6

The Management of Crises

SHAHID JAVED BURKI

In the last 40 years, Pakistan has had to deal with more than a dozen crises. The present structure of the economy, its weaknesses and strengths, are the result of how these crises were handled. Each time Pakistan's resourceful bureaucrats were called upon to navigate the economy through the turbulence it faced, and each time the bureaucracy managed to find a way to get to shore. But in bringing the economy safely to the other side they always changed it, sometimes in little and at other times in big ways.

Today Pakistan once again finds itself in a deep economic crisis. But for two reasons the country will not be able to leave its management to the bureaucrats. First, the country is faced not with one but with at least four serious problems. The bureaucrats' resourcefulness notwithstanding, they are not equipped to turn their attention in so many different directions at the same time. Secondly, some of these problems are the consequence not of external developments but of the structural deficiencies that have developed in the economy over time. Pakistan's economy has structural difficulties, including a narrow and inelastic base for both federal and provincial taxation, weaknesses in expenditure control, a relatively restrictive trade system, a narrow export base

coupled with a large merchandise trade deficit, heavy reliance on workers' remittance recipients, and associated vulnerability of both the external current account and gross official foreign exchange reserves.[1] The structural weaknesses can only be removed by political action—by the development of a broad consensus among the many groups active in the political field today. Agreement in now needed on a number of unresolved but critical issues that confront Pakistan's many social and economic groups, its four provinces, and its cities and the countryside. Such a consensus cannot be forged by the bureaucracy; it can be developed only by the politicians working within a political framework.

How did Pakistan manage reasonably well for over 40 years without producing such a broad political understanding? How did the bureaucrats manage to be at the centre of economic decision-making without provoking a major political crisis? For answers to these questions we should look at the anatomy of the crises faced, analyze the way these crises were managed, trace the long-term impact of crisis management on the structure of the economy and suggest why the model of crisis management used with such success in the past is not relevant for addressing the present situation. It is the country's extraordinary luck that its celebrated return to democracy in 1988 occurred precisely at the time when the economy had begun to go off-course. It is unfortunate, however, that the politicians have shown little stomach for taking the hard decisions without which the economy cannot be brought back to the right course once again.

A History of Crises

Not counting natural calamities, the country had to face at least 15 extraordinary economic crises (see Table 6.1). All but two of them were the consequence of external events.

The first of these occurred even before the country gained independence. From the time the British in June 1947 announced their intention to leave India, to the time of the closing of the Kokhrapar border between Pakistan's Sind province and the Indian

TABLE 6.1
Crises in Pakistan's History

No.	*Year*	*Immediate cause*	*Main consequences*
1.	1947–49	Communal violence preceding and immediately following the partition of British India claimed millions of lives.	Eight million refugees from India arrived in Pakistan displacing six million Hindus and Sikhs who left Pakistan for India.
2.	1948	India shut off water supply to the canals irrigating parts of Pakistan's Punjab.	The Pakistani province of Punjab faced a serious shortfall in the output of summer crop in 1948.
3.	1949	Pakistan's refusal to devalue its currency against the US dollar.	All trade ceased between India and Pakistan. Pakistan was faced with a serious shortage of basic consumer goods it had previously imported from India.
4.	1953	The export boom produced by the war in Korea collapsed.	Pakistan suffered a sharp reduction in the value of its exports.
5.	1965	On 6 September 1965, Pakistan went to war with India over the disputed territory of Kashmir.	The hostilities between India and Pakistan lasted for only 17 days, but Pakistan suffered a sharp cutback in offical capital flows as several Western donors applied sanctions against the two combatants.
6.	1968	The Chief Economist of the Planning Commission delivered a speech claiming that the model of economic development adopted by Pakistan had resulted in a serious deterioration in income distribution.	The Chief Economist's remarks reinforced the common perception that income distribution had worsened during the Ayub years. Labour disturbances including 'gheraos' followed.
7.	1971	The Civil War between East and West Pakistan led to the creation of Bangladesh as an independent state.	Pakistan had to find new markets for the goods and commodities it had previously sold in Bangladesh. It had also to absorb a wave of immigrants from Bangladesh.
8.	1972	In January, the government of Zulfikar Ali Bhutto nationalized large private manufacturing industries and private financial and insurance institutions.	Nationalization not only disrupted the normal functioning of an important segment of the industrial sector, but also produced a sharp downturn in private industrial involvement.

TABLE 6.1 *(Continued)*

No.	*Year*	*Immediate cause*	*Main consequences*
9.	1973	The Organization of Petroleum Exporting Countries (OPEC) increased the price of oil from $3 to $12 per barrel.	Pakistan suffered a large deterioration in its terms of trade and, subsequently, a sharp increase in the balance of trade deficit.
10.	1979	Ayatollah Khomeni established an Islamic regime in Iran.	Pakistan chose to contain the spread of fundamentalist and militant Islam by introducing a number of changes in the economic, social and legal systems.
11.	1979	In December, the Soviet troops entered Afghanistan and established a puppet regime in Kabul.	War in Afghanistan escalated and refugees began to move into Pakistan in very large numbers.
12.	Mid-1980s	Rivalry between different ethnic groups in Karachi and other cities of Sind erupted in uncontrollable violence.	Disturbance in Karachi and Hyderabad resulted in a serious decline in industrial investment and migration of industrialists and businessmen to the country's interior.
13.	1980s	Pakistan became a major producer and exporter of heroin and other hard drugs.	Exports of drugs added fuel to the underground economy and produced the Pakistan version of the Dutch disease.
14.	1988	The election of November 1988 produced a split mandate which gave power to the Pakistan People's Party at the centre and to its rival, the Islamic Democratic Alliance, in Punjab.	The growing animosity between PPP and IDA caused serious economic disruptions and questioned the very viability of the federal system of economic management Pakistan had practised until then.
15.	Late 1980s and 1990s	The collapse of the economic boom in the Middle East brought an end to the out-migration of Pakistani workers.	The closure of the Middle East valve once again made poverty alleviation an important item on Pakistan's economic agenda.
16.	Late 1980s and 1990s	Pakistan's external and internal resource balances continued to worsen.	Pakistan was no longer in a position to expand investment at relatively high rates without increasing external and internal resource generation.

state of Rajasthan in 1951, some 14 million people moved across the new frontier. Eight million Muslim refugees came to Pakistan while six million Hindus and Sikhs left for India. When Pakistan took its first population census in 1951, one out of every four of its 34 million citizens identified a village, a town or a city in India as the place of his or her birth.[2] In a world that was to become used to the movement of people in vast numbers, the exchange of population that followed Partition remains to be surpassed in terms of both its magnitude and the loss of life and property that accompanied it.

