polity, conspicuously in economic sphere. This paper traces primarily four aspects of Bhutto's nationalization measures in industrial sector of economy, i.e. : i) the sequence of nationalization measures; ii) the effects of nationalization on public and private investment; iii) the effects of nationalization on the political standing of Bhutto and his party especially after the decision to extend nationalization to smaller and medium enterprises in cotton and cooking oil industry; iv) the overall effects of nationalization on Pakistan's economy. It is argued in the ensuing discussion to establish that, firstly, the new management structure for nationalized industry introduced by the Pakistan Peoples' Party adversely affected economic efficiency. Secondly, nationalization failed to diminish the concentration of wealth in the hands of a few; instead, it shuffled the distribution of wealth among wealthy families in a new way. Thirdly, the decision to nationalize cooking oil and cotton industry hurt the economic interests of small and medium enterprises that had been an important part of the PPP's political support base. Finally, the public sector enterprises had political purposes that weakened economic rationality and, thus, had long-term effect of undermining economic productivity and growth.

Transfer of Power and the Challenges before Bhutto

The spirit and strength of Pakistani nation were at their lowest ebb after the dismemberment of country in December, 1971. The end of army rule in 1971 increased the potential of political conflicts in the post-military phase. The legacy of direct and indirect long military rule was a disruption of prevalent patterns of political and social relationships among different groups and classes. The successor civilian government of Zulfikar Ali Bhutto was left with the challenge of redefining the political roles, perceptions and expectations among various contenders of power in the polity. Heeger correctly pointed out that a post-military state is very much like a new state because both are 'marginally institutionalized'.¹ Moreover, power was not transferred to Bhutto as a result of his electoral victory but in the wake of dismemberment of Pakistan. Lt. General Gul Hassan and Air Martial Rahim Khan had been instrumental in guiding the PPP to power: both envisioned a form of guardian political role for the military.² However, an uneasy partnership emerged between the military generals and civilian leadership. Bhutto sacked many of the top brass after taking the reign of the state. Although the military generals had aided him to the power pole, Bhutto was quick to realize that he was duly elected leader and asserted his authority as such.

Even Bhutto's worst critics conceded the reality that he assumed power under adverse circumstances. The political, economic and administrative crises of 1971 evoked the memories of 1947, the year Pakistan came into being.³ Bhutto had to replace not only one type of regime with another but also to build a collapsed nation state. This type

1 Heeger A. Gerald, "Politics in the Post-Military State: Some Reflections on the Pakistani Experience," *World Politics*, 29, no. 2 (January, 1977): 242-62.

2 Salman Taseer, *Bhutto: A Political Biography* (New Delhi: Vikas Publishing House, 1980), 148-49.

3 Shahid Javed Burki, *Pakistan: The Continuing Search for Nationhood* (London: West View Press, 1991), 64.

of situation demanded a leader of national posture and self-confidence who could give the nation a sense of purpose and belief in future. Addressing the nation on December 20, 1971, Z.A. Bhutto promised to build a 'new Pakistan'.

We are facing the worst crisis in our country's life; a deadly crisis. We have to pick up the pieces, very small pieces, but we will have a new Pakistan, a prosperous and progressive Pakistan, a Pakistan free from exploitation, a Pakistan for which the Muslims of the subcontinent sacrificed their lives and their honour in order to build this land. That Pakistan will come, it is bound to come. Every institution of Pakistan has either been destroyed or threatened and that is why we face this state today, we have to rebuild democratic institutions, we have to build confidence.⁴

The army had placed constraints on the activities of political leaders and political parties for almost 13 years. All the elected political leaders and particularly opposition leaders had scant political experience in the newly established democratic interlude in Pakistani politics. Logically, they were not habitual of the process of political bargaining and compromise; they never trusted each other and had developed a negative approach toward politics. Laporte, a political scientist, analyzed that in early 1972, the terms "disillusionment, uncertainty, cynicism, and pessimism best describe the Pakistan's political condition."⁵ It was, in fact, a transition from military dominated system to a civilian regime.

Though Bhutto seemed confident for being the leader of the majority party that had secured 88 out of a total of 144 seats in the National Assembly, in two provinces (NWFP and Balochistan), yet he could not manage to install provincial governments of his political party there. Saeed Shafqat is of the view that crisis of Bhutto's constraints had at least three

4 Z. A. Bhutto, *President of Pakistan: Speeches and Statements: December 20, 1970-March 31, 1972* (Karachi: The Department of Films and Publications Government of Pakistan, 1972), 3.

5 Robert Laporte Jr., *Power and Privilege: Influence and Decision-Making in Pakistan* (Berkeley: University of California Press, 1975), 115.

dimensions: (i) a 'crisis of identity'⁶, a meaningful debate had been unleashed questioning the very basis of the rationale of Pakistan; debate started over the definition of a 'nation', 'nationalities' and 'two nations theory'. Regional aspirations caught new vigor and impetus under Bhutto's personal penchant and with it relationship between the federation and provinces became sour within country; (ii) A 'crisis of legitimacy'⁷: as it had been in 1950s, once again ideology of Pakistan and role of religion in shaping the political system became focal point; the Islam *pasand* political parties, particularly the Jamat-i-Islami termed Bhutto as *Kafir* [Urdu: Infidel] and his program an anti-religion one and so immoral; (iii) A 'crisis of participation'⁸; as the oppressive military bureaucratic system got to the back corridors, new social groups, classes and political leaders sprang up in the socio-political arena as contenders of power. In fact, Bhutto himself, by mobilizing these classes, had raised their expectations; so peasants, tenants, factory workers and petty government employees wanted socio-economic change and whatever had been promised to them in election campaign. On the other hand, well-entrenched segments of society - including financial industrial groups, the bureaucratic military elite and a significant portion of the feudal classes were skeptical about the PPP's reformist intentions. These well-established and privileged sections of society wanted *status quo* to be perpetuated; while the PPP was given mandate to bring a change and the nature of change was reflected by the PPP's programme which demanded for "abolition of feudalism, protection of the rights of peasants and labourers; their right to strike;

6 Saeed Shafqat, *Civil-Military Relations in Pakistan* (Colorado: West view Press, 1997), 81.

7 Shafqat, *Civil-Military Relations in Pakistan*, 81.

8 Shafqat, *Civil-Military Relations in Pakistan*, 81. For analysis of Zulfikar Ali Bhutto's reformism and public policy in Pakistan, see "Public Policy and Reform in Pakistan 1971-77: An Analysis of Zulfikar Ali Bhutto's Socio-Economic Policies," in Saeed Shafqat, *Political System of Pakistan and Public Policy: Essays in Interpretation* (Lahore: Progressive Publishers, 1989), 203-32.

nationalization of all key and basic industries, of transport; and of education sector".⁹ The established financial industrial houses wanted continuation of the economic paradigm established under Ayub regime in which financial trickle-down effect was envisioned in the distant future.¹⁰ Likewise, they wanted continuation of the strategy of production maximization for industrial development and the increase in employment was to follow automatically.¹¹

Bhutto and Nationalization of Industries

The Pakistan People's Party's Manifesto, on the basis of which Zulfikar Ali Bhutto won majority seats in the West Pakistan in the elections of 1970, began with the four fold motto of the Party: "Islam is our Faith; Democracy is our Polity; Socialism is our Economy; all power belongs to the People."¹² In his pre-election speeches, Bhutto repeatedly promised to bring change in Pakistani society by introducing 'Islamic Socialism'. On the question raised about the incompatibility of socialism with Islam, Bhutto argued that socialism was the modern technique for the realization of ideals of Islam and that since Islam demanded the establishment of an egalitarian society, so "Islam and socialism are compatible".¹³ Moreover the manifesto stressed that "Pakistan People's Party's ... aims follow the political and social ethics of Islam. The party thus strives to put in practice the noble ideals of the Muslim Faith".¹⁴

The power of Bhutto's rhetoric was potent enough to make the poor and illiterate, teeming millions of Pakistanis to believe in the compatibility of Islam with socialism.

⁹ Shafqat, *Civil-Military Relations in Pakistan*, 81.

¹⁰ For details, see Pakistan People's Party, *Election Manifesto* (Lahore: Classics Books, 1970).

¹¹ Muhammad Waseem, *Politics and the State in Pakistan* (Islamabad: National Institute of Historical and Cultural Research, 2007), 198.

¹² Pakistan People's Party, *Election Manifesto*.

¹³ Z. A. Bhutto, Speech to all Pakistan Students Federation, London: 13 August 1966, in *Politics of the People*, vol. 2, *Awakening the People*, (Rawalpindi: Pakistan Publications), 14.

¹⁴ Pakistan People's Party, *Election Manifesto*.

Dissatisfaction with the economic policies of the Ayub regime, Bhutto espoused to correct the economic ills was the main cause of his triumph in the elections of 1970. At the time he took office as President on December 20, 1971, Pakistan faced an uncertain economic future.¹⁵ Many factors contributed to this state of affairs: the two most important of them merit mentioning here are the popular discontentment with the model of development vigorously pursued during 1960's and the situation created by the independence of Bangladesh. The mass movement successfully championed by Bhutto against the regime of Ayub Khan was in part aimed at his economic strategy, which was held responsible for an inequitable distribution of incomes amongst various classes of polity and regions of country. This aspect of Ayub regime disturbed majority of the people of the then West Pakistan, who in the elections of 1970 voted in favour of Bhutto's PPP.¹⁶ As mentioned earlier, the PPP in its manifesto promised to create a more equitable social order. Before the Bhutto government came into power, trauma of the civil war and separation of East Pakistan was witnessed by the nation and with it, the economic consequences anticipated by many of the serious scholars of Pakistan's economy and by industrial magnates.¹⁷ It was believed that West Pakistan would not be able to find an alternate market for its industrially manufactured agricultural goods. The performance of even private sector, the sector that had exhibited enormous pace of dynamism and on the basis of which Ayub termed his decade in power 'a decade of development'- bogged down as the rate of savings and

15 Shahid Javed Burki, *State and Society in Pakistan* (London: Macmillan Press Ltd.), 109.

16 Muhammad Abrar Zahoor, "A Critical Appraisal of the Economic Reforms under Zulfikar Ali Bhutto: An Assessment," *Pakistan Journal of History and Culture*, vol. XXXII, no. 1 (Jan-Jun, 2011), 144-45.

17 For detailed analysis, see "Struggle for Democracy: 1947-58 and 1971-77," in Veena Kukreja, *Contemporary Pakistan: Political Processes, Conflicts and Crises* (New Delhi: Sage Publications, 2003), 1-42. See also, Muhammad Waseem, "Causes of Democratic Downslide in Pakistan," in Veena Kukreja and M. P. Singh, *Pakistan: Democracy, Development and Security Issues* (New Delhi: Sage Publications, 2005), 39-58.

investment showed. Shahid Javed Burki, who has written substantially on Bhutto's period incisively depicts:

In 1969-70, the last relatively normal year, the nation had saved 13.3 percent of its wealth, but this declined to only 8.4 percent in 1971/72. Investment by private entrepreneurs declined to 5.4 percent of the nation's output, from 8.5 percent in 1969/70. At 5.4 percent, private investment was just sufficient to offset the depreciation of the existing stock of machinery and capital. In other words, at the start of Bhutto's period, the people were putting enough resources into the economy to keep it going at about its present level of activity. Very little was being invested for the sake of the future.¹⁸

The foregoing analysis of Burki entails one to conclude that a situation of uncertainty prevailed with no bright future expectations. With it, Pakistan's outstanding debt had raised manifold from that of 97 million US dollars in June 1959.¹⁹ The military, after ruling for almost decade and a half, delivered power to a civilian regime, in such circumstances.

Bhutto brought majority of those people into his cabinet who were never accommodated before into the existing power spectrum of Pakistan. They were of socialist leanings and keenly wanted to curb the power of the privileged elites and to redefine the relationship between bureaucratic-military elites and the financial industrial groups. These new key position holders included: Mubashir Hasan, who became Minister of Finance, Economic Affairs and Development; J.A. Rahim, Minister for Presidential Affairs, Culture, Planning and Agroviles; Shiekh Muhammad Rashid, Minister for Social Welfare, Health and Family Planning; Mian Mahmood Ali Kasuri, Minister for Law and Parliamentary Affairs, and Khursheed Hasan Meer, Minister for Establishment. In spite of their ideological-cum-personal differences, these individuals were much influential in steering the country's economy on a socialist direction. Neither of them exhibited broader consensus on the nature and degree of socialism nor were they unanimous in the formulation of the socio-

18 Burki, *State and Society in Pakistan*, 110.

19 Mubashir Hasan, *The Mirage of Power: An Inquiry into the Bhutto Years, 1971-77* (Karachi: Oxford University Press, 2000), 104.

economic reforms launched by Bhutto. However, they in unison encouraged and supported Bhutto to honour Pakistan Peoples Party's electoral promise of carrying out socio-economic reforms. While interviewing Mubashir Hasan, the writer asked, was there not alternate course to improve economy of Pakistan instead of massive nationalization that of course, hurled aside some of the established interest groups. Hasan was very firm in responding that nationalization of basic industries, iron and steel, chemicals, fertilizers, electricity generation and shipping, and nationalization of Banks and Insurance companies was included in the party program in its Foundation Documents when the PPP was formed in 1967.²⁰ According to him, party programme was "repeated in the elections of 1970," and "elections were contested and won on the programme of nationalization."²¹

In January 1972, Bhutto announced immediate nationalization of ten categories of heavy industries, including iron and steel, basic metal, heavy engineering, heavy electrical motor vehicles, tractors, basic chemicals, petrochemicals, cement and public utilities. The nationalization of heavy industries was followed by an Economic Reforms Order. The Order envisioned three immediate objectives: decentralization of national wealth; reorganization of industrial units and their management structure; and consolidation and expansion of the public sector.

To actualize the aforementioned objectives, managing agency system, which had its origins in the British imperial rule in India, was abolished. In 1961, the Ayub regime had attempted to get rid of 'managing agency system',²² but the

20 Mubashir Hasan, interview by author, Islamabad, April 16, 2004.

21 Hasan, interview by author, Islamabad, April 16, 2004.

22 Its main feature is trading firm in India would undertake the management of industrial enterprises owned by the Europeans. Whenever, new companies were formed by the foreign or local capitalists, they handed over companies' management to an existing managing agency. The managing agents, in case they sense a chance of establishing a new industry or a trade opportunity, would draw up a project and form a directorate that would

regime had to abandon this idea owing to the pressure posed by financial industrial groups. During the earlier civilian and military regimes in Pakistan, armed with a number of protection measures and subsidies for industrial development, managing agents had got a golden opportunity for pooling the resources and floating new companies in the stock exchange market. Resultantly, entire control of joint stock companies was in the hands of a few. Thus, as fast the industry experienced growth, managing agency system led to the concentration of wealth and financial power. Explaining the rationale behind the abolition of this system, Mubashir Hasan said: "Managing agencies were one of the worst institutions of loot and plunder through which the cream of profit was skimmed by a handful of people who were able to control capital worth about Rs. 50 to 60 crore with an investment of Rs. 50,000 or so".²³ For the purpose of making dent into this exploitative system, "the Managing Agency and Election of Directors' Trade 1972 Order," was promulgated by Mubashir Hasan and his left oriented allies; the order hit and shook the very roots of power of financial industrial coterie. With the benefit of hindsight, Burki is of the opinion that "the order ensured that the powers of the financial industrial groups were effectively curbed."²⁴ It unnerved the financial houses but policy-makers of the regime felt confident and elevated. In all, 186 companies were affected by the order of which 148 were managed by the managing agencies.²⁵

Management structure of the newly nationalized enterprises was overhauled by introducing a number of changes: the board of directors and managing agents were replaced by new managing directors. All of the nationalized industrial units were grouped into ten corporations, each headed by a

raise the necessary project. The articles of association could give enormous power to the director. Thus a vast and varied, nature and number of enterprises could be controlled and managed by a single firm.

23 *The Pakistan Times*, January 20, 1972.

24 Burki, *Pakistan under Bhutto*, 114.

25 *Pakistan Economist*, March 18, 1972, 32-35.

chairman who was a civil servant. Managing Directors, heading individual units, reported to their respective chairmen who, in turn, reported to a Bureau of Industrial Management (BIM) under the Minister for Production in the central government. At the apex of this hierarchy was the Board of Management chaired by Mubashir Hasan. This system became, in fact, a bureaucratic quagmire. A plant manager had to penetrate through three layers of red-tapism before he could venture with a major decision or operation. In the following November, the government set up a State Life Insurance Corporation of Pakistan.

By 1973, the nationalized industries were regrouped and the following corporations were formed.

1. State Heavy Engineering and Machine Tools Corporation
2. Federal Chemicals and Ceramics Corporation
3. State Cement Corporation of Pakistan
4. State Electrical Corporation of Pakistan
5. National Fertilizer Corporation of Pakistan
6. National Design and Industrial Services Corporation
7. State Petroleum, Refining and Petrochemicals Corporation
8. Pakistan Automobile Corporation
9. Federal Light Engineering Corporation
10. Mineral Development Corporation

Thus, with these changes, a foundation was laid for the development and expansion of a public sector. Preceded by the loss of assets of many industrial houses with the loss of East Pakistan, the Pakistan Peoples Party's policies of economic reforms and nationalization adversely affected the confidence of financial industrial groups. Though Bhutto's economic reforms were not directed against any particular industrial family, yet these adversely affected two groups: BECO and Rangoonwala, which lost almost total of their assets; Saigol, Amin, Fancy and Habib also heavily suffered.²⁶ Abolition of managing agency system and

²⁶ Shafqat, *Civil Military Relations in Pakistan*, 133.

nationalization of industries did loosen the clutches of concentration of wealth. The control of assets of the large manufacturing sector dropped from 41.7 percent for the top 41 industrial houses to 31 percent for 39 industrial houses. At the same time, the share of the top 10 industrial houses dropped from 24.8 percent to 18.2 percent.²⁷ These facts are sufficient to suggest that the financial industrial houses were weakened, not destroyed. The top 39 industrial houses continued with controlling 40 percent of the private assets and over 45 percent of the private domestic assets; nationalization, however, brought minor changes in the position of some of the industrial houses and Dawood, Saigol, Crescent, Hoti and Adamjee emerged as the top five industrial houses, erstwhile.²⁸

Table 1. POSITION OF INDUSTRIAL HOUSES

House	Pre-Nationalization		Post Nationalization	
	Position	Net Assets	Net Assets	Position
Saigol	1	529.8	165.3	3
Habib	2	228.0	68.8	11
Dawood	3	210.8	867.5	1
Crescent	4	201.7	201.7	2
Adamjee	5	201.3	146.3	5
Colony (N)	6	189.7	95.8	6
Valika	7	183.5	62.6	12
Hoti	8	148.6	148.6	4
Amins	9	137.9	137.9	-
Wazir Ali	10	102.6	87.7	-

SOURCE: Shafqat, *Civil Military Relations in Pakistan*, 133.

The reliable data shows that nationalization did not diminish the power of the established groups of Pakistan's economy except reshuffling their status among themselves; substantial losers proved to be those who suffered in East Pakistan. Since heavy industry had not been a lucrative investment area for the habitually favours-expectant industrialists of the country, therefore Bhutto's government rapidly moved to expand public sector in this area. By laying

²⁷ Shafqat, *Civil Military Relations in Pakistan*, 133.

²⁸ Shafqat, *Civil Military Relations in Pakistan*, 134.

stronger foundations of the public sector, the PPP government hoped to bridge the yawning gap between the rich and the poor. In spite of the fact that business community had sufficient to invest, Bhutto's rhetoric weakened their confidence. He once threatened the big businessmen to 'skin them alive' if they did not come to terms with the government. This had a double effect: on the one hand, it diminished the confidence of investors (domestic as well as foreign) while on the other hand, regime's pro-labour rhetoric encouraged them and labour became more and more rowdy.

On March 7, 1972, the insurance companies were nationalized.²⁹ At that time 43 life insurance companies were operating in the country out of which 39 were Pakistani; three were British and one was American.³⁰ Eleven companies' headquarters were located in East Pakistan, four abroad and twenty-eight in West Pakistan.³¹ Nationalization of insurance companies was dealt with a thorough criterion; different from nationalization of heavy industry. Industries owned by the local industrialists were only taken over by the government and given to new management without remuneration while foreign owned industry was left untouched. However, in the case of insurance companies, government decided to take over all of them (including foreign) and compensation was paid only to the foreign companies. This was a criterion of favourable attitude towards foreign industrialists and companies against the locals.

Banking reforms were announced in May 1972.³² Ghulam Ishaq Khan (an outstanding civil servant who had started career as a minor provincial officer but rose up and became the president of Pakistan in 1988) the then Governor of State Bank prepared the reforms report, enumerating also the

29 *Nawa-i-Waqt*, March 20, 1972.

30 *Nawa-i-Waqt*, March 20, 1972.

31 Hasan, *Mirage of Power*, 53.

32 *Nawa-i-Waqt*, May 20, 1972.

malpractices of past regimes regarding bribes to officials as well as concentration of capital. He wrote in report that “a few big family groups own and control a large share not only of industrial and commercial undertakings but also of financial assets in the country, which makes collusion of banks with big clients easy to occur and difficult to detect,”³³ but he was resolute in his conviction that there was no need to nationalize Banks. On the nationalization demand of Mubashir Hasan, Ghulam Ishaq Khan explained in great detail that enlarging control of the State Bank over the operation of banks would achieve all the objectives the government had in mind. Under the reforms, the State Bank was empowered to remove directors or other managerial persons, to supersede the board of directors of a banking company and to appoint administrators during the period of suspension. The State Bank was also empowered to nominate a director on the board of directors of every private bank; no director could serve as a board member for more than six years. Furthermore, the State Bank was authorized to prescribe ceilings on individual borrowings; unsecured loans were prohibited for directors. A consultative body called National Credit Consultative Council (NCCC) was formed. At the commencement of every financial year, the NCCC, comprising members from government and the private sector, was to prepare an integrated credit plan with the safe limits of monetary and credit expansion.³⁴

In May 1972, Bhutto conceded the role of private sector accepting that “private enterprises have a role to play in the economic progress of Pakistan.”³⁵ Mubashir Hasan’s programme was to follow the nationalization of entire industries, banks, vegetable oil and textile industries. But some members of the Cabinet, particularly Hafeez Pirzada, Minister of Law in the cabinet of Bhutto after Mian Mahmood Kasuri, convinced Bhutto to slow down his nationalization

33 Hasan, *Mirage of Power*, 56.

34 Hasan, *Mirage of Power*, 58.

35 *The Pakistan Times*, May 20, 1972.

policy. Some members of bureaucracy who retained influence with Bhutto (effective voices include Qamar ul Islam, Chairman Planning Commission and Ghulam Ishaq Khan, Governor of the State Bank) also strived hard to convince Bhutto not to proceed too fast with nationalization.³⁶ Newly established rules of the Banking Policy reoriented the credit policy of banks in favour of wider dispersal of bank credit. As a result, small farmers and small industrial entrepreneurs became immediate beneficiaries. In the later half of 1972, the sick market and industrial confidence, when measured in terms of the number of loan applications made to financial institutions, recorded sharp increase.³⁷ In the first half of 1973, however, events took a turn that no body could have anticipated or stopped from happening.

In the summer of 1973, flood devastated the country as all the major rivers cut through the protective embankments built in 1950s. According to official estimates, 200 lives were lost and four million acres of crops were inundated, 885000 homes were seriously damaged, 54,000 heads of livestock were lost and 38 million dollars of damage was done to infrastructure.³⁸ The flood preceded by severe shortage of sugar, wheat and cooking oil. Basic items of consumption could not be delivered to the affected areas because the bureaucracy was being reorganized that very summer.³⁹ Administrators were also demoralized due to massive reforms in bureaucracy and removal of anti-regime officers. Mubashir Hasan impressed upon Z.A. Bhutto that shortage was artificially created by the business community to discredit the incumbent government. Reacting to the situation and influenced by Finance Minister's persuasion, Bhutto, on August 16, 1973, announced nationalization of the vegetable oil industry and the cotton trade, blaming the

36 Burki, *State and Society in Pakistan*, 116.

37 Burki, *State and Society in Pakistan*, 116.

38 *The Pakistan Times*, April 3, 1974.

39 Viqar Ahmad and Rashid Amjad, *The Management of Pakistan's Economy 1947-82* (Karachi: Oxford University Press), 95.

private businessmen for “exploiting a national crisis for personal advantage.”⁴⁰ Whereas the first spate of nationalization hurt the twenty-two families, a good proportion of the cooking oil industry was owned by small and middle-sized entrepreneurs, among whom a large number of businessmen were active PPP supporters. Thus government’s encroachment into this industry was actively resented by its own constituency; it not only caused resentment but also hostile pressure for reducing the influence of the left in economic decision making apparatus of the party.

On January 1, 1974 as a ‘New Year’s present to the People of Pakistan’, Z.A. Bhutto announced immediate nationalization of all banks.⁴¹ This announcement was followed by a statement by the Finance Minister, Mubashir Hasan, that the pledges made by the PPP in the election manifesto had been fulfilled and the type of mixed economy that the government wished to establish in Pakistan had been created.⁴² The expansion in the role of public sector, erosion in the confidence of the businessmen and a sharp increase in the share of wages in industrial earnings all had a profound impact on the development of industrial sector in the country. Actually, the businessmen were, by far, leaving Pakistan to invest their capital in Africa, Middle East and Europe. A number of industrial houses enhanced out into other countries. For example, the Saigol family started business in Tanzania, Kenya and United Arab Emirates; the Service House picked up enterprises in Saudi Arabia; Habib family started business activities in New York and London and a large number of staff from banks and financial institutions fled to the Middle East. Those businessmen who chose to live in the country, diversified their investments into many different areas like construction and real estate.

40 *The Pakistan Times*, August 17, 1973.

41 *The Pakistan Times*, January 2, 1972.

42 Burki, *State and Society in Pakistan*, 118.

A Comparative Analysis of Public and Private Sector Industries

Some writers argue that Bhutto wanted to bring all enterprises under state control; but it is more appropriate to analyze him in 'democratic socialist' category which was a brainchild of British Fabians. The essential points of Fabian⁴³ socialism can be summarized as a gradual and continuous transition from capitalism towards socialism; the broadening of public sector in the economy and involvement of the state in the creation of partial state-capitalist structure; the attempt to create a socialist society through arousing the social conscience of the exploited; and emphasis on the redistribution of wealth through blockading mechanism against the concentration of resources.⁴⁴ Bhutto repeatedly announced that Pakistan under him was committed to a mix economy rather than total socialization.⁴⁵ Writing in *Foreign Affairs* in 1973, Bhutto defined the parameters of his strategy of economic reformism: "The economy we envisage is a mixed one in which private enterprise is neither crippled nor allowed to appropriate the nation's wealth for the benefit of few."⁴⁶ For Bhutto, economic growth without social improvement was meaningless. He wanted a shift in the existing development strategy of 'functional inequality'. The new strategy he propounded comprised of the following strands: (i) reducing social inequalities; (ii) enhancing employment opportunities by widening public sector; (iii) upgrading literacy level through bringing educational institutions under the state patronage; (iv) generating

43 This is a type of Socialism which became more popular in UK due to the traditionalist and conservative nature of its politics. Fabian socialists believed in introducing reforms step by step. The term 'Fabian' was derived from the name of a Roman General Fabius who used war tactics which focused more on step by step attacks than an all out assault.

44 Donald Kegan, Steven Ozment, and Frank M. Turner, *The Western Heritage* (New York: MacMillan Publishing Company, 1987), 24-25.

45 Gardezi, Pakistan: *The Roots of Dictatorship*, 12.

46 Zulfikar Ali Bhutto, "Pakistan Builds Anew," *Foreign Affairs*, April 3, 1973, 543.

economic growth through the involvement of public sector.⁴⁷ A large number of big projects which Burki describes 'grand solutions', were also completed during Bhutto regime. These contributed much in widening the public sector as compared to private sector industrial investment. On the other hand, physical infrastructure was developed on the behest of the government.

Table 2. PUBLIC AND PRIVATE SECTOR INDUSTRIAL INVESTMENT (MILLIONS OF RUPEES)

Year	Private Sector Investment	Public Sector Investment	Total Investment	Private Sector Investment as % of Total Investment	Public Sector Investment as % of Total Investment
1971-72	1,235	99	1,334	92.6	7.4
1972-73	1,018	111	1,129	90.2	9.8
1973-74	1,023	391	1,414	72.3	27.7
1974-75	1,437	1,065	2,502	57.4	42.6
1975-76	1,818	3,182	5,000	36.4	63.6
1976-77	1,795	4,315	6,110	29.4	70.6

SOURCE: *Pakistan Economic Survey, 1976-77* (Islamabad: Government of Pakistan, Finance Division, 1977), 43.

Through nationalization programme Bhutto's government secured control of financial and industrial assets of over Rs. 2 billion.

Table 3. GROWTH RATE (%) OF PRIVATE, PUBLIC AND TOTAL INVESTMENT

Year	Private Investment	Public Investment	Total Investment
1971-72
1972-73	-17.6	12.1	-15.4
1973-74	0.5	252.3	25.2
1974-75	40.5	172.4	76.9
1975-76	26.5	198.8	99.8
1976-77	-1.3	35.6	22.2

SOURCE: *Pakistan Economic Survey, 1976-77* (Islamabad: Government of Pakistan, Finance Division, 1977), 44.

47 Zahoor, "A Critical Appraisal of the Economic Reforms under Zulfikar Ali Bhutto," 150-51.

This vastly increased resource-base promoted clientalist politics and it remained a marked feature of not only the Bhutto government but also of many succeeding governments. It left a legacy to use loans from government controlled financial institutions to buy political support. Moreover, it created a situation in which 'ever since the Bhutto-era reforms Pakistan financial administration has been saddled with public sector enterprises that it can neither manage profitably nor sell off to buyers interested in anything more than strip mining the assets in question.'⁴⁸ These public sector enterprises have become models of nepotism, corruption, mal-governance and over-staffing.

Conclusion

The USSR's experience of nationalization of all means of production and the resultant phenomenal growth that it produced in its economy not only impressed the third world countries but also many of the technologically advanced countries became admirers of this model of socio-economic progress. Having been overwhelmed by such a fast growth, leaders in many countries responded by introducing reforms on the same model of socialism. Zulfikar Ali Bhutto's reforms were also one of the categories which were aimed at addressing distributional concerns of people. However, Bhutto's economic reforms were Fabian socialist reforms because the manner in which these were envisaged and carried out was Fabian one. In this strand of socialism, reforms are implemented step by step on incremental lines so that the socio-political fabric of the country may not be disturbed by the scale of reforms. For the equitable distribution, he had to nationalize the major medium scale industries; but having done so his administration could not manage it efficiently and the whole structure became a bureaucratic quagmire. As a result, these industrial units became a burden for economy instead of generating growth. Most significantly, Bhutto had to pay political price of

48 Ilhan Niaz, *The Culture of Power and Governance of Pakistan 1947-2008* (Karachi: Oxford University Press, 2010), 230.

nationalization of cooking oil and cotton industries which hurt the economic interest of small and medium enterprises which were considered dominant part of Bhutto's political base. This decision, in large measure, was engendered by contradictions in the PPP's ideology and imperatives of making political decisions since party itself was a conglomeration of many interest groups.