Public Policy and Reform in Pakistan 1971–77: An Analysis of Zulfikar Ali Bhutto’s Socio-Economic Policies

Saeed Shafqat

This study will briefly describe and evaluate policies of socio-economic reform (nationalization of industries and banks, labor, land reform, education, and health policies in Pakistan) under the government of Zulfikar Ali Bhutto (1971–77). It will be argued that Bhutto was a reformist political leader who ventured to reorient and rebuild the socio-economic structure of Pakistan by pursuing policies of gradual or incremental change. He orchestrated social change and redefined the priorities of social development and economic growth in Pakistan. However, he could not provide optimal solutions as a reformist leader. The policies he proposed needed corresponding changes in institution building. To explain and analyze the relationship between public policy and Bhutto’s reformist leadership, I will address myself to the following questions: Under what sorts of constraints did Bhutto devise his policies? How did these policies of socio-economic change affect the patterns of resource allocation, economic growth, and distribution? Who benefitted from these policies and at what costs?

Bhutto’s reformist policies have evoked considerable scholarly description and analysis of his political leadership. According to Ziring, Bhutto

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was a "typical Sindhi landlord." Heeger has described his leadership as "patrimonial." Sayeed found in Bhutto all the "Bonapartist" tendencies and has described him as a "Bonapartist" leader. I propose to describe and analyze Bhutto as a "reformist" political leader. According to Huntington, the reformer (1) must possess political skills, (2) should be adept in methods, techniques, and the timing of introducing changes, and (3) should have a clear vision of his priorities, choices, and the types of reform he intends to institute. The reformer needs a higher order of political skills because invariably he is involved in a "multifront war." His enemies on one front may be his allies on another. Unlike the revolutionary, who thrives on polarization, a reformer is confronted with having to satisfy both the radicals and the conservatives. He is burdened with reducing cleavages and building a consensus. In the process of reform making, he may confront both and end up pleasing none. The most critical task of the reformist leader is that he must be able to devise policies of incremental change and not usher in abrupt and total change. A reformist is not status quo oriented, but is a gradualist. He can adopt a "Fabian" approach, i.e., a policy of incremental change pursued through piecemeal reform. Bhutto had these attributes of the reformist leader and he made efforts to introduce his reforms through incremental change.

**Constraints of Structural Collapse and Psychological Loss**

In December 1971 Bhutto assumed power in a chaos-ridden and disintegrated state of Pakistan. He was confronted with the task of rejuvenating a nation-state. It was not a situation of merely replacing a government, but of also reconstituting a collapsed nation-state system. Before Bhutto could play the role of reformist leader, he needed to restore national confidence and rebuild the fabric of nationhood. The crisis had two dimensions—structural collapse and psychological loss. The country was polarized vertically and horizontally. Vertical polarization was reflected by the agrarian

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tension between the land-owning elites and the highly politicized peasants and tenants. Conflict existed between the industrialists and the laborers. A defeated military was ridden with high command mistrust and junior insubordination. The bureaucracy was paralyzed by its inability to enforce law and order. Horizontally, since the very fabric of nationhood was torn apart, fissiparous tendencies were increasing. In the "New Pakistan," regionalization of politics emerged with new intensity.

The opposition parties and leadership of smaller provinces—i.e., Northwest Frontier Province and particularly Baluchistan—perceived the emergence of Bhutto as continuation of the dominance of the larger provinces. They saw reformist policies as interventionist and resisted them. A cleavage existed at still another level; the religious political parties, particularly Jamaat-e-Islami, perceived Bhutto as kafir (non-believer) and his party's socialist program as antireligious. They believed Bhutto's policies must be resisted under all circumstances. In short, Bhutto was confronted with organizing national life in Pakistan, restoring national confidence, and rebuilding an institutional order. Bhutto had little, except to fall back on the decaying authoritarian structures of governance (military, bureaucracy, and police) and to rely on his political skills. Bhutto was conscious of what he had inherited, but he strove to build hope for the future of Pakistan and promised reform of the socio-economic structure. In his first address to the nation he stated:

Every institution in 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 rebuild confidence, we have to rebuild hope in future—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 make a new Pakistan, a prosperous and progressive Pakistan, a Pakistan free from exploitation.6

Accounting for the nature of crisis, he pointed out that reform was needed in almost every aspect of life in Pakistan, but asserted that, "fundamentally it is the economic system, the social and economic system that requires change and adjustment. We intend to put the social and economic system right." It was with these kinds of constraints and ambitions that Bhutto proceeded to institute socio-economic reform in Pakistan.

