

## Pakistan's Managerial Dilemmas

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Discretion without accountability is deeply rooted in Pakistan's political history, profoundly shaping the country's administrative system. Pakistan's political institutions offer the leadership many opportunities for violating citizen trust. Institutional change is proposed as a tool for politicians to maintain their authority through policy reform rather than patronage. Institutions are needed that allow politicians to lead while preserving the impartiality, permanence, and expertise of a public bureaucracy.

### INTRODUCTION

Pakistan's uneven development record has its roots in poor governance. Governance failures often stem from inappropriate institutions that are intentionally devised and sustained. Why does leadership chose to maintain inappropriate institutions, failing to build institutions that would maximise general social welfare? The answer to this question lies in the realities surrounding the types of coalitions that have formed and then attained political power.<sup>1</sup>

In Pakistan's case, institutional failures are not the consequence of a misinterpretation of socially optimal alternatives. Poor institutions are consonant with the interests of small governing coalitions that seek to effectively distribute private goods to their members. Institutions that misdirect resources can actually fulfil distributional goals of political decision-makers. Conversely, broad-based development may increase the political power of groups outside the coalition. When broad distribution of economic surplus may decompose the governing coalition, making it harder for the regime to stay in power,<sup>2</sup> policies that promise to alter the

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<sup>1</sup>Robert Bates has argued that policies which appear economically irrational might be politically rational [Bates (1995)]. The literature in political science generally takes the position that bad policies occur when they are more politically expedient than good policies. This paper extends this logic to poor institutions. The literature in economics views inappropriate government policy as the root cause of poor development performance. The argument here views the choice of poor institutions as equally fundamental. Bad institutions like bad policies are chosen because of their distributional effects.

<sup>2</sup>Javed Burki first made this point when he described Pakistan's governing elite as committed to passive policies to stay in power. "I regard the present political elite in Pakistan to belong to the passive category as did the other constitutional regimes in the country's history" [Burki (1974), p. 1127]. "Passive policies", he explains, "are aimed at preventing any erosion of existing support".

social balance of power may arouse opposition.<sup>3</sup>

### 1. THE LEGACY: STRUCTURE, PROCEDURE, AND FORM

The official style and aesthetic expressions of Pakistan's post-independence state differ dramatically from those of its South Asian neighbours. However, its administrative institutions place it firmly within the British colonial tradition of its neighbours. Like the rest of South Asia, Pakistan's administrative system was modelled on the Weberian ideal of bureaucratic efficiency and featured many key elements of administrative neutrality: an impersonal authority structure, a hierarchy of offices in a career system of specified rules, monetary remuneration set in accordance with clear rules, and discipline and control in the conduct of office. Weber formulated these institutional arrangements to prevent bureaucrats from basing their authority on a personal relationship, like a feudal vassal under patrimonial authority. The modern bureaucrat must be devoted to impersonal and functional purposes, upholding the ethic of the bureau over devotion to persons. The government can then trust that its orders are carried out faithfully, regardless of the bureaucrats' ideology or private interest, and can inspire public confidence that administration is free from political influence.

After Independence, the concept of a public career was well indoctrinated, and no attempt was made to break with the Weberian ideal of functional and impersonal criteria for efficiency. The newly independent government espoused the principle of separate political and administrative career paths, a rule of law that applied to all through an independent judiciary. Public service was viewed as honourable and prestigious, entry was through an honest merit system. Integrity was highly prized, strong anti-corruption measures were in place. Senior officials were remunerated well enough to live without distractions. With the well-being of their families ensured, they could dedicate themselves to their public duties. Government was to be comprised of disinterested advisors capable of impartial execution of government policy, serving their political masters without fear or favour.<sup>4</sup> High-powered incentives motivated the performance of individuals in the British system: High levels of remuneration, career development, sufficient delegation of authority to provide for significant job fulfilment, and a healthy retirement package could be expected at the end of a productive career. The structures remained, but the high powered incentives underlying their effectiveness disappeared after Independence.

<sup>3</sup>To preserve this coalition, no government since 1981 has allowed national census taking. Pakistan's population has increased significantly since that time.

<sup>4</sup>In fact, the administrative organisation of the civil service of Pakistan during the first decade after Independence was British, down to the last detail. In 1960, all but one officer of the total cadre of 332 had received advanced training in England or in a Commonwealth country. The last British officers left Pakistan in 1961 [Braibanti (1966), p. 246]; nevertheless, the reputation for honest independence of this bureaucracy did not last long.

Shortly after Independence, a number of presumed departures from the past were observed: slavish application of rules and formulas, ponderous routines and procedures, devotion to routine, rigidity and ossification, inflexible rules, red tape procrastination, unwillingness to assume responsibility, refusal to experiment, poor internal communication, hostility between bureaus, and difficulty recruiting talented people. In 1956, Zahid Hussain, head of the Planning Commission, bluntly criticised the bureaucracy: "Domination by the general administrator to the almost complete exclusion of the technician; clerical supremacy in which knowledge of office business routine is mistaken for knowledge of men, affairs, and technology; subservience to routine rules, which become a substitute for understanding, common sense, and vision; diffusion of responsibility so that no one is responsible for any decision; and continuous tendency towards centralisation of power."<sup>5</sup> In addition, comparisons with the precolonial bureaucracy highlighted widespread dishonesty and 'politicisation'.

Since little has changed in the bureaucracy's formal construction, what prevented the values of the colonial system from being transferred to the new? The answer is to be found in the ways political sponsors motivate bureaucrats.

## **2. THE HISTORICAL SETTING: THE EXERCISE OF POLITICAL LEADERSHIP AND THE ROAD TO DISCRETION**

Pakistan's political history is marked by an inability to establish a binding constitutional consensus on the limits of state power. Five constitutions have been written since Independence: one inherited and four more recent creations (1956, 1962, 1972, and 1973). Between 1958–62 and 1969–71, there was no written constitution; a suspended constitution existed from 1977–85. A restored constitution has served since 1985. The absence of an enduring constitution reflects a lack of common vision and of mutual respect about the country's future direction which is why Pakistan's political parties have been unable to create a broad base of public understanding and support for national policies.