The refugees arrived in two streams,one from Delhi and the urban areas of what are now the Indian states of Uttar Pradesh, Bihar, Maharashtra, and Gujarat. These urban Muslims were joined later by the migrants from the state of Hyderabad after the Indian armed forces quashed the Nizam of Hyderabad's attempt to carve out an independent Muslim country in India's South. Most of these refugees went to Karachi, but not because they saw some special economic opportunities waiting for them there that could not be matched elsewhere. In fact, in 1947 Karachi was a small city with only 200,000 people, a weak physical infrastructure and poor communication links with its hinterland. They simply went to Karachi because the city had been chosen by Mohammad Ali Jinnah as the capital of the new state of Pakistan. The new country's capital provided a spacious sanctuary to this stream of refugees.

The second stream came from the countryside of the India states of Punjab and Haryana. These were mostly peasants and small landowners—these states did not have the large agricultural estates that were more typical of rural Punjab and Sind in Pakistan. Once in Pakistan, these refugees were quickly distributed; most were absorbed in Pakistan's Punjab while some trickled to the countryside of Sind, Baluchistan and the North–West Frontier. Wherever they went they received temporary title to the land and houses left behind by the departing Hindus and Sikhs.

Pakistan's second crisis came soon after independence and was the direct result of the haste in which the British had left India. The institutional mechanisms set up to resolve disputes between the countries were given only seven months to finish their work. The Partition Council and the Arbitral Tribunal were disbanded on 21 March 1948; and on 1 April 1948 India shut off water

supplies from Ferozepur headworks to the Dipalpur Canal and to the portion of the Upper Bari Doab Canal that flowed through Pakistan. Jawaharlal Nehru, India's Prime Minister said: 'What India did with India's rivers was India's affair.'[3] This action by India deprived nearly 6 per cent of West Pakistan's sown area of water. Lahore also lost the main source of municipal water. Pakistan faced a serious crisis. Partition had disrupted Pakistan's economy much more severely than India's and it had also a very large number of refugees to feed. It could not afford poor harvests: a sharp fall in agricultural output would cause deprivation to its unsettled population. Pakistani leaders were clearly caught by surprise by the Indian action.

The refugees from India were far from settled, and the dispute with India over the division of water flowing through the rivers of Punjab remained unresolved, when Pakistan had to face its third crisis. This occurred in 1949, when a dispute over the rate of exchange between their currencies led to a total cessation of trade between Pakistan and India. From 14 August 1947, the day Pakistan gained independence, to April 1949, when it refused to join other members of the Sterling Area in devaluing its currency with respect to the United States dollar, India and Pakistan had a common market. People, goods and commodities, even the currencies of the two countries, flowed freely across their common frontier. Pakistan's dependence on India for basic manufactured goods was total. In 1948–49, Pakistan imported goods valued at $356 million as against exports of only $160 million. Most of this trade was with India. In that period, one hundred Pakistani rupees exchanged for an equal number of rupees from India. After India's devaluation with respect to the dollar, the rate of exchange moved in Pakistan's favour: 140 Indian rupees for 100 rupees from Pakistan. In a world that has become used to floating currencies, it seems extraordinary that the decision by Pakistan not to devalue its currency should have led to such a hostile move from the Indian side. But India made such a move and Pakistan had suddenly to look not only for new sources of supply for a large number of basic consumer goods but had also to find foreign exchange to pay for them.

The Korean War produced the needed resources for Pakistan. It produced a commodity boom with the price of jute, cotton, wool and leather increasing several fold. The value of Pakistan's exports more than doubled in a year, increasing from $171 million in 1949–50 to $406 million in 1950–51. This increase in export earnings more than paid for the imports Pakistan needed to compensate for the loss of trade with India. In 1950–51, Pakistan ran a trade surplus of $53 million in its favour. However, the Korean War boom burst in 1953–54 and the value of exports fell to a level below that of 1950–51. The severe strain on the country's external resources produced by the collapse of the boom was exacerbated by the failure of the wheat crop in West Pakistan in two successive years. In 1951–52, Pakistan produced only three million tons of wheat, 900,000 tons or 23 per cent less than the output of the previous year. In 1952–53, wheat production declined further to only 2.4 million tons. On 9 April 1953, Prime Minister Khwaja Nazimuddin announced that Pakistan must import a minimum of 1.5 million tons of wheat during the coming year if widespread famine was to be prevented, that it was beyond Pakistan's resources to purchase such a large quantity, and that wheat imports must begin to flow into the country within three months.[4] This was Pakistan's fourth economic crisis: those in charge had to take some extraordinary measures to protect the flow of consumer and capital goods needed by the country.

From 1954 to 1965, Pakistan did not face a serious crisis barring the somewhat irrational economic behaviour of the first military government when it took office in October 1958. But the Ayub Khan period did end with a crisis; in September 1965, India and Pakistan went to war over Kashmir, and the international donor community reacted by stopping the flow of official funds to the two combatants. Pakistan, having become dependent on external capital flows for financing a growing trade gap, suffered more than India. The embargo on the flow of funds was eased gradually as the two countries restored what for them were normal relations but not before considerable harm had come to Pakistan's economy.

The economic slowdown that came after the 1965 war with India led to another crisis, one of the two that were to be produced by internal rather than external developments. The slowdown was perceptible; in 1966–67 and 1967–68, growth in GNP averaged 5.5 per cent a year while it had been averaging at 7.8 per cent a year in the four-year period before the war. The urban economy was affected much more seriously; in 1966–67 and 1967–68, output of manufacturing increased at the rate of 6 per cent a year compared

to nearly 11.5 per cent average annual growth for the Second Five Year Plan (1960–65) period. The model of economic growth that had been practiced with seeming success by the government of Ayub Khan no longer appeared to be relevant for the circumstances. A number of influential people, including Mahbub ul-Haq, the chief economist of the Planning Commission, began to speak publicly about the enormous gains that had been made by the rich at the expense of the poor. In a speech to an audience in Karachi in 1968, Haq claimed that just 22 families listed on the Karachi stock exchange controlled nearly two-thirds of the country's industrial assets.[5] This was a severe indictment delivered by the chief planner who had earlier extolled the virtues of the Second Five Year Plan's growth philosophy.[6] Disenchantment was much more pronounced in West Pakistan and initially took the form of agitation by industrial labour for better wages and working conditions. Workers resorted to 'gheraos', a highly successful tactic which confined the senior managers in their offices for as long as they did not yield to the workers' demands. This tactic started with Karachi and then quickly spread to other cities, including Dacca and Chittagong, East Pakistan's main industrial centres. However, West Pakistan's disaffection provided the politicians of the eastern wing (today's Bangladesh) with the opportunity to put forward their six-point programme for economic autonomy.[7] Caught up in an agitation that he had not expected and that gained strength with every passing day, Ayub Khan resigned and made way for Yahya Khan, Pakistan's second military president.

The break-up of Pakistan in December 1971 presented the country with its seventh crisis. Ever since the dissolution of Pakistan's informal customs union with India in 1949, East Pakistan had become dependent on manufactured imports from the western wing, especially consumer goods like textiles, garments and shoes. The eastern province was also a large importer of rice from West Pakistan. In fact, the development of trade between the country's two wings was one of the grievances the politicians of East Pakistan had begun to hold against the western wing. There was a widespread feeling in East Pakistan, articulated in the report prepared by the panel of economists appointed by the Planning Commission in 1964, that this 'inter–wing' trade had benefited West Pakistan more than the country's eastern province.[8] The Bengalis believed that West Pakistan had artificially turned the provincial terms of trade against them by buying cheap and selling dear; that, in fact, East Pakistan would have been much better off had it been able to retain its foreign exchange earnings and used them for obtaining imports from the cheapest possible sources. The West Pakistanis half-accepted this point of view and were prepared to compensate East Pakistan by transferring resources to it within the framework of the Fourth Five Year Plan. The belief that West Pakistan may have exploited the eartern wing contributed to a sense of crisis when the latter separated to become the independent country of Bangladesh. There was a widespread fear in what remained of Pakistan that it would find it very difficult to sell its surplus output in international markets. In other words, the loss of the markets in East Pakistan had produced a crisis for the manufacturers and surplus farmers of West Pakistan. Moreover, a large number of non-Bengali industrialists and businessmen headed back to West Pakistan, while hundreds of thousands of Biharis were herded into numerous refugee camps in the cities of Bangladesh, where they still await repatriation to Pakistan.

Pakistan had little time to recover from its second partition when the international price of oil was increased, first in the autumn of 1973 and then in 1979. Like other oil importing countries, Pakistan suffered tremendously from the terms of trade loss. The value of its imports nearly tripled in two years, increasing from $797 million in 1972–73 to $2,144 million in 1974–75. In 1974–75, Pakistan had a negative trade balance of over a billion dollars, more than three times the adverse balance registered two years earlier. Once again, Pakistan had to search for sources of external capital flows to finance a large deficit in external trade. In 1974–75, this deficit hit a record in real terms, $583 million as against the previous record of $426 million when measured in the prices of 1959–60. This was Pakistan's seventh crisis, and the most serious one on the country's balance of trade.

In January 1979, Pakistan had to face a development over which it had no control but which, because of its origin, it could not afford to ignore. Ayatollah Khomeini returned from exile in Paris to overthrow Raza Shah Phelavi and to found the Islamic Republic of Iran. In 1947, Mohammad Ali Jinnah had made a somewhat similar journey to create a country for the Muslims of the subcontinent. For more than three decades, Jinnah's political successors had struggled to define the ideological meaning of Pakistan. Was

Pakistan to be a state in which the Muslims of the subcontinent could define their political future according to the political philosophy of their choice? Or was Pakistan to be an Islamic state in which the teachings of the *Koran* and *Sunnah* were to prevail over other political, economic and social points of view? From 1947 to 1979, Pakistan had chosen to adopt the first interpretation. After the overthrow of Zulfikar Ali Bhutto by Zia ul-Haq in July 1977, Pakistan had begun to veer to the second point of view. The Iranian Revolution created a new political and economic imperative. It was an economic crisis for Pakistan in the sense that it challenged the authorities to devise an economic system that did not conflict with the teachings of Islam as contained in the *Koran* and *Sunnah*. Pakistan may not have been deeply affected by the developments in Iran if its leaders, Zia ul-Haq being the most prominent, had not identified Islamization as the country's most important unfinished business. Iran now posed a challenge; having enforced an Islamic system on its own society, it now beckoned Muslim countries in its neighbourhood to follow suit. The assault on Khana Kaaba in 1978, the great mosque in Mecca, and the subsequent burning of the American Embassy in Islamabad a couple of days later, persuaded Zia ul-Haq that the rise of militant Islam had unleashed a force inside Pakistan. While there was no way to measure its full strength, it was judicious to absorb and accommodate it by changing those parts of the economic system which were considered to be out of tune with the teachings of Islam. Some features of the economic system had to be altered and brought to conform to the basic teachings of Islam.

Zia ul-Haq's Islamization move and his sympathy for the cause of Islam in the region of which Pakistan is a part contributed to the country's tenth economic crisis. This was produced by the influx of the refugees from Afghanistan into Pakistan's frontier regions. The flow had begun in 1978 when the Afghan republican government of President Mohammad Daud was overthrown in a bloody coup d'etat led by the leftist elements in the military. The regime that took power in Kabul proved to be unstable. Presidents changed quickly: Hafizullah Amin followed Taraki, the first president of socialist Afghanistan; Aminullah was overthrown and killed, in turn, by Babrak Kamal. Kamal was subsequently replaced by Najibullah. The assassination of Amin brought Soviet troops into Afghanistan and sent millions of Afghans into Pakistan. President

Zia ul-Haq saw the revolution in Afghanistan as a setback for Islam. He was therefore prepared to accept with open arms the refugees from Afghanistan. He also saw in the Afghan crisis an opportunity to legitimize his regime in the eyes of the West. Accordingly, the Zia ul-Haq government declared that it was not prepared to recognize the communist administration in Kabul and, at the same time, offered to assist those Afghans who were willing to fight against the new government. Such overt assistance to the mujahidin encouraged emigration from Afghanistan. The Government of Pakistan set up numerous refugee camps in the North-West Frontier Province and Baluchistan but not all the migrants from Afghanistan could be accommodated in them. The flow of refugees continued unabated until more than 3.5 million of them crossed into Pakistan. Tens of thousands left the refugee camps and went to the large cities in search of jobs. They found Karachi, with Pathan communities already well established in the city, particularly attractive. However, the arrival of the Afghan refugees into Karachi further exacerbated the ethnic problem faced by the city. By the mid-1980s this ethnic problem had developed into a full-fledged economic and political crisis.

Ethnic problems led to a serious economic crisis in the mid-1980s. The country had failed to develop political and economic institutions that could take cognizance of the grievances of communities who felt that they were being discriminated against. The number of such communities had multiplied over time and some of them began to resort to violence. Sind suffered more than other provinces principally because the pace of social change there had been faster than in any other part of the country. In Karachi, the Sindhi population was reduced to a small minority. This happened as the result of the arrival of a very large number of refugees from India (the muhajirs), by the immigration of the Pathan and Punjabi construction and factory workers, and finally by the influx of the Afghan refugees in the early 1980s. The original Sindhi population was not unmindful of these demographic changes. In 1972 their grievances erupted into the 'language riots' when Sindhis demonstrated violently to save their language and culture from being overwhelmed by the muhajir community. The government responded by allowing Sindhi an offical status, at least at the provincial level. These protests also resulted in generous quotas being assigned to the Sindhis for recruitment in government departments and public sector enterprises. These concessions

to the Sindhis were not without political cost. However, it took more than a decade for the muhajir reaction to these developments to take a political turn. The reaction finally came in the form of a movement, the Muhajir Qaumi Mahaz (the MQM), which swept the cities of lower Sind in the late 1980s. The rise of MQM produced a counter-reaction in the cities of central and upper Sindh and in the province's rural areas where Sindhis were still in a majority. The Sindh National Alliance was formed to protect the perceived rights of Sindhis. The conflict between the province's communities began to have a heavy economic toll in the late 1980s. In 1988–89 the share of Karachi in the investment sponsored by the development finance institutions declined from 52 per cent of the total in the previous year to 35 per cent while that of Punjab increased from 33 to 46 per cent. Not only was Punjab now the preferred home for new industries and businesses there were also signs that old businesses had begun to relocate away from Karachi and Hyderabad into Punjab and the North-West Frontier. Some industries also discovered that a short-distance migration across the Hub river into Lasbela was helping them to escape Karachi's turmoil.

The Afghan crisis also contributed to the drug crisis in Pakistan. Drugs are not new to Pakistan. The Mughals and Sikhs used them; the British, with partial success, managed to regulate their use. For hundreds of years, opium was the preferred drug. It was cultivated, processed, procured and issued by various echelons of the British administration in a highly regulated manner. Careful records were maintained by functionaries involved in the chain that stretched from production to dispensation. This system was inherited by Pakistan in 1947 and maintained for over three decades. The system worked well and until the Afghan war of the 1980s, commerce in drugs was confined to within the country. There were few opportunities for the producers to get in touch with international markets.

The crisis in Afghanistan changed all that. The flow of arms to the Afghan mujahidin opened a sophisticated channel of communication between the arms suppliers, mostly in the Western countries, and the users in Afghanistan. The drug trade moved in the opposite direction: from producers and purifiers in the areas that straddle Pakistan and Afghanistan to the pushers and consumers in Europe and North America. The channels through which arms flowed from the industrial countries to the Afghan mujahidin were, of course, different from those through which drugs travelled from Afghanistan and the northern areas of Pakistan to North America and Europe. However, the fact that the arms trade was conducted mostly with the help of covert operations as was the trade in drugs no doubt helped both forms of exchange. It is not surprising, therefore, that during the decade-long Afghan War, Pakistan became a major supplier of drugs to the West.

The supply of drugs in sophisticated forms also increased their use in Pakistan. By the end of the 1980s, the country had more than a million users. That one per cent of the population is addicted, is reason enough to classify drugs as a major social and economic crisis for Pakistan. What made the crisis worse was its indirect impact on the economy.

No hard estimates are available of the incomes drugs earned for those who grew poppy, managed the crude factories that convert poppy-sap into heroin, and introduced heroin into the international drug market. But the amount of money that flowed into Pakistan was large enough not only to corrupt the society but also to introduce a major distortion into the economy. Since this was illegitimate money, it could not flow easily into formal sectors. It therefore found its way into the dark side of the economy. A great deal of it went into conspicuous consumption with an enormous impact on internal commerce. And a good part of it flowed into the real estate market producing speculative bubbles in real estate that continues to inflate in cities such as Islamabad, Lahore, Peshawar and Karachi to this day. The returns available in these real estate markets are considerably higher than those that can be obtained in the formal sectors of the economy. Accordingly, these very large margins pulled even honest money away from productive pursuits into real estate, urban construction, and internal commerce. Pakistan's drug crisis refers not only to the social and economic burden imposed by a large population addicted to drug use. It even goes beyond the corruption of the political system represented best by the complicated web of contacts built by 'the drug baron', Mirza Afzal Beg, who was arrested in the summer of 1989. It refers also to some serious distortions that have been introduced by it into the pattern of investment and overall consumption.

Ethnic divisions that sparked so much violence in the cities of south Sind in the second part of the 1980s also ignited provincialism of the worst kind. The problem of conflict between provinces, in

one form or other, has plagued Pakistan right from the day of its birth in 1947. It erupted into a full-scale civil war between East and West Pakistan in 1971 and resulted in the creation of Bangladesh as an independent state. What was left of Pakistan was considered to be a more cohesive political, social and economic entity. It was believed that the constituent parts of the 'new' Pakistan would live in reasonable harmony if they could be provided a political framework within which they could conduct their business. Such a framework was put together in 1973 when numerous political parties collaborated to provide the country with its third Constitution. The politicians active in drafting the Constitution seemed to have learnt a lesson from history. The new framework gave explicit expression to provincial rights and obligations as well as to the rights and duties of the federal government. However, these provisions were mostly ignored by the governments of Zulfikar Ali Bhutto and Zia ul-Haq. Both ruled the provinces with an iron federal hand. The elections of November 1988 changed the political arithmetic by putting into power one party in the centre while entrusting the governments of Punjab and Baluchistan to the parties of the opposition. The federal–provincial conflict that ensued has created a crisis of significant proportions. This conflict has already taken a heavy economic toll.

The final economic crisis, the 15th according to this reckoning, has been caused by a combination of external and internal circumstances. Pakistan's reliance on external flows to finance its development has increased overtime. The country was lucky to find some source or other for financing these deficits. Pakistan may now have run out of luck. For instance, the withdrawal of Soviet troops from Afghanistan in 1988 and the collapse of the communist regimes in Eastern Europe in the fall of 1989 has shifted the attention of the United States and would probably reduce the amount of official capital available to Pakistan from this source. Also, the winding down of the economic boom in the Middle East has already brought about a significant reduction in the flow of remittances from the Pakistanis working abroad. Debate has already begun in Washington on the need to redirect American aid.[9]

A growing budget deficit in recent years has paralleled external developments. A highly inelastic tax base, runaway non-development expenditure by the government, and the slow response of the enterprises owned by the public sector to raise internal resources for investment have all contributed to this crisis. Moreover, this crisis developed at the time when the financial system was unravelling. The 1972 nationalization of the financial institutions seriously retarded their development and also inhibited the growth of a domestic capital market. Two decades later, when Pakistan has had to fall back on its own resources, financial institutions and the financial system within which they operate are exceedingly weak to support such a move.

The task before the people of Pakistan is formidable since none of these crises can be managed by the use of the methods deployed in the past—that of bureaucratic management of the economy. In order to understand why history will not serve as a good guide for helping Pakistan overcome its present economic difficulties, it is useful to look at how economic crises were handled in the past and what kind of legacy was left by this form of management.

Crisis Management in the Past

It is remarkable that Pakistan achieved an average GDP growth rate of over 5 per cent a year. What made it possible for Pakistan to surmount so many difficult economic problems and yet manage to achieve a very respectable rate of growth of its economy?

This question has a simple answer. Pakistan did well for so long because its administrative structure saved it from succumbing to economic difficulties. The country started its life with a civil service that was exceptionally adept at managing crises. At the time of independence in 1947, Pakistan inherited 82 officers from the elite Indian Civil Service (the ICS). They, along with another dozen officers from other 'superior services', constituted a pool of extraordinary talent who were to man the bureaucratic structure which evolved over the next quarter century. From 1947 to 1973, when Zulfikar Ali Bhutto disbanded the Civil Service of Pakistan (the CSP), civil servants acquired an enormous amount of authority to manage the economy. And most of the time, they exercised their influence over the economy without significant direction.

The model of bureaucratic management of the economy that

was developed by senior civil servants gave the economy many of the prominent features visible to this day. For instance, it made the economy excessively dependent on financing investment from external savings (foreign capital flows including commercial borrowing and workers' remittances) rather than internal resource mobilization. Consequently, Pakistan today owes $17.3 billion to its external creditors.[10] This level of debt is nearly equal to one-half of the country's gross domestic product and is about four times the value of its exports. To service this debt, Pakistan now commits more than 20 per cent of its export earnings. The bureaucrats also left the economy heavily in debt to internal creditors. In 1988–89, more than two-fifths of the federal budget was used for servicing domestic debt. The bureaucratic handling of the economy also resulted in social development much lower than that achieved by other countries with the same level of per capita income. Pakistan's infant mortality rate at 113 per thousand of live births is higher than the average for the subcontinent. Its literacy rate, especially for females, is among the lowest in the world. With the economy left to be managed by bereaucrats, Pakistan did not develop viable institutional mechanisms for resolving differences among important social and economic groups. The tension that exists today among the ethnic groups in urban Sind is the direct result of the absence of such institutions. The bureaucratic model of economic management encouraged adhocism rather than strategic thinking. It is for this reason that Pakistan never made much of a success of medium-term economic planning. Only two of the six five year plans, the second and the sixth, made some efforts to strategically address the country's structural problems. The remaining four were simply collections of public sector projects selected for financing from public resources.

It was to be expected that the bureaucrats would end up devoting their entire energies to crisis management rather than strategic planning. Why did Pakistan's politicians allow such a great deal of freedom to the bureaucrats? They did this for three reasons. First, the first generation of powerful politicians were refugees from India with no political base inside Pakistan.[11] The cultivation of such a base required time; it meant forming new alliances with indigenous groups. Second, Partition left several unresolved political problems. These included the problem of the accession of Kashmir, Hyderabad and Junagadh. The decision by the Maharaja of Kashmir to join India led to the first Indo–Pakistan War (1948–49), the decision by the Raja of Junagadh to accede to Pakistan brought Indian troops to that state; the decision by the Nizam of Hyderabad to seek an independent role for his state in the Deccan peninsula of India also resulted in military action by New Delhi. All these territorial disputes held the attention of the political administration in Karachi, leaving very little time for other matters. Third, the bureaucracy was able to handle with considerable skill the problem of resettling millions of refugees that had arrived in Pakistan. The success in handling this difficult situation won it a reputation that was to propel them on to centre stage in economic decision-making. They occupied this space for over 25 years, until Zulfikar Ali Bhutto decided in 1973 to disband the Civil Service of Pakistan.

The Pakistani bureaucrat was trained to handle the type of economic crises that hit as soon as independence came. The ICS tradition the Pakistani bureaucracy inherited had developed over a period of more than a hundred years. From the mid-nineteenth century to the time they left India in 1947, the British had administered their vast domain with the help of civil servants. As long as they were able to maintain law and order and collect taxes (called 'revenues') for the central government, these civil servants were left alone. In fact, they were allowed an enormous amount of personal discretion in even carrying out these two functions. Section 107 of the Indian Criminal Procedure Court (Cr. PC) allowed the bureaucrat vast powers to ensure that His Majesty's subject did not disturb the public peace. The Land Administration Manual told the civil servant not only how to calculate the revenues (land tax) owed to the government by various categories of landholders, it also gave him the authority to punish those who were unable or unwilling to meet their financial obligation to the state. The communities the British bureaucracy administered did not view the civil servants as financial predators. More often than not the civil servant was viewed as a 'mirbap', the community's parent simply because he also had the power and the resources to come to the people's assistance during periods of economic or social distress. The Indian countryside administered by the British was never entirely free of economic crises. It lived close to subsistence level and the precarious balance that existed between the supply and demand of food was often disturbed by natural disasters. Floods, droughts, disease, pests took their toll at regular intervals.

Communal disturbances were also common occurrences. In such situations the civil servant was expected by both the government he represented and the people he ruled to act quickly and effectively. The government's legitimacy resided in the civil servant's ability to manage these crises. Since more often than not he was hundreds of miles away from the seat of central authority, he had to act without much direction. Training and experience were his only guide. The fact that the British managed to stay in India for so long without the help of a large army of occupation was due in no small measure to the success of the civil servants in managing the thousands of 'village republics' that constituted His Majesty's domain.

It was to the same civil servants that Pakistan's political leadership turned in the period 1947 to 1958 to deal with the four crises the country had to face during this period (see Table 6.1). While the way they handled these crises left a deep impression on the economy, it was Mohammad Ali Jinnah who was responsible for providing the framework within which the model of bureaucratic management of the economy was to be developed. Jinnah chose to become the new country's Governor General rather than its prime minister, thus establishing the primacy of the executive branch over other branches of the government. He also invited a number of British civil servants to stay on in senior executive positions. Sir Francis Moody and Sir George Cunningham became governors of Punjab and the North–West Frontier respectively. At Jinnah's bidding, Moody appointed Iftikhar Hussain Mamdot as Punjab's first Chief Minister. Mamdot was a refugee from East Punjab and thus did not have a solid base of support in the part of the province that now lay in Pakistan. He could stay in power for as long as he had the support of the Governor General. Cunningham used his executive authority to dismiss the Congress/Khudaikhidatgar administration of Dr. Khan Sahib and installed a Muslim League government led by Abdul Quyyum Khan. Cunningham was clearly following Jinnah's instructions thereby giving yet another signal to all political administrations that the final authority rested in the hands of the executive.

Sir Francis Moody in Punjab also faced the problem of refugee settlement. Rather than wait for the provincial legislature to determine appropriate ways for resettling and compensating the refugees, Moody chose to adopt an executive solution. He instructed the

Commissioners and Deputy Commissioners of Punjab's divisions and districts to settle the refugees whenever 'evacuee property' (the propety left by the departing Hindus and Sikhs) was available. The civil bureaucracy moved with dispatch and within a year of Pakistan's independence most of the refugee camps were emptied of their residents.

Had the legislature been involved in determining resettlement policies and expending public resources on relocation and rehabilitation, it is conceivable that the poorer segments within the refugee community would have received some official attention. The civil servants chose to ignore the poor immigrants, in particular those who sought to resettle in the large cities. Without much help available from the government, the poor refugees became squatters on publicly owned land. They thus founded the *katchi abadis* which were to play an important political role in Pakistan's turbulent political history.

While ignoring the poor migrants, the civil servants devoted considerable energy to caring for the well-to-do. For instance, Zafarul Ahsan, the Commissioner of Lahore, acquired a large tract of agricultural land in the city's vicinity and established Gulberg, an upper class housing colony. The government of Punjab lavished large amounts of resources to provide Gulberg with an expensive infrastructure. It gave out plots at below-market prices to those considered eligible for settlement within the colony. The administration in Karachi under Chief Commissioner A.T. Naqvi followed a similar strategy. It set up the Pakistan Employees Cooperative Housing Society, or PECHS, to provide residential accommodation for the upper echelons of the bureaucracy. The Gulberg and PECHS models were copied in other large cities that built satellite towns to accommodate the middle and upper class refugees. Gulberg, PECHS and dozens of satellite towns that sprang up across the country took care of the shelter needs of the relatively affluent segments of the refugee community. The poor urban muhajirs were left to fend for themselves.

The civil servants working as Deputy Commissioners handled the migrants who chose to settle in the countryside in a different way. These officials worked without guidance from the central authorities; each found his own way of accommodating the newcomers on the land vacated by the non-Muslims who had left Pakistan for India and most were able to be reasonably equitable

in the dispensation they made. While permanent settlement complete with title deeds was to await several more years (the process begun in the late 1940s was completed by the government of Ayub Khan in the early 1960s), the settlement of refugees in the villages of Punjab and the North–West Frontier did not later produce adverse political consequences.

Stoppage by India of the water flowing into the canals that irrigated parts of Pakistan's Punjab provided the civil servants an opportunity to add another facet to their model of economic management. Rather than work toward a more lasting arrangement the civil servants chose a temporary solution—the construction of a 'link canal' to bring water from a river that flowed through Pakistan. The only viable solution to the canal water crisis was political accommodation between Pakistan and India, but the Pakistani politicians eschewed that option. Prime Minister Liaqat Ali Khan appeared in the balcony of his Karachi residence and raised his fist against India. The gesture won him immense political popularity but it also set back, by several years, the search for a lasting solution to the question of an equitable distribution of the water flowing through the Indus river system. Having threatened war with India to obtain what Pakistan considered its legitimate share in the Indus river waters, the Prime Minister turned to civil servants to find a solution. The civil service came up with a temporary answer, a link canal to bring water from the Ravi into the canals that had been fed from the Beas river. After receiving political blessings for the preferred solution, the bureaucracy displayed its extraordinary capacity for organizing large civil works. The link was completed in 20 months. 'Such a link was never contemplated prior to Partition and therefore was not a part of anybody's long-term plans for the use of river waters of Punjab . . . its construction was an emergency measure and a considerable [budgetary] burden to the West Punjab'.[12] The two countries had to wait for the emergence of a strong political authority in Pakistan before a permanent solution could be found to the problem of distributing the waters of the Indus river sytem.

Resettlement of the refugees from India underscored the bureaucracy's indifference toward the poor and the disregard of distributive consequences of managing economic crises. The initial response to the problem created by India's stoppage of water flowing into Pakistan's canals demonstrated the bureaucracy's ability to manage large civil works with considerable competence. The bureaucracy's management of the third crisis—cessation of trade between India and Pakistan—was to have a number of profound implications for Pakistan's economic future. To begin with, a close relationship was forged between the bureaucracy and what were later to become large industrial houses of Pakistan. A number of civil servants, Abbas Khalili and S.S. Jafari among them, had been in contact with the Muslim merchants active in India's war effort during the Second World War. The management skills and liquid wealth possessed by these families were now available to be put to use to industrialize Pakistan. The break-up of the customs union between India and Pakistan had starved the Pakistani consumer of basic goods. Since Pakistan did not have the resources to procure these goods from abroad, they had to be made at home. The stage was thus set for letting private entrepreneurs lead the country's industrialization effort by concentrating on the development of the consumer goods industries. A large industrial estate was set up in the vicinity of Karachi and the private sector was invited to establish enterprises in it for manufacturing basic consumer goods. The bureaucracy was responding to a crisis but in finding a solution it was to lay the foundation of Pakistan's industrial structure which was totally different from that of India and also from that of a number of other developing countries that were to gain independence later on. For nearly a decade—until Zulfikar Ali Bhutto brought socialism to the country by nationalizing large-scale industries—Pakistan was to encourage the private sector to take the leading role in industrializing its economy.

The break-up of the customs union with India had one other important consequence. The civil servants not only discovered the virtue of private entrepreneurship, they also found that private capital was not always ready to be guided into channels where rewards were either small or highly uncertain. If the private sector was not prepared to move into areas which for some reason or other were considered by the public authority to be vital for the development of the economy, then ways had to be found to compensate for this lack of enthusiasm. It was this recognition that led to the discovery by the bureaucracy of the public corporation as a device for promoting economic development. The Pakistan Industrial Development Corporation (PIDC) was established in 1950 but its first substantial investment did not take place until

1952–53. The bureaucracy was responsible for shaping the PIDC. Its first chairman, Ghulam Faruque, was an accomplished civil servant:

> Like Enrico Matter in Italy, Robert Moses in New York or Abol Hassan Ebtehaj in Iran, Ghulam Faruque . . . was a strong-willed, powerful individual who made rapid decisions, saw them carried out, and worried about government rules, procedures,or approval only afterwards, if at all . . . . As did some of his counterparts, he effectively used his control over high investment funds, contracts, jobs, and advertising expenditures to develop a position of power.[13]

The trail blazed by Ghulam Faruque was followed later by other civil servants such as Ghulam Ishaq Khan and A.G.N. Kazi who developed their skills as managers while heading the Water and Power Development Authority, a public sector corporation that was set up in the 1960s to rationalize government investments in the sectors of energy and irrigation.

The collapse of the commodity boom associated with the Korean War added two more touches to the model of bureaucratic decision-making that, by then, was fairly well developed. The sharp downturn in the commodities exported by Pakistan caused a severe shortage of external capital needed by the country. Two years of very poor wheat harvests in West Pakistan had exhausted all food stocks and politicians, in particular Prime Minister Nazimuddin, feared famine in the country. The bureaucracy was called upon to help once again; to find ways for raising external resources to buy wheat from the international market and then to distribute it quickly within the country. This time around the civil servants teamed up with the military. The military also needed external capital for modernizing its arsenal and it had expertise in logistics far superior to that of the civil service in moving large amounts of bulk commodities. The first step was to appeal to the United States to provide emergency food supplies. The United States had its own reasons for coming to Pakistan's help. In the hearings before the Senate Committee on Agriculture and Forestry, Secretary of State John Foster Dulles said Pakistan and the United States were 'very friendly to each other, that the people of Pakistan were strong in their Islamic faith which is absolutely opposed, as our faith is, to the view of Soviet Communism which treats man as a mechanical thing to be dealt with on a purely materialistic basis.'[14] The aid-to-Pakistan bill was finalized expeditiously. President Eisenhower signed it on 25 June and within 24 hours the Anchorage Victory, carrying 9,860 tons of wheat left Baltimore for Karachi.[15]

The United States was prepared to go further in helping Pakistan. It offered to provide modern equipment to the Pakistan military and funds for development to the civil bureaucracy. In return, Pakistan had to tie itself closely with the United States by becoming a link in the chain Secretary Dulles was throwing around the communist world. The Pakistanis did no hesitate for very long. On 19 May 1954, within a year of the departure of the Anchorage Victory from Baltimore, Pakistan and the United States signed a Mutual Defence Assistance Agreement. The economic results of this close association with the US were almost instantaneous. In 1956, foreign aid flows were equivalent to 2.1 per cent of the gross national product, accounted for 34.8 per cent of the development expenditure and financed 18.6 per cent of imports. Only four years earlier, external assistance was miniscule in all these respects. Its share in GNP was a bare 0.02 per cent, it provided only 0.5 per cent of development expenditure and paid for only 0.1 per cent of imports.[16]

The collapse of the Korean War boom and the strain contributed by poor harvests convinced the bureaucracy that it had to rein in the economy. While external flows had become available as a result of the increased US attention, controls were needed in order to prevent another unanticipated foreign exchange crisis. Starting in the mid-1950s, therefore, the bureaucrats began to add another feature to their model of economic management: state control on imports and on the investments that involved the use of foreign exchange. The crop failure of 1952 and 1953 had also demonstrated Pakistan's vulnerability to weather. Foodgrains had to be procured and distributed by the government, at least in the major cities. In devising these controls, the bureaucrats once again turned to the experience they had gained before independence. The Indian Civil Service had played an important role in assisting the allies during the Second World War. The Indian Army expanded from less than 200,000 to 2.5 million during 1940–44, the biggest army ever raised without conscription:

> This army had to be supplied with equipment and material. In 1943, 113 million garments were made. And there were delicate things such as surgical equipment and electrical apparatus—heavy things such as floating docks, ships and hauls—few of which had been made before in India . . . . It is enough to say that there were a handful of men—Dow, Jenkins, Hydari, Coates, Wood, Hutchings, Trivedi (all members of the ICS)—with the ability to work the system in war time.[17]

Besides, supplying the Indian Army with men and material, the civil servants had to ensure that serious shortages did not occur in India itself. 'Many [ICS officers] had to learn new tasks, and all added to the normal district work. Air Raid Precautions, Food Rationing, Cloth Rationing—they were all new to India. But the men who did this work enjoyed it.'[18] In the mid-1950s, they brought many of those controls back to Pakistan.

Bureaucratic controls came to India after independence to put the state on the commanding heights of the Indian economy. They were introduced in Pakistan not for ideological reasons but in order to protect the economy from unpleasant surprises. It was a sense of paternalism rather than an appeal of socialism that persuaded the bureaucrats to subject the economy to some direct controls.

The civil servants handling of the first four crises in Pakistan's history shaped the model of bureaucratic management of the economy that has remained in operation for nearly four decades. The model, with no place for ideology, eschewed medium or long-term planning. It provided a large amount of space to the private sector, using public resources only in the areas considered unattractive by private entrepreneurs. It favoured the urban sector of the economy over the countryside. It allowed considerable scope for decentralized management, giving civil servants a new developmental role in the districts. It relied more on external resources and less on domestic savings for financing development. It favoured direct controls over what the civil servants consider to be the vulnerable sectors of the economy. The model permitted a close working relationship between the civil servants, the military, and the merchant–industrial class, with the leadership in economic decision-making in the hands of the civil bureaucracy.

The military's entry into politics in October 1958 dislodged the civil service from the apex of economic decision-making. Ayub Khan came in with his own ideas about economic management. Unlike the civil servants, Ayub Khan and his military associates believed in the usefulness of long-term planning. And the military now had a person in full command prepared to worry beyond the immediate crisis at hand. However, the generals came in with some naive views about economic management. Ayub Khan thought inflation was at the core of the economic crisis faced in 1958 [19] but believed that the problem could be handled by browbeating the merchants into rolling back prices. A simple 'cost plus' formula was devised and soldiers were sent to the main streets of the cities in Pakistan to bring merchants into line. The programme failed; almost overnight, goods and commodities disappeared from store shelves. Ayub Khan, always prepared to draw lessons from experience, changed course and with two changes, went back to the essentials of the bureaucratic model of economic management used by the decision-makers before him.

The first of the two changes introduced into the model was to have a significant impact on Pakistan's economic history. Ayub Khan regarded the coalition between the civil and military bureaucracies and the merchant–industrialists to be too narrow in base to implement his programme of economic reform. The coalition had to be expanded to include the landed aristocrats, a step Ayub Khan took by appointing Nawab Amir Mohammad Khan Kalabagh to the important position of Governor of West Pakistan. The landed interests, because of their opposition to the establishment of Pakistan, had not been included in the political coalition that had governed from 1947 to 1958. Ayub Khan brought them back, thus indigenizing politics. Once back in power, the landlords began to remove the urban bias in the model of economic decision-making the bureaucrats had used since 1947. Under Ayub Khan, intersectoral terms of trade improved in favour of agriculture; the landlords were able to dilute Ayub Khan's initial enthusiasm about land reforms and the need for an equitable distribution of rural assets; and the political ground was laid for denying the state budget access to rural incomes. By the end of the Ayub Khan era, the civil–military bureaucracy along with landed, merchant and industrial interests had established its control over Pakistan's political and economic systems.

The second change introduced by Ayub Khan was to bring in medium-term economic planning. He strengthened the planning apparatus by establishing a Planning Commission which, with the help of a number of foreign advisors, prepared and launched the Second Five Year Plan (1960–65).[20] The plan was built around the main feature of the model the bureaucrats had been using for managing the economy. It encouraged private entrepreneurship, particularly in the industrial and commercial sectors; relied on external resources for financing the bulk of the projected development effort; encouraged the move from consumer to producer goods industry; and promised to correct the balance between the rural and urban sectors of the economy. In addition, the plan also reaffirmed the civil servants' bias against redistributive justice.

The first Bhutto period (1971–77) suspended the operation of the bureaucratic model for a while even though the civil service was used by the politicians to implement their programme for advancing the state's control over the economy. Bhutto turned to Ghulam Ishaq Khan, A.G.N. Kazi and Vaseem Jaffrey—three bureaucrats with considerable experience of economic management—to help with his plan of asset nationalization and with the problem posed by a sharp increase in the price of petroleum products. However, it was only with the return of the military under Zia ul-Haq that the bureaucratic model of economic decision-making was put to use once again.

Under Zia ul-Haq, the bureaucratic model did not develop any further. By the end of his period, a long list of unresolved economic and social problems indicated that Pakistan had passed on from the stage where the civil service could manage economic crises and had arrived at the point where the politicians needed to step in.