7. Ibid., p. 10.
Given the nature of psycho-structural crisis, Bhutto adopted a Fabian approach to rebuild and reform the socio-economic structure in Pakistan. In his speeches, statements, and writing he constantly reminded his followers about the inequity of Pakistan's socio-economic system. Through piecemeal reform and incremental change, he aimed to achieve economic growth and build a framework for a more just socio-economic order. Writing in *Foreign Affairs* in 1973, Bhutto defined the socio-economic parameters of his reformist framework:

> 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. . . .

> Our target in our socio-economic program is not only a statistically gratifying increase in the GNP but an improvement in the lot of the common man, in the living standards of workers and peasants and a radical change in the social milieu. 8

Evidently Bhutto propounded a developmental strategy which was different from the developmental policies of the previous regime, which had promoted the principle of "functional inequality," asserting that for initial growth some degree of social inequality was necessary. 9 For Bhutto economic growth without social improvement was meaningless. He sought a shift in the existing developmental strategies. His developmental strategy had multiple goals, such as reducing social inequality, raising literacy level, enhancing employment opportunity, and generating economic growth and consolidation of the nation-state.

These goals were believed to be achievable within a gradualist framework only if a relatively long period (ten to fifteen years) of political stability was ensured. Nevertheless, to achieve these goals Bhutto evolved policies of incremental change which can broadly be categorized into two types: (a) Socio-economic and (b) politico-administrative reforms. Socio-economic policies are the primary focus of attention in this article.

**Nationalization and Labor Reform**

To give meaning and substance to his vision of optimal "mixed economy," Bhutto began by redefining the role of Financial Political groups (Fipnols) within government and in the national economy. An ex-post

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review of nationalization policy reveals that the Bhutto government’s strategy was to transform the industrial sector from its consumer-industry bias toward setting up of basic industries by expanding the public sector.

The Finpols were primarily the commercial/business families, who during the final phase of Pakistan movement provided financial support and acquired preeminence in the new state. They developed a close relationship with the political leadership and were instrumental in providing the infrastructure (banks, chambers of commerce, etc.) in the formative years of Pakistan’s development. During President Ayub Khan’s rule (1958–69) these families progressed; some of them were transformed into industrial “Houses.” They expanded their power base by inducting some new families into commerce and industry. As a consequence of Ayub’s developmental thrust of “functional inequality,” these Finpols acquired a pivotal position in the national economy, and on the basis of their wealth and financial power they were symbolically referred to as the “22 families.” During the 1960s while armed forces governed, these Finpols dominated Pakistan’s economy.

Finpols were nervous as Bhutto assumed power. They perceived him inimical to their interests. Skeptical of Bhutto’s reformist zeal, the Finpols immediately lent “discrete support” to the opposition political parties. This conflict of perceptions and interests persisted during Bhutto’s rule.

In January 1972, Bhutto announced the nationalization of ten basic industries: iron and steel, basic metals, heavy engineering, heavy electrical, motor vehicles, tractor plants, heavy and basic chemicals, cement, petro-chemicals, gas and oil refineries. The policy of nationalization was adopted with a great degree of caution. No foreign investment was nationalized. The policy had three salient features, aiming at: (1) decentralization of wealth, (2) reorganization of industrial units, and (3) consolidation of the public sector. It was incremental and spread over a period of two years. The major instrument of change was the abolition of the “Managing Agency System.” This system had its origins in nineteenth-century British India. Under the system, the company’s director could give its management to an agent who controlled and regulated the finances of the company as a separate corporate entity. Thus, directors could abuse power

Table 1  Private and Public Sector Industrial Investment  
(million of rupees)

<table>
<thead>
<tr>
<th>Year</th>
<th>Private</th>
<th>Public</th>
<th>Total</th>
<th>Public Investment as % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971–72</td>
<td>1,235</td>
<td>99</td>
<td>1,334</td>
<td>7</td>
</tr>
<tr>
<td>1972–73</td>
<td>1,018</td>
<td>111</td>
<td>1,130</td>
<td>10</td>
</tr>
<tr>
<td>1973–74</td>
<td>1,023</td>
<td>391</td>
<td>1,414</td>
<td>28</td>
</tr>
<tr>
<td>1974–75</td>
<td>1,437</td>
<td>1,065</td>
<td>2,502</td>
<td>43</td>
</tr>
<tr>
<td>1975–76</td>
<td>1,818</td>
<td>3,182</td>
<td>5,000</td>
<td>64</td>
</tr>
<tr>
<td>1976–77</td>
<td>1,795</td>
<td>4,315</td>
<td>6,110</td>
<td>71</td>
</tr>
</tbody>
</table>