### **2.1. 1947–58 Parliamentary Period: Constitutional Merry-go-round and Political Vacuum**

The Muslim League was an autocratic structure dominated by its President-for-life, Ali Jinnah, who chose to become governor general rather than Prime Minister.<sup>6</sup> The Governor Generalship, which became the most powerful position in the country, was a model for

<sup>5</sup>As reported in the *The Times of Karachi*, (Pakistan), October 21, 1956. For an explanation, see Hasan (1977), p. 60.

<sup>6</sup>The creation of an independent Muslim homeland was an objective of the Muslim League, which was founded in 1906.

autocratic rule.<sup>7</sup> In selecting three former members of the Indian Civil Service as provincial governors, Ali Jinnah set another pattern of extending political authority to administrators, unlike India where the Congress Party ultimately dominated the civil service.

Pakistan's political parties have been personality driven. Just as the founders of the Muslim League depended entirely upon the leadership of Jinnah, subsequent parties have also been vehicles for the ambitions of powerful individuals. Keith Callard explains: "... political parties in Pakistan [bear] little resemblance to that of most other democratic countries. Politics has begun at the top...politics is made up of a large number of leading persons who, with their political dependants, form loose agreements to achieve power and to maintain it;...political parties...have not turned their attention toward the primary voter" [Callard (1957), p. 67].<sup>8</sup> Weak parties are one reason politicians stay in power on the basis of their ability to disburse private goods to their constituents rather than public goods such as effective policies. Nonpersonalised authority exists only in the military and civilian bureaucracies, ensuring the involvement of these two groups in forming the government and in deriving benefits from the exercise of authority.

Constitution-making proved elusive. The constitution that was adopted in 1956 gave extensive emergency powers to the president and constitutional protection to the highest civil servants.<sup>9</sup> During this period no leader could risk alienating the bureaucracy, one of the few well-organised groups in the society. Even those politicians ideologically committed to transforming the elitist character of the Civil Service of Pakistan (CSP) required its support during the turmoil of the first ten years when no constitution or government lasted more than a year.<sup>10</sup>

<sup>7</sup>During the first decade after Independence, the nation's leaders made few attempts to link provincial or national leadership with the masses.

<sup>8</sup>Thirty years later, the same description could be given. "The political parties are little more than alliances of the oligarchy that have been formed for the sole purpose of retaining power in some form or the other. Issues and ideas are not discussed on any political platform nor is a division in the Assembly or among the parties along ideological or rational lines. Votes both inside and outside the legislatures are being bought. Allegiances continue to be switched not because a major issue of public interest is involved but only because of narrow self-interest. Cabinet and other positions are not being awarded according to merit or the ability of the individual to perform. These positions are rewards to be handed out by the government. The politicians appear to lack an understanding of the central concept of democracy that they have been elected for a reason—to run the country on behalf of the people as their representatives. The only purpose that the politicians appear to have is to make as large a personal fortune for themselves as possible" [Samad (1993), p. 181]. Although the national legislature was not chosen by popular vote during Pakistan's first ten years the lack of accountability persists despite the introduction of popular elections.

<sup>9</sup>After Jinnah's death in 1948, the Muslim League was divided over defining what an Islamic state should be. The two sections of Pakistan could not agree on representation within a central assembly. Representation of minority religious groups and the selection of a national language proved equally divisive. The Constituent Assembly was dismissed in 1954, the second assembly produced a constitution in 1956. The title of Governor-General changed to President but the duties remained essentially the same. The Chief Executive exercised decisive control over the government.

<sup>10</sup>During this period politicians virtually forfeited the right of transferring CSP officers from one job to another.

## **2.2. 1958–69. First Dictatorship: Ayub Khan**

On October 7, 1958, two years after being introduced, the constitution was abrogated and martial law was declared. Field Marshal Mohammad Ayub Khan was named Prime Minister, assumed the title of president, then ruled under martial law.

Ayub's military government adapted highly centralised decision-making structures to support a policy of official nationalism that has been used by every subsequent government to rationalise centralised control over governmental decision making.<sup>11</sup> The record unfortunately demonstrates that nationalist ideals cannot replace high-powered incentives as a motivation for bureaucratic performance.

To hold power, Ayub crafted a working partnership between the two organised linchpins of his government: the military and the CSP.<sup>12</sup> Although he allowed the 400-odd members of the CSP to dominate every locus of governmental authority, he nevertheless kept the officers firmly in his governing coalition through his careful promotion and distribution of economic privileges. Especially useful enticements of compliance used by Ayub were land allotments to supplement meagre governmental income.<sup>13</sup> He also allowed former generals and army officers to become indispensable to business as lobbyists. With ample opportunities for enrichment, the military elites had no reason to challenge the public role of the civil administration. A working partnership between the civilian and military bureaucracies characterised the Ayub years.<sup>14</sup>

Ayub enhanced the administrative capacity of the CSP by offering bureaucrats training in the economics of public administration, finance, and accounting, thus adding to their liberal arts backgrounds. In general, advanced training was disproportionately showered upon senior civil servants, regardless of their cadre, making it all too explicit that their service was deemed far more valuable than that of the rank and file. This style of administration is sometimes nostalgically regarded as the apex of technocratic governance but it should not be forgotten that populist reversals of Bhutto's government were set into motion.

<sup>11</sup>The policy is criticised for exacerbating ethnic and ideological polarisation.

<sup>12</sup>Ayub's economic policies reflected a strategy of building coalitional support from a political elite that was not only small but drawn from an extremely narrow social base, the "...combined Muslim bureaucratic, military, and political elites totalled no more than a few hundred people. This extremely small consolidated elite was superimposed on a largely rural, agrarian society dominated by kinship ties, tribal and religious loyalties, and patron-client relationships [Kochanek (1983), p. 47]...There was practically no urban middle class, the business community was insignificant and largely refugee in origin, and the urban middle class was small and politically weak. There was therefore no really organised group to challenge the new ruling coalition even if it had chosen to do so. Thus, the distribution of power in the new system focused on the relationship among the governing elite groups" [Kochanek (1983), pp. 47-48].