and concentrate wealth. The system was a primary pillar of Financial Political groups’ power. In 1961, the Ayub government considered abolishing it, but under pressure from the Finpols, dropped the idea. The abolition of the system did erode the power of Finpols. Through such policies of gradual change, Bhutto sought to restructure the economic system. However, despite assurances, appeals, and threats, the Financial Political groups remained inflexible in their response toward the government’s policies. Bhutto found it difficult to win their confidence. They perceived Bhutto as a rabble-rouser, who by his reformist policies was pampering labor.

Unable to generate investments from the private sector, by 1973 the Bhutto government was concentrating on expanding the role of the public sector in the national economy (see Table 1). In 1971–72, public investment in the industrial sector was 7% of the total, and by 1976–77, it had reached 71%, about a tenfold increase. Investments in the private sector in this period declined from 93% to 29%.

If, on one end, Finpols were resisting reformist policies, on the other end, labor was getting restive. Bhutto’s dilemma was how to reconcile the interests of highly politicized labor with the interests of highly skeptical Finpols. Analyzing the Labor-Finpol relationship, Gustafson has incisively remarked, “Bhutto’s problem here was that he clearly had a tiger by the tail. Much of his urban support came from the labor and the stance of the Pakistan People’s Party on labor issues—and against the 22 families—had

13. For an excellent discussion on this point, see Stanley Kochanek, Interest Groups and Development: Business and Politics in Pakistan (Karachi: Oxford University Press, 1983).
emboldened labor considerably from its old passive attitude." It was under these circumstances that Bhutto introduced labor policy in February 1972. The policy aimed at regulating the labor behavior. Its broad features can be summarized: (1) It provided respectability and legitimacy to labor in its dealings with the management. (2) Providing the regulatory mechanism and recognizing the right of labor to strike, it encouraged labor and management to seek adjudication in the labor court. (3) It ensured material benefits, raising the profit share for workers from 2% to 4%. Payment of bonus to labor was made compulsory. It also provided compensation for injury and an old-age pension, fixed a minimum wage scale, and provided free medical and free education for the children.

These wage and welfare increases did provide some relief to labor; but production did not increase and investments in the private sector shrunk further, because social costs were considered too heavy. Besides this crisis of production and decline in the private sector’s investment, the government was confronted with a massive unemployment problem. According to official estimates during 1972–73, the labor force was increasing at a rate of 3% per annum—about 600,000 persons entered the labor force each year. The unemployment rate stood at 13%. In the urban areas it was as high as 17.7%. The estimated rate for the rural areas was 11.5%. (The lower rate in the rural areas may be disguised as a large percentage of the population may show itself “self-employed.”)

To resolve the unemployment situation the Bhutto regime adopted a direct strategy. It took two policy initiatives: (1) the public sector was expanded and (2) a “labor exchange” program was evolved with the Middle Eastern countries. According to an official publication, the number of employees in the public sector industries increased from 40,817 in 1972–73 to 57,827 in 1976–77, an increase of 41%. Furthermore, to absorb the educated unemployed, two organizations—National Development Volunteer Corps (NDVC) and National Development Corporation (NDC)—were created. These two organizations absorbed about 15,000 persons. However, the most effective employment policy was the “labor exchange” program. The policy made a deep impact on national economy, particularly

on the rural sector. According to one estimate, by 1981 there were 2.1 million Pakistani workers serving in different countries of the Middle East. The official estimates reveal that remittances from these workers were $339 million, which rose to $2,218 million in 1980–81. This was equal to country’s total export earnings and worked out as 10% of the G.N.P. in 1980–81.

It is interesting to note that 63.1% of the migrant workers belonged to rural areas; out of a total of 2.1 million workers who were overseas in 1980–81, 1.33 million came from the rural areas. This is about 6.8% of the total labor force. Since these workers were male it worked out to be 7.9% of the total male labor force. That inflow of remittances to rural areas for 1980–81 was $1,343 million, which is equivalent to about 20% of the total agricultural output for that year. These statistics reveal that the “labor exchange” policy did reduce unemployment pressure, but this contributed little in boosting industrial production. Nevertheless, by the mid-seventies, foreign exchange earnings through these remittances were showing an upward trend.

Nationalization of Banks

The policy of bank nationalization was a corollary of nationalization of industries, labor-employment policies, and the expansion of the public sector. Most of the 15 commercial banks were either owned or controlled by the Financial Political groups. According to Ahmed and Amjad, the nationalization of banks had a deep impact on the national economy, and it served “to break the link between the industrial and financial capital which had built up over the last twenty years, and which has helped foster the concentration of economic power in the hands of a few families.” Before nationalizing the banks in January 1974, the government provided the Banks (i.e., the Finpols) an opportunity to reorient their policies. In 1972, the commercial banks were instructed to provide credit facilities, loans and advances, to the small and middle farmer and industrial entrepreneur; but the response of the banks was poor. Finding the Finpols unre-

responsive to governmental policies, the regime decided to nationalize the banks. This further antagonized the Finpols, but provided government with an opportunity to control and regulate credit, and establish an investment pattern.

In 1973, Pakistan’s 15 commercial banks had about 2,942 branches. By 1977 the number of branches reached 6,275.23 About 60% of the new branches were opened in the remote and rural areas of Pakistan. Nationalization of banks has had deeper effect on the social structure of rural Pakistan. Bank nationalization linked the rural sector with the national and international market. The government had aimed at nationalization because it wanted to boost agricultural production by providing credits and loans to the farmer. The credits and loans from the nationalized banks to the farmers increased from 85 million rupees in 1971–72 to 700 million rupees in 1975–76.24 This facility of loans and credits, along with an increase in procurement prices of agricultural commodities (which increased by almost 100% during this period), clearly meant an “attempt to alter the pro-industry anti-agriculture bias of the previous growth strategy.”25 This indicated that banks acquired new meaning in the social life of rural Pakistan.

Nationalization of industries and banks, and of labor and employment policies, did define the parameters of mixed economy and also provided some benefit to the disadvantaged groups, such as labor, educated unemployed, and the small-scale businessman; but it facilitated little in generating economic growth. In the final analysis, however, the industrial sector’s productivity remained low as bureaucratization and inefficiency increased.

Land Reform and Agrarian Change

Agrarian structure is another area in which Bhutto attempted to bring about reform. In rural Pakistan, social and economic relations revolve around the control of land. Land is the source of power, privilege, and patronage. Landowning elites monopolized social power in the rural structure. Landowning elites and Finpols dominated the socio-economic structure.

Pakistan has a highly skewed pattern of land distribution, and none of the land reforms introduced has been able to substantially change this

pattern. According to the 1959 Land Reforms Commission Report for West Pakistan, 0.1% of the landowners, with a landholding size of 500 acres or more, owned 15% of the total land area. Another 15.4% of the land was owned by 1.1% of the landowners with a landholding size of 100–500 acres. On the other hand, 83.2% of total landowners owned 48.6% of the total land area with landholdings of less than 5–25 acres (see Table 2).

In the 1959 land reform, Ayub Khan introduced the notion of a land ceiling in the agrarian structure of Pakistan. Ownership of ceiling was fixed at 500 acres for irrigated lands and 1,000 acres for nonirrigated lands. These reforms had marginal effects on the agrarian structure of Pakistan. Bhutto adopted a bolder agrarian reform policy. He attempted to synthesize ceiling and tenurial reform by a gradual approach. He adopted a policy of incremental change to transform and, to some degree, restructure the agrarian economy. As a reformist leader Bhutto’s predicament was how to reconcile the interests of landowning elites with those of the peasants, middle farmers, and landless tenants. To create harmony between the socially powerful and the socially powerless, Bhutto adopted a policy of reorienting and transforming the relationship between the two. He proposed to transform the “feudal” landowner into a “humble” agricultural entrepreneur, simultaneously elevating the social consciousness of rural masses and improving their self-image and well-being.26

While announcing the land reforms in March 1972, Bhutto sounded radical, but was clearly aiming at an attitudinal change and incremental structural transformation. The agrarian reforms he envisaged

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will effectively break the inequitable concentration of landed wealth, reduce income disparities, increase production, reduce unemployment, streamline the administration of land revenue and agricultural taxation, and truly lay down the foundation of honor and mutual benefit between landowner and the tenant. . .

Enterprising and enlightened farmers should continue to live on the land and give agriculture the sense of purpose it deserves. For these compelling reasons, we are following exactly the same principle of the enlightened entrepreneur. We are as much against the ignorant and tyrannical landlord as we are against the robber barons of industry. We are as much for the creative and humane landowner as we are for a productive and conscientious owner of industry.²⁷

Bhutto strove to implement agrarian policies in three stages. In the first stage, individual ceilings were reduced to 300 acres of nonirrigated land and 150 acres of irrigated land. The eviction of a tenant was made illegal, subject to the condition that the tenant does not fail to pay rent. The landowners were made responsible for bearing the cost of water rate and seeds. The costs of fertilizers and pesticides were to be shared equally by the landlord and the tenant. No compensation was paid for the land resumed. The land thus acquired was distributed among the tillers free of cost. All state land was reserved exclusively for landless peasants, tenants, and owners of below-subsistence holdings.

The second set of agricultural reforms introduced in 1975 was substantive. For the first time in Pakistan’s history, an effort was made to correct the land tenure system. By this measure, small peasants and middle farmers were exempted from land revenue. Levy of any cess and begar (forced labor) was banned. Persons owning land between 12 acres of irrigated or 25 acres of nonirrigated land were exempted from revenue taxation. By this reform method, it was claimed that some 7.27 million peasants and farmers benefited. For farmers owning 25 acres of irrigated or 50 acres of nonirrigated land, and farmers owning 50 acres of irrigated or 100 acres of nonirrigated land, the increase in revenue was 50% and 100% respectively.²⁸

In the third phase of agrarian reform, a National Charter for the Peasants was announced by the government in December 1976. According to the Charter, the government was to distribute cultivable land and cultural wasteland among the landless peasants. Besides, in eviction cases, after the appeals, a revision was permissible only to the tenants and not to the

Table 3  Land Reforms in Four Provinces

<table>
<thead>
<tr>
<th>Province</th>
<th>Area Resumed</th>
<th>Area Allotted</th>
<th>Balance</th>
<th>Persons Benefitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>331,268</td>
<td>242,840</td>
<td>88,428</td>
<td>36,948</td>
</tr>
<tr>
<td>Sindh</td>
<td>317,896</td>
<td>238,637</td>
<td>79,259</td>
<td>16,497</td>
</tr>
<tr>
<td>NWFP</td>
<td>141,877</td>
<td>132,860</td>
<td>9,017</td>
<td>12,639</td>
</tr>
<tr>
<td>Baluchistan</td>
<td>515,105</td>
<td>198,295</td>
<td>316,810</td>
<td>9,129</td>
</tr>
<tr>
<td>Total</td>
<td>1,306,146</td>
<td>812,632</td>
<td>493,514</td>
<td>75,213</td>
</tr>
</tbody>
</table>

Progress of 1977 Land Reforms up to 30 June 1980 Under Act II of 1977

<table>
<thead>
<tr>
<th>Province</th>
<th>Area Resumed</th>
<th>Area Allotted</th>
<th>Balance</th>
<th>Persons Benefitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>93,806</td>
<td>23,426</td>
<td>70,380</td>
<td>1,543</td>
</tr>
<tr>
<td>Sindh</td>
<td>31,741</td>
<td>19,966</td>
<td>11,775</td>
<td>1,496</td>
</tr>
<tr>
<td>NWFP</td>
<td>23,787</td>
<td>4,162</td>
<td>19,625</td>
<td>781</td>
</tr>
<tr>
<td>Baluchistan</td>
<td>17,502</td>
<td>269</td>
<td>17,233</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>166,836</td>
<td>47,823</td>
<td>119,013</td>
<td>3,834</td>
</tr>
</tbody>
</table>


Landowners. It was estimated that by this measure about 2 million acres were distributed among 100,000 peasant families. In early 1977, land ceiling was further reduced to 200 acres of nonirrigated and 100 acres of irrigated land. In this event the resumed land was acquired on payment of a compensation of Rs. 30 per PIU. However, the resumed land was given free to tenants, peasants, and other cultivators (see Table 3). By this measure about 4 million acres of land were redistributed among 40,000 families. 39

These policies ran into difficulties of implementation because little effort was made to organize the peasants or create a social environment in which reforms could be implemented. In addition, the entire task of implementing the land reforms was entrusted to bureaucracy—the deputy commissioners and the revenue departments became the primary instruments of implementation. But given their attitudes, social backgrounds, and contacts with the rural elites, effective enforcement of land reforms could not be expected. 30 Consequently, the effectiveness of these land reforms on the rural structures was marginal.

These reformist policies did not solve the problem of rural poverty, but created a socio-political environment in which people started to assert that

if the government were to introduce appropriate policies, the inequitable social structure of rural areas might undergo gradual transformation. Khalid B. Sayeed, who has contended that Bhutto introduced these reforms for self-aggrandizement, and wanted the masses to believe that he was their "Supreme benefactor," has also conceded that "Bhutto's great contribution was that he had aroused both a new hope and political consciousness among these classes that, given certain decisive policies on the part of the government, their lot could improve."  

Bhutto's reformist policies increased the credibility of his government among the rural masses. As a reformist leader he was preoccupied with evolving social harmony and redistributing resources in the rural sector. He believed that a relatively egalitarian social order, if allowed to evolve in the long run, would provide an infrastructure for generating growth in the agricultural sector. To promote social harmony and to diffuse class antagonism, the government introduced two rural programs, the Integrated Rural Development Program (IRDP) and the People's Works Program (PWP). In spirit and organizational structure, the programs were an adaptation of "Chinese Communes." The primary objective of these programs was to introduce a sense of sharing and promote effective resource use. The IRDP was to establish self-sufficient production units comprising about 50 to 60 villages having their own agricultural, health-care, technical, and educational infrastructure. By 1976, according to official estimates, 136 such units were established in rural areas of Pakistan (Table 4).  

The Annual Development Plan covering these programs rose from 49 million rupees in 1971–72 to 211 million rupees in 1975–76 (Table 5). It is appropriate to point out that in these years (1971–76), Pakistan's currency was devalued by 130%, and there was double-digit inflation as well. This

31. K.B. Sayeed, Politics in Pakistan, p. 93.
considerably compromised the real value of this amount. However, these programs increased public investment in the social sector. Given the credit facilities by the government, these programs improved irrigation and road-building facilities. According to official estimates, yields per acre increased and some wasteland was transformed into cultivable land. Not enough data are available to estimate the impact of these programs on the rural structure of Pakistan. These policies did indicate, however, that Bhutto was able to build a substantial support base in the rural sector.

In the agrarian structure, Bhutto introduced two policies which were premature, if not radical. First, in April 1976, an ordinance was issued, abolishing the Sardari system.32 This ordinance struck at the very foundations of power of the “Sardars” and “Khans” (tribal and feudal chiefs) in Baluchistan. Sardars were denied judicial powers, and they were not allowed to retain private jails, arrest any person, take any free labor, or receive a tribute. The Baluch Sardars looked upon this ordinance as a personal affront. They intensified hostility toward the government and its policies. In Baluchistan, Bhutto found it difficult to co-opt the Sardars, the dominant social class; the tribesmen were too weak, and there was hardly any small or middle peasant class as was the case in Punjab, Sind, and Northwest Frontier Province, which Bhutto could mobilize. In retaliation, Baluch Sardars hardened their antagonism toward the Bhutto government, and made an alliance with the dissatisfied landowning classes of other provinces and the Financial Political groups.

The second premature, or radical, policy was the decision to take over the cotton, rice, and flour mills in July 1976.\textsuperscript{33} There were 2,752 such mills (cotton ginning, 555; rice husking, 2,072; and flour milling, 125). The policy had two objectives. First, to eliminate the middleman—the broker who operated between the farmer and the market. Second, to establish the hegemony of the public sector in the national economy. It hurt a large middle class of traders, shop-keepers, and small-scale agricultural entrepreneurs. This middle and petty business community felt threatened by the policy and was quick to show resentment.

These two policies proved a turning point for the Bhutto government. The Financial Political groups, the landowning elites, the “Sardars,” and the middle and petty business community began to believe that Bhutto was transforming the economy into a socialist system, which would eventually eliminate the right of private ownership.\textsuperscript{34} This perceived fear was an important factor that contributed to the formation of a broad antigovernment coalition.

\textbf{Policies of Reform in Education and Health}

Education and health were two important areas in the social sector that underwent transformation under Bhutto’s education and health policies. Through the expansion of education, health-care, and improved housing, the government sought nationalization of economy. Through the enforcement of these policies, the government penetrated into tribal areas, Northern areas, remote parts of Baluchistan, and rural areas of Punjab and Sind. The 1972 Education Policy aimed at democratization of higher education and universalization of primary education.\textsuperscript{35} Its thrust was developmentalist, i.e., opening up new universities, upgrading and expanding the facilities of existing institutions, and, simultaneously, enlarging the infrastructure of the Ministry of Education for effective coordination and planning. The policy was egalitarian, modernist, and democratic in content and objectives. It improved teachers’ pay scales and lowered tuition fees. The most controversial and distinguishing feature of the 1972 Education Policy was nationalization of private schools and colleges.

Analyzing the education policy, Jones has observed, “The education proposals were nationalist in content, developmental in design, and radical

\textsuperscript{33} \textit{Ibid.}, p. 182.
\textsuperscript{34} Asaf Hussain, \textit{Elite Politics}, p. 103.
in spirit. Infused with ambitious egalitarian rhetoric, they promised to bring about a wholesale restructuring of values, local participation in educational affairs, equal access to education, and eradication of illiteracy. It was in this spirit that about 3,000 private schools and 175 colleges were nationalized. In most of these private schools and colleges, teachers were underpaid. They welcomed the reform, while the owners of these institutions resisted the education policy.

The prime beneficiaries of educational reforms were educated, urban middle classes and lower-middle-class students from rural and urban areas. However, in the remote rural areas, opening up of the educational institutions generated new social awareness. In terms of Gross National Product ratio, though, expenditure on education rose to only 2.1% in 1976–77, from 1.6% in 1971–72. In terms of actual Annual Plan Allocations, the rise was substantial (see Table 5).

Although the 1972 Educational Policy was reformist in spirit and content, it lacked specificity. The policy was sketchy and its implementation mechanisms were not well planned. Consequently, it increased an element of uncertainty rather than stabilize the educational institutions.

The health sector has been the most neglected area in Pakistan. This was one area which needed reform and improvement. Health expenditure as a ratio of GNP was only 0.46% in 1971–72, rising to 1% in 1976–77. The per capita expenditure on health during the same period was only Rs. 3.00, which rose to Rs. 16.75. During Bhutto’s rule, the Annual Development Plan allocation for the health sector substantially increased (see Table 5). However, the figures indicate how insignificant the health sector’s allocation and role were in the national economy.

In order to improve the quality of life, the regime announced a health policy in March 1972. It emphasized improving the existing facilities, increasing the number of dispensaries, hospitals, and medical colleges, and establishing health centers in the rural areas. It made substantial increases (see Table 5). However, the basic thrust of the policy was to lay down a framework for an effective health service. The People’s Health School provided a three-tiered system, focusing on increasing the number of doctors, paramedical auxiliary facilities, and community health workers. The scheme proposed that for a village population of about 1,000, there would be one community worker who would help in combating sim-

ple and minor diseases. For a population of 10,000, there would be a basic health unit with a paramedical staff of four-to-six workers. Health centers would be manned by two doctors.

For the first time, there was an ambitious and comprehensive health scheme. It did generate awareness on health issues. The policy also suffered from a lack of well thought out implementation mechanisms. In urban areas some health centers became operative. However, in the rural areas, the infrastructure remained weak, though some of the health units and centers did begin to operate in the remote tribal and rural areas. 38

Conclusion

Bhutto’s policies of incremental change generated mixed results. These policies created an environment for socio-economic change, but institutionalization of that change required a longer period of political stability. In general it can be stated that in developing societies, policies of gradual transformation introduce a phase of transition, resistance to change, and uncertainty. Under Bhutto’s reforms, Pakistan underwent such an experience. There is a general consensus among scholars that Bhutto’s policies created new classes and groups, but that he could not institutionalize the role of these new classes and groups in the national polity. 39

His policies benefitted the disadvantaged classes and groups, including the peasants, industrial workers, the urban middle classes, the professional groups, the middle farmer and small-scale industrialist/entrepreneur; but they alienated the Financial Political oligarchy, the landowning elites, the “Khans” and “Sardars” (in NWFP and Baluchistan) who resisted these policies and turned hostile to Bhutto’s rule. Confronted by their hostility and alienation, Bhutto found it difficult to integrate the interests of established groups with those of disadvantaged classes and groups. Nevertheless, through his policies of gradual reform, he did succeed in achieving some measure of “social justice.” 40

The disadvantaged classes and groups received wage and welfare benefits, and found some new employment opportunities. Middle farmers and some small peasants benefitted from "generous" credit and loan facilities. Despite these modest achievements, industrial production stagnated, private investments declined, and the economic growth rate fluctuated. Industrial production stagnated for three reasons. First, nationalization of industries led to bureaucratization of industries, resulting in high inefficiency and low productivity. Second, by 1976 over 70% of the public sector was committed to heavy industries like steel, cement, and fertilizer. These industries had very large capital-labor ratios. Burki has estimated that the Karachi steel mill required a $100,000 investment for each job it created, whereas private large-scale industry required $20,000 for each job, and for small scale enterprise the capital-labor ratio was estimated to be only $500.  

Third, to overcome the lack of private investment in the industrial sector, the government's preferred priority was to expand the agricultural sector. Agriculture contributed 36.50% of the total GNP and grew at a rate of 2.2%. The industrial sector's contribution to the GNP declined from 16.31% in 1970-71 to 14.25% in 1976-77. A major decline was in the large-scale sector. However, the small-scale industries showed a greater dynamism in investment and output as compared to the performance of large/medium-scale industries in the private sector. During Bhutto's six year's rule, small-scale industrial investment increased at a rate of 5% per annum, which was a modest achievement, and reflected a new trend. 

Significant trends during Bhutto's rule were public investment in the heavy industries, expansion of the agricultural sector, and a modest increase in small-scale industrial enterprise in the private sector. The critical question was whether economic growth and greater distributional equality could be achieved simultaneously.

While the Bhutto government was striving to achieve these twin objectives by developing a framework of "mixed economy" through policies of gradual reform, one scholar of the South Asian scene, Dr. Mahboob-ul-Haq, asserted that "the days of mixed economy are numbered." It generates neither "growth" nor "equality," but promotes "bureaucratic socialism." He further asserted:

The developing countries will have to become either more frankly capitalist or more genuinely socialist. The capitalist alternative is workable only in

42. Ibid., p. 196.
those situations where the society is willing to accept income inequality over a long period of time without expanding, or where extremely high growth rates (10 to 15%) can be financed with a generous inflow of resources from western friends. Otherwise the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society."

Haq reduces the problem to an either/or situation, limiting the choices to a "frankly capitalist" or "genuinely socialist" system—which amounts to no choice. Haq apparently fails to comprehend the nature of historical, structural conditions in these societies. His prescription precludes gradualism as an effective policy instrument, given a relatively longer period of time. The key issue is not only creating "major change," but first creating an awareness about the need for change, i.e., about the iniquitous nature of the socio-economic structure. Here one can identify some of the effects of Bhutto's gradualist approach:

(1) Nationalization of the banks ushered the rural sector into the market economy, thereby initiating a process of socio-economic change in the agrarian structure. It performed dual functions: landowning elites were encouraged to develop entrepreneurial skills by relying on agriculture technology and mechanization (i.e., through credits and loans), whereas the small, middle farmer felt relieved from the shackles of the landlord and moneylender, and could rely on banks for credits and loans. The banks have become an important link between the rural migrant to the Middle East and his family in the village.

(2) With Bhutto's gradualist approach, returns from remittances from overseas workers played an important role in reducing poverty. While his welfare policies in the area of education, health, housing, population planning, etc., gave salience to the issue, input in these sectors was still meager in terms of GNP ratios. Nevertheless, for the first time a serious effort was made to recognize the problem and initiate some process to resolve it.

(3) Bhutto's policies spread social consciousness among the rural and urban masses. While the "feudal" norms persisted, egalitarian norms were also emerging. Agrarian transition—if not transformation—has become an ongoing process in Pakistan's polity.

(4) The nationalization of basic industries has made the public sector an integral component of Pakistan's economy. Evidently it promoted bureaucratic control. It has to be recognized, however, that a reformist leader needs a longer period of political stability to institutionalize his reformist

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policies, and in the short run he may be forced to fall back on the existing institutions—which may not be the best solution. Increased bureaucratic inefficiency on the other hand, can also serve to prompt incremental change.

(5) The experience of Bhutto's reformist policies indicated that some "equity" can be achieved through gradualism, though in the short run "growth" may suffer. But it can be argued that if social development policies are sound in concept, mass-participation oriented, and well executed, then growth may follow social development, especially in the long run. The Chinese experience can be cited as an example.

In sum, given a relatively short period of six years, and despite the constraints of structural collapse and psychological loss, Bhutto succeeded in rebuilding the shattered state of Pakistan. He could not provide optimal solutions as a reformist leader, but his policies of incremental change did initiate processes of attitudinal change in Pakistan. It can be asserted that incremental change with corresponding institutional consolidation still remains perhaps the most effective viable policy option for the developing societies.