<sup>13</sup>During Ayub's "decade of development", many officers and civil servants, most of whom were Basic Democrats, took advantage of options to buy fairly large tracts of irrigated lands in Punjab and Sindh at remarkably low prices, given the potential value of such lands once fully brought under cultivation [Wolpert (1993), p. 181].

<sup>14</sup>Foreign assistance played a significant role between 1959-60 and 1967-68, providing 35 percent of total development expenditure and 48 percent of total imports [LaPorte (1975), p. 113].

Although a pay commissioner's report challenged CSP authority and its elitist role, the report was shelved. The only challenge to the CSP authority allowed by Ayub was the establishment of a Planning Commission to bypass the CSP in the formulation of economic development programmes. Since Ayub used state resources to forge alliances with business groups, a small tightly organised bureaucratic apparatus was useful to target the distribution of costs and benefits for maximum political impact. With a small bureaucracy at the top controlling all major posts, Ayub efficiently directed resources to his coalition members. By encouraging the green revolution, agricultural output on medium and large estates increased dramatically, allowing Ayub to bring medium-sized landholders into his orbit. Unfortunately, the majority of rural dwellers had no land, and the urban masses, who similarly received very little, become major props for Bhutto.

Ayub discovered that collecting rents from a small group of large firms is more efficient than collecting from many competing smaller groups, so he showered benefits on a small tightly knit group of firms that could be closely monitored and whose political loyalty was assured. All of Pakistan's subsequent leaders maintained a small elite civil service that allowed government to target the distribution of costs and benefits for maximum political impact. Keeping the knowledge circle small keeps favouritism behind a wall of secrecy. Outright, blatant corruption is less destabilising when knowledge about who gets what is highly restricted.

Ayub's negative impact on the quality of the civil service can be traced to several sources. Among them, was providing the unemployed with public jobs. He also created new government agencies without a clear division of function between the new and existing agencies. These actions considerably weakened the integrity of government, wrecking its capacity for performance-based output and further increasing dependence on the elite CSP.

Ayub's party, the Convention Muslim League, created by its leader became no more than a label for his colleagues in power: A metaphor for favouritism and nepotism. Under Ayub, "it may be virtually impossible to find an educated person with money to invest, who is not in some way related to the leaders of the civil service" [Hasan (1977), p. 107]. As noted, this made it easy for Ayub to control the disposition of resources and the loyalty of those who held them. "Ayub encouraged his sons in the military to resign their commissions and enter industry and trade. Bureaucracy was directed to issue permits and licenses to Ayub's chosen favourites". Those who were not part of the ruling clique had to buy permits and licenses from regime insiders at black market prices. These sales may have had a corrosive impact on elite coherence [Khan (1980), p. 196].

Elites play a vital role in early economic development by reducing transaction and information costs. There is also a political motivation to the concentration of wealth in the hands of a small number of business families; government can easily

control the political loyalties of those with access to resources; however, the absence of a growth dividend for non-elites saved the seeds of discontent.<sup>15</sup>

Since the governing coalition was small in relation to Pakistan's economy, providing private goods to win this group's support did not undermine the economy. In fact, under Ayub's leadership, the country's positive growth rates were the envy of the developing world. Macro-growth was measured at 6 percent annually for the decade of the 1960s. Nevertheless, economic inequality increased, the share of wages in industrial output declined, and a few dozen families reputedly dominated the country's industrial wealth [Ul Haq (1976), pp. 5-6].<sup>16</sup> While the elite espoused a growth-friendly policy, little went to the poor in the form of public goods, i.e., education or private goods, such as public housing. To avoid alienating its landholding support base, the government shunned land redistribution. Education and public health languished. LaPorte summarises Ayub's social and economic policies as reflecting "...a preference for preserving elite privileges; changes that did occur were of a minor, gradual nature and did not infringe upon the prerogatives of the conservative coalition that supported Ayub" [LaPorte (1975), p. 127]. In fact, Pakistan's era of great economic growth exacerbated social inequalities, a pattern that contrasts sharply with East Asia where the fastest growing countries experienced declining inequality [Campos and Root (1996)]. In Pakistan, by contrast, growth was essentially a private good for the elite, setting the stage for the populist policies of Bhutto to repudiate the Ayub legacy.<sup>17</sup>

### **2.3. 1972-77. Bhutto: Patronage for the Masses**

The rise of Zulfikar Ali Bhutto exemplifies how a change in the governing coalition can produce a different set of economic policies and new beneficiaries of government spoils. Mr. Zulfikar Ali Bhutto created a political base that required a broad distribution of patronage.<sup>18</sup> He began the distribution process by reorganising

<sup>15</sup>In an address to the West Pakistan Management Association in April 1968, Chief Economist of the Planning Commission, Mahbudul Haq, coined a phrase the "lucky twenty" families that had direct control of the bulk of large-scale business and commerce and indirect control of much else [LaPorte (1975), p. 93]. Their control allegedly included 80 percent of banking and 97 percent of insurance. Subsequently, scholars have expanded the list to about 35 families. As noted, these families often entered into joint business ventures with retired military or civil service leaders who could provide political contacts and licenses to secure foreign exchange.

<sup>16</sup>Most of these families were migrants from India who brought their wealth and acumen with them.

<sup>17</sup>The People's Party Manifesto cited the need to redress "All the forms of oppression by authority and by those who exercise the power on account of their riches;... every government of this country has followed the policy of concentrating expenditure in the domains that benefit the privileged classes [Wolpert (1993), p. 110].

<sup>18</sup>Mr Zulfikar Ali Bhutto, chair of the Peoples Party, became the first elected President of Pakistan in the 1970 election. Civilian rule was restored on December 20, 1971, an interim constitution was established in 1972. A permanent constitution, enforced in April 1973, named Bhutto Prime Minister.

the civil bureaucracy.<sup>19</sup> In 1973, Bhutto purged 1,303 civil servants, their names read over national television without any opportunity for redress. They never had their day in court: This was a one-shot mass dismissal; punitive measures were applied non-uniformly without establishing institutional norms or standards of surveillance. Such high-handed methods had no precedent even during the days of martial law. The precedent of bypassing procedures through direct intervention by the chief executive eroded the last vestiges of integrity in the civil service.

The Establishment Division issued the Civil Service Act in 1973, the Service Tribunals Act of 1973, and the Federal Service Commission Act of 1973 helped to concentrate power in Bhutto's hands.<sup>20</sup> The Civil Service Act of 1973 ensured that civil servants held office at the pleasure of the President. It became easier to create vacancies or fill positions outside civil service procedures; postings often went to individuals who did not meet the minimum merit criteria. A United National Pay Scale was adopted, weakening the pay structure advantage enjoyed by CSP officers. All services and cadres were integrated into a unified service with twenty graduations, purportedly to give equal opportunity to all. The reservation of certain posts in the central secretariat for members of the CSP was discontinued in the successor District Management Group (DMG). Horizontal mobility among cadres was introduced, provisions for lateral entry established, and vertical movement between cadres was acknowledged. Opportunities were also opened for talented individuals from the private sector. The President could draw on broad public sympathy for his reforms because the public perceived the existing bureaucracy as elitist, inefficient, and corrupt.

The most significant encroachment on civil service neutrality is perhaps the most esoteric. Before 1973 civil servants could resort to writs of the high court to protect their constitutional rights. The 1973 constitution stated that no court would have jurisdiction over service matters. Instead, special tribunals would handle grievances, but the service tribunal was available only after internal remedies were exhausted, including redress through one's superiors in the service; officers could only go to a tribunal three months after the submission of grievances. The service tribunals were staffed by bureaucrats, generally retired persons, not professional judges. The service tribunals were no match for the system of writs. The change

<sup>19</sup>The manifesto of the Pakistan Peoples Party stated "The present system of administration is a legacy of colonial rule; any modifications introduced were to promote the interest of groups holding the lever of power within the government and administration; the administration thus became its own master. The representative regime will need a different structure of administration [Pakistan Peoples Party (1970), p. 27]."

<sup>20</sup>Reserved posts were abolished, uniform pay scales were established for all cadre, the all Pakistan Services were abolished and replaced with a single unified civil service. The members of the abolished CSP were assigned to one or more independently constituted sub-cadres. Lateral recruits into the Central Superior Services were established and amalgamated into the regular service. Horizontal movement was introduced. Theoretically, technical officers could head ministries or departments. Heads of Department and Secretary posts were open to all on the basis of merit.



considerably weakened the independence of the civil service; without constitutional or legal protection, independent action is unlikely.<sup>21</sup>

Bhutto's reforms allowed the President to control appointments, dismissals, retirement, recruitment, promotions, and grievances. The pretension of opening the Service to talent allowed the President to staff the service with loyal followers. Between 1973–77, the Establishment Division approved 1,374 officials in the Civil Service, about three times the norm under the old system which was based on strict examinations [Mahmood (1990), p. 62]. Abuse of the lateral entry system resulted in chaos and the demoralisation of the service. One Senior Civil Servant made the analogy to 'black ink dropped into clear water, never again to be clean'. Since the appointments were primarily in one of three services, the police, the DMG and the foreign service, their nonmerit impact was strongly felt into the 1990s.<sup>22</sup> Many of the recruits were recognised as friends or kin of central cabinet members. Favouritism opened the doors to graft as the politically protected thought of themselves as above the law. The newly appointed bureaucrats flexed their muscles by participating in the manipulation of the 1977 general elections, smearing the service's reputation for being a political [Mahmood (1990), p. 63].

It is widely conceded that the reforms politicised the bureaucracy, and that lateral recruitment and horizontal movement facilitated control by Bhutto's political party.<sup>23</sup> During Bhutto's time, postings were made through political contacts rather than through administrative decisions. Bhutto's reforms created, in effect, a system for power holders to easily build a base of amenable decision-makers, explaining why his reforms have not been systematically reversed. Each new government welcomes the opportunity to intervene in appointments, transfers, and postings. The practice has been reform-proof in order to create a cohort of like-minded people and overcome the bias of those already in place.

Bhutto attempted to develop a coalition among the middle and lower classes to counterbalance the traditional elites, the military, civil service, and the industrialists. Patronage, through enlarging the public sector, was the mechanism used to craft this new coalition.<sup>24</sup> He encouraged workers to demand higher wages and land grants,<sup>25</sup> and he dismissed leading military figures and/or bureaucrats who would not follow his orders. Since Bhutto's broad-based patronage network required an expanded economic base, he selectively nationalised large firms owned by elite

<sup>21</sup>Conversation with Hamid L. Sharif, Asian Development Bank.

<sup>22</sup>At the normal rate of recruitment of about 50 to 100 a year, it would take more than a decade to dilute the effects of Bhutto's action.

<sup>23</sup>[Burki (1974), p. 1133].

<sup>24</sup>Bhutto started with nationalising ten basic industries, which allowed government to influence wages as well as prices. He ended with the takeover of all private banks, which allowed government to control who received credit and on what terms.

<sup>25</sup>New labour legislation led to a significant increase in real industrial wages. "The wages of unskilled workers in a government-controlled enterprise is now 60 percent higher as compared with 1969" [Burki (1974), p. 1135].

families.<sup>26</sup> The expansion of state control over industry gave the government many opportunities to dispense spoils to supporters. Although his support base was different, Bhutto, like his predecessors, controlled all aspects of national existence with one driving goal—creating coalitional support to sustain personal political power. Bhutto demonstrated little interest in creating a political party that could carry on without him. The PPP was “essentially a coalition of forces that have been kept together by its charismatic leader within a loosely defined party framework” [Burki (1974), p. 1133].<sup>27</sup>

The 1970s was Pakistan’s lost decade. Unlike the leading economies of East Asia, Pakistan did not make the shift towards an export orientation but instead linked nationalisation with import substitution to maximise patronage opportunities. Bhutto’s broad-based patronage was to prove economically more costly, however, than patronage for the elite had been.<sup>28</sup> Pakistan’s economic growth took a nose dive as nationalisation drove capital out of industry into land. Introduced as a challenge to elite institutions, Bhutto’s policies quickly degenerated into spoils-based rule. Although some spoils were directed to specific groups of the poor, patronage undermines the system of service delivery. Ultimately, the mass of poor people, not being able to afford private procurement, are the big losers. Building a personalised

<sup>26</sup>He impounded the passports of leading industrialists and then proceeded to confiscate their properties. This included 31 industrial units in ten basic categories: iron and steel, heavy engineering, heavy electrical, basic metals, motor vehicles, heavy and basic chemicals, petrochemicals, cement, utilities (electricity, gas and oil). In March, 1972, 32 life insurance companies were added to the list, and in January, 1974, private banks. The control of assets of the large-scale manufacturing sector dropped from 41.7 percent to 31 percent for thirty-nine houses. Although the level of economic concentration weakened, the top houses still controlled 40 percent of private assets and over 45 percent of the private domestic assets [Kochanek (1983), p. 98].

<sup>27</sup>“The party remained for him only a legitimising instrument or merely a conduit for coming into power. He reached the terrible stage where one feels that party needs him rather than he the party. At one stage, he declared: ‘I am the People’s Party and they are all my creatures’. He was right in the sense that everything emanated from him. He nominated the office-bearers of all party organisations. He distributed favours. He granted recognition to party leaders and threw them out of circulation at will. The same autocratic trend characterised his behaviour as head of government. He sacked whom he wanted and elevated whom he liked. He even indulged in self-aggrandisement without much regard for rules and regulations. As one observer put it, he treated Pakistan as his personal estate. Thus, the difference between the PPP and the government became indistinguishable. Favours were showered from government sources on the favourite party workers—import licenses, permits for ration depots, loans from financial institutions, and even cash grants from government coffers. The party work suffered as the party workers got addicted to easy favours and as the party leaders assumed bureaucratic roles in nationalised institutions. By 1977, PPP had lost its effectiveness as an instrument of political participation. It ceased to be a platform for articulation and aggregation of national demands. In less than a decade of its founding, it deteriorated from a promising political institution to the handwork of an autocrat. Elections were never held within PPP to elect its own office-bearers” [Salik (1997), p. 133].

<sup>28</sup>Under Ayub, the allocation of rents for political purposes, rewarding supporters, buying off opponents, and ensuring support of key groups was not as economically costly as it later became under Bhutto’s broader political base when private goods had to be disbursed to cope with ethnic diversity and to accumulate resources to fight elections. This led to ethnification of politics and polarisation of national identities.

system of control based on the ruler's ability to dole out patronage to the masses also had significant fiscal implications as it led Bhutto to use deficit financing to a greater extent than his predecessors.

Politically, the decade of Bhutto was also lost: democratic institutions did not mature.

#### **2.4. 1977–88. Zia-ul-Haq: Governing Day-to-Day**

Despite his military background, Zia did nothing to change the basically personalised style of rule that had resulted from the slow but steady erosion of bureaucratic capacity. Following the military coup of 1977 a white paper was released which publicised Bhutto's abuse of administrative reform. Nevertheless, recognition of abuse was not a commitment to reform nor was it an attempt to turn back the clock. Zia choose not to exercise his opportunity to restore the integrity of the civil service. A civil service that enjoyed weak constitutional protection was a pliant instrument for the resumption of autocratic control.

Zia stopped the nationalisation of the economy, but he did not return property to their original owners. Fear of losing one's factories was gone, rumours ended that homes of recalcitrant citizens might be nationalised, but confidence in the neutrality of government did not return. The banking system remained in government hands and was used as a passive instrument for financing government deficits and allocating credit according to government plans. Controls over the financial sector became a surrogate for the inability to collect taxes which led the country further down the path of endebtment without accountability for policy choices.

Although Zia clearly wanted to distance his regime from Bhutto's administrative reforms and regain the support of the civilian bureaucracy, he did not encourage administrative reform, only modified Bhutto's policies. He gave the civil servants discharged by Bhutto hearings and reinstated many with payment of salary arrears. Once in the system, officers under Bhutto depended upon a political figure for postings. In contrast, Zia rarely meddled in recruitment below the top twenty people and he restored performance evaluations and training. He abolished lateral recruitment, expanded reservations for military personnel in the civilian bureaucracy, but did not reinstitutionalise the CSP or the concept of reservation posts for the successor DMG. Most significantly, he did not restore the constitutional protection enjoyed by the civil service before Bhutto. The only recourse for settling grievances continued to be service by tribunal judges who did not have tenure and could be sent home at any time. The act that brought the courts into existence barred them from handling a wide range of issues. Civil servants never regained the kind of protection once provided by their access to the writs of the higher courts.

An outstanding change under Zia was the recruitment of military personnel into the civilian service at unprecedented levels so that the civilian bureaucracy appeared to some as junior partner to the military regime. Army officers were

inducted on a separate quota of their own, allegedly on a criteria of loyalty rather than on administrative or professional skill.

Pakistan's leaders before Zia were explicitly secular. Zia, by contrast, built an Islamic base, using religious allies to keep him in power, building religious schools and mosques, and creating a dual legal system. He did this by introducing the Islamic requirement for charity, the *Zakat*; 2.5 percent was deducted annually from all bank deposits. *Zakat* committees with discretion over the disbursement of *Zakat* funds were created, giving the President's religious allies a local power base. Zia's introduction of religious law (*Hudood* law) also had significant governance implications. Discretion over how offenses would be tried, under religious law or secular law, gave power to bureaucrats, politicians and police. Although the courts were the same, the laws of evidence as well as punishment were different. For example, adultery was punishable by death under religious laws. The confusion which resulted gave government officers enormous power over offenders, fuelling corruption and providing a powerful instrument of political control.

Although Zia came to power through a coup and had the military behind him, from day one he never knew how long he would stay, one reason why he never considered long-term reforms. Significant decisions during the Zia years were made by a very small number of generals with no overarching vision or policy objectives other than staying in power. His regime was reactive, lacking a long-term perspective. Reforms were not considered because he did not want to risk losing the support of any existing interest group. He had neither the vision nor the administrative machinery to generate broad support for his regime. From Zia, Pakistan's democratically elected leaders inherited a system of public administration in which incentives to act in the public interest had evaporated.

## **2.5. 1988—Democratic Elections, Autocratic Systems. The Persistence of Elite Bureaucratic Governance**

The return to civilian governments did not take Pakistan off the path of illiberal governance. In fact, predatory governance and the institutions that nurtured it were embraced by Pakistan's elected rulers. The administrative system designed to consolidate centralised authoritarian rule remains essentially intact with only minor modifications despite a decade of democratically elected governments.

A popularly elected government took over at the end of 1988 and promptly appointed an Administrative Reforms Commission. The government dissolved before its report was submitted. A similar fate has befallen each of Pakistan's subsequent elected governments. Although one reason why governments fail is the inadequacy of the machinery for formulating and implementing policy, no democratically elected government has been in power long enough to decide on a course of reform action.

The subject of administrative reform has been the topic of more than thirty commissions, committees, and working groups during Pakistan's first fifty years of independence. While Bhutto's reforms diluted the monopoly and exclusivity of the services in 1973, no government has created a classless, unified civil service, or has ended widespread administrative corruption. Institutional arrangements for inexpensive and speedy redress of citizens' grievances against public officials still does not exist.<sup>29</sup> Although it served different purposes under different governments, one group—the CSP and its successor, the DMG,—controls the central planning bodies of the state.<sup>30</sup> Many observers believe that Pakistan's political leadership is led by this elite corps of the civil service. Pakistan's politicians have constantly complained that they are thwarted in their policy-making efforts by the power of an entrenched public bureaucracy. This is a gross exaggeration. Bureaucratic privilege has endured because it has never posed a direct challenge to political leadership.<sup>31</sup> Government derives much of its support by employing bureaucratic discretion to disburse patronage. Policy performance is not how parties take or maintain political power in Pakistan. Since bureaucratic discretion is a key to the exercise of political power, the many reports calling for a more accountable bureaucracy and of the CSP in particular were "buried by the country's political bosses" [Burki (1969), p. 242].<sup>32</sup> Although the bureaucracy itself is generally viewed as the chief source of resistance to administrative reorganisation,<sup>33</sup> reluctant politicians maintain the status quo.

### 3. INSTITUTIONAL FAILURES

Those who come to public office in Pakistan typically deplore governing difficulties. Some of Pakistan's leaders have confused the difficulties with the need

<sup>29</sup>Anti-corruption agencies have themselves been notoriously corrupt. Despite legislation that provides stern punishment and specifies minimum procedural delays for holding inquiries, no major cases of corruption have been successfully prosecuted.

<sup>30</sup>In 1969, the CSP held 93 percent of all posts of Joint Secretary and above. By 1973, the comparable figure was reduced to 44 percent [Kennedy (1987), p. 103]. The positional dominance of the CSP continues to decline as CSP cohorts at senior-level reach retirement age. The CSP no longer recruits and its size relative to the bureaucracy is declining [Kennedy (1987), p. 105].

<sup>31</sup>The officer corps of the Pakistan army was another essential member of the governing coalition. Pakistan had only 4 lieutenant colonels, 42 majors, and 114 captains at Independence. This corps group received 60 percent of the total government expenditures from 1948 to 1959 [Kochanek (1983), p. 46].

<sup>32</sup>In some developing countries, Malaysia being a prime example, the party controlled enough resources to make itself the source of patronage. In Pakistan, where party organisation is generally weak and the party controls few resources directly, politicians depend upon the bureaucratic hierarchy to distribute spoils.

<sup>33</sup>Zia reappointed several CSP officers dismissed by Bhutto and repositioned former CSP officers at key points within the bureaucracy. Nevertheless, the institutional control of the CSP has weakened. The lineal descendant of the CSP, the DMG, does not dominate the bureaucracy to the extent the CSP did. Nevertheless, a classless bureaucracy and unified service are goals that are as far from being achieved in 1997 as they were in 1973.

for longevity in office or with a need for a preponderance of power concentrated in the executive. Strong executive authority is called for because the systems and procedures of efficient governance are lacking.<sup>34</sup> Local institutions are underfunded, poorly staffed, and inefficient. The absence of effective systems and procedures at the lower level has led to overcompensation through the continuous centralisation of functions in the highest institutions. However, effective control and supervision is not possible when responsible management at the lower levels has vanished: responsibility must be transferred to ever higher levels where congestion and inadequate information make effective decision making impossible. A loss of control at the centre is the end product of continuous centralisation. Under-supervision, under-monitoring, and under-managing result in a general collapse of public discipline and morality. The managers say that ministers are micro-managing departments, politicising recruitment and decision-making; the politicians lament that rules are used to protect bureaucratic perks. Politicians complain that bureaucratic discretion and arcane rules of business prevent the implementation of policy. The problem is that management does not have the power to change the fundamentals that determine their actions, they must function in an administrative system over which they have no control. The politicians or elected officials are not familiar with how the system works, as outsiders they have limited knowledge of the process or the people in the bureaucracy. Hence, the officials can spin circles around the politicians, and no one is served.

Pakistan's intellectuals often assert that what Pakistan needs is a new constitution. The country is poorly served by the parliamentary system that features ministers that are vote gatherers rather than technically adept decision-makers. Maybe they should consider Alexander Popes' remark "About the forms of Government, let fools contest; the Government best administered is the best". Pakistan could gain considerably in the efficiency of government and in the productive use of public resources through improved governance. The last thing the country needs is another constitutional crisis. Making government work will matter more to the quality of life than continuing historic turf wars among the branches of government.

The patterns of poor governance that derailed Pakistan's development have arisen despite the intentions of the constitution. Generally, there is little external control of discretionary powers, and discretion without accountability is made possible by a number of reversible institutional failures. Beginning with the decay of the civil service, examples of the breakdowns follow.

The civil service has had to absorb thousands of unemployed citizens when no jobs existed in other sectors of the economy. Thousands of ill-trained people are dumped into the system; the sheer number is discouraging for managers since the

<sup>34</sup>Witness the efforts of the Sharif government to fight constitutional battles rather than to concentrate on governance.

number and low skills are both detrimental to efficiency. The absence of precise duties and responsibilities, moreover, makes supervision and coordination difficult.

Where policies exist, they undermine rational management. For example, wage policy has never been linked to job descriptions, and the responsibility level in the civil service is not matched by remuneration. Equal benefits at the same level of grading are not maintained. A job can be upgraded many times without the job description being altered, the qualifications amended, or the command expanded.<sup>35</sup> Removal from appointments can occur without a review process or a justification given. In Pakistan postings matter because perks are attached to appointments—basic salary is a small component of total remuneration—thus, change or transfer may be tantamount to a demotion. The worst outcome for an officer is to become an Officer on Special Duty (OSD). Such designations are typically allocated for political purposes rather than to punish dereliction of duty. Having no assignment is a way to cause a noncompliant or politically undesirable officer considerable economic hardship since perks often matter more than direct remuneration.

Senior officials routinely bypass lower ranked decision-makers, because, as we have seen, there is weak support at the lower levels of the administrative services. Lower and middle levels of management are generally unclear about their responsibilities, and this is compounded by the fact that many government organisations lack any framework of delegation to lower levels. Where they exist, standard operating procedures are generally antiquated and not used. With functions assigned to lower levels so unclear, decisions cannot be made. This lack of tools and authority at the lower levels is not recognised; rather, lower level personnel are considered untrustworthy and are surpassed in decision making. Minor decisions end up being sent to the highest level in the Ministry.

Civil service reviews are not transparent: The appointment and transfer criteria are opaque, and discretionary waivers are commonplace. Since job descriptions and qualifications are rarely linked, performance evaluations are difficult. Most evaluations are nonspecific in nature and do not identify any performance target or fulfilment of job description. Managers are never evaluated for the performance of specific tasks or meeting stated targets. Years of service substitute for objective performance evaluations and are frequently the only yardstick in assessments.

Although common in Pakistan, subjective measures of job performance have been found unsuitable to modern organisations because they neither specify nor measure the precise behaviours desired from subordinates; misspecification leads to inappropriate behaviour. Pay for performance systems are generally dependent on objective performance evaluations. Pakistan's subjective evaluations produce a lack of trust, explaining why they are eschewed by Pakistan's military.

<sup>35</sup>In the 1960s very few provincial secretaries enjoyed the scale of 20, now most provincial secretaries are 20 or up.

Training, once in service, is generally considered to be a waste of time since postings or promotions do not require qualifying exams or the assessment of training institutions. Training courses are generally not followed by examinations and rarely qualify applicants for better positions.

Although rules for conducting public business are inadequate, extensive red tape and obsolete laws provide ample opportunities to collect bribes. Weak budgetary accountability allows for the persistent misallocation of government resources, such as plots of land, loans, timber rights, and vehicles. Middle agents are common in government decision-making structures. Accurate government data is rarely available as exemplified by the absence of current census data. No autonomous commission such as the Federal Ombudsman exists to review complaints against the government by civil servants. Conflicts of interests are ignored. For example, the financial interests of civil servants and MPAs are neither recorded nor open to public scrutiny. Rules are generally framed by the regulatory authorities enforcing them. Definite functions are not assigned to particular ministries producing an ad hoc mix of functions and a lack of coordination. Ministries and sub-units are added on by successive governments without an integration of functions or an attempt to define a unified structure.

Facilities for long-term strategic planning are absent. No agreed upon formula exists for approving or evaluating public investments. Developmental projects are not chosen in reference to long-term developmental objectives, nor are they evaluated in terms of publicly documented strategic objectives. Projects are approved and monitored by the same agency, the Planning and Development Department. Politicians have had discretionary funds that they can disburse at will without reference to national or even local developmental objectives. In sum, planning and budgeting are generally disassociated.

### **3.1. Pakistan—Federalist in Name**

Central leaders feared that a lack of cooperation and a denial of information by local governments would lead to national disintegration. As a result, local units of government were kept on a very short leash by weak provincial government which are firmly controlled by the central government.

The central government's emergency powers, as well as control, over personnel and financial resources removes a layer of accountability from provincial government. Central secretariats dominate policy making. The provincial governments have virtually no control over the most strategic administrative positions in the provinces since they are held by members of the federal services. The most important provincial posts are occupied by officers selected from the centre. They control information, personnel, and finance and can suppress outside influence. The deputy secretary and the Board of Revenue, the final appeal body in provincial tax disputes, are both centrally appointed, formally from the CSP and now



from the DMG. The secretary to the chief minister and the head of the anti-corruption committees are not under the control of provincial officials; they can be transferred by the provincial governor and removed only by the President.

The provinces depend upon federal grants and taxes doled out by the federal government. They lack financial autonomy and have limited powers to tax. Provincial security could be undermined simply by the reduction of federal grants or the refusal of the centre to make loans. The President could declare an emergency, effacing any semblance of provincial independence. Presidential orders go directly to the Governor who carries them out through use of administrative hierarchy, thus circumventing accountability to elected national or provincial legislative bodies.

Beneath the provincial level governments, local initiative and administrative capacity has languished. Local authorities have few powers, and most can be withdrawn by a federally appointed district officer. The district board is not respected as a representative body because elections have either not been held or held dishonestly. The federally appointed district officer can block any action which he did not approve. The district officer can, for example, abolish local boards, remove local staff, grant exemptions from local taxes, and suspend any local regulation. Local institutions depend upon the provincial governments for the bulk of their finances. Local government departments are supervised by provincial authorities and local powers of making and implementing laws are virtually non-existent. Municipal administration is further handicapped by the absence of local police and local courts to enforce local laws.

When local governments are generally criticised for a lack of integrity, the real culprit is the lack of procedures and institutional development. Impropriety occurs because the rules needed for accountable local government have never been established. Mechanisms to scrutinise expenditures and to subject local government to judicial review are absent.

Development plans are generally handed from provincial governments to local bodies, who are not involved in development planning. Programmes that require action from more than one central government agency are particularly vulnerable to implementation failure. Since high-level intervention is necessary to resolve almost every local problem, many local issues are neglected.<sup>36</sup>

Elected local bodies have been dismissed routinely by provincial governments on political considerations, subsequent elections delayed for years, while local management is entrusted to provincial appointees. In sum, local bodies are not local governments. The polity is federal only to the extent desired by and according to the discretion of federal authorities.

<sup>36</sup>Provinces are divided into divisions comprised of 2-4 districts, which are comprised of *tehsils* of 100-150 villages. The executive power of the government in a district reposes in the Deputy Commissioner.

### 3.2. The Traditional Limits on Bureaucratic Power

In Pakistan, mechanisms, which elsewhere have limited bureaucratic power, are weak e.g., parliament, interest groups, ministerial advisors, courts of law, and professional groups. Thus, a counterbalance to the executive authority of the central government is virtually non-existent.

The parliament has limited capability, since collective cabinet authority has been weak. Cabinet appointments are given out to create political coalitions and rarely reflect the technical competence of the appointee.<sup>37</sup> One author noted: "Experience has shown that the government uses its ability to expand the cabinet only to purchase votes" [Samad (1993), p. 182]. The press was for many years precensored and citizens or legislators could be detained. The President is empowered to declare an emergency and take any required actions.

The transfer of power to elected officials in 1988 did not include the transfer of power to judicial officials. The recommendation that the judiciary be separated from the executive was ignored despite being advocated by a number of independent law commissions.<sup>38</sup> Instead, federal and provincial governments tightened their hold on the magistracy in 1988. It is the executive branch of government, rather than the judiciary, that reviews local laws to see if they exceed their charter or clash with national or provincial law. One consequence of an inadequate judiciary is that business cannot find redress from arbitrary actions by politicians, subjecting property rights to political rather than judicial enforcement.

Swift and inexpensive justice is not available to all. Judges' are overburdened and their salaries are low. Cases drag on for years, legal education has deteriorated, the judiciary and executive are combined at the local level which is where most commercial disputes are fought, and government officials can claim protection from judicial proceedings except under criminal charges. As a result, elected and/or appointed officials are not personally liable for their actions. As Tariq Banuri concludes: "...there is a widespread feeling in the country that you cannot receive justice, nor protect your basic rights to human dignity, unless if you are powerful and well connected" [Banuri *et al.* (1997), p. 174].<sup>39</sup>

<sup>37</sup>For example, by 1958 twenty-six out of eighty, or 32.5 percent, of the assembly members were ministers.

<sup>38</sup>According to the consensus of the jurists, independence of the judiciary means "That every judge is free to decide matters before him in accordance with his assessment of the facts and his understanding of the law without improper influence, inducement or pressure, direct or indirect, from any quarter or for any reason" [Ali *et al.* (1992)].

<sup>39</sup>A study conducted for the Asian Development Bank concludes: "The system of justice can no longer protect citizens from the excesses of the rich and powerful. Often, well-connected individuals interfere openly in the functioning of the judicial and police system. They frustrate criminal investigations, harass honest officials, and generally encourage and support oppressive and criminal behaviour amongst government officials." Erik G. Jensen, "An Agenda for Effective Governance", MS. Asian Development Bank, October 1997.

### **3.3. Legislative Impact on Financial Management**

“The consideration of the relative priorities among the various ministries with relation to the total amount of available revenues was left to the higher civil servants”. The budget figures, “...cannot be related to anything the legislator or the administrator can see and identify, and it is almost impossible to establish a sequential relationship between a vote and an end result. Since the administrator did not have a current accounting system which could be easily related to programme accomplishment, it was difficult for any system of quarterly allotments to have meaning” [Goodnow (1964), p. 133]. Penalties for not meeting targets do not exist. As a result, supplementing a budget is always possible, since accountability for project performance is weak. Moreover, auditing of accounts takes place with such delays that they are meaningless.<sup>40</sup> There is virtually no way to measure whether budgetary outlays attain the objectives for which they were designed.

## **4. MANAGERIAL DILEMMAS**

To combat the centrifugal forces perceived as threatening national unity, Pakistan's leaders created a command hierarchy that ruled through central government ordinances and decrees, denying local governments the possibility of taking initiative. Once created, the hierarchy became vulnerable to the information asymmetries that inspired the hierarchical design in the first place. Those in subordinate jurisdictions or positions within the central hierarchy do not have incentives to share information needed by senior management to make informed decisions. Strategic nondisclosure became a major barrier to hierarchical performance. This strategic nondisclosure affects intrajurisdictional decision-making, intradepartmental decision-making within the bureaucracy, and it shapes the response of the private sector to economic incentives. While justified as a means of preventing the country from disintegrating, hierarchy ironically prevents the effective use of local information and capacity, adding pressures for non-cooperation and regional disintegration.

Huge discretionary power combined with an absence of standardised methods or formal procedures as well as poor delegation to lower levels of administration contribute to a basic weakness in government's ability to implement and enforce policy. Centralisation of rule enactment by the higher bureaucracy disempowers the lower bureaucracy. Because information needed for individuals to trade effectively will not be available, secrecy in administrative conduct and decision making has significant consequences for the evolution, structure, and performance of the economy.

<sup>40</sup>For example, the 1992 accounts were being audited in 1997.

#### 4.1. 'Inbred' Information

Resistance to sharing information with the public has deep roots in the colonial tradition. Fifty years later, the Pakistani government still enjoys a monopoly over public information; outsiders are not allowed access to state documents or recommendations. The bureaucracy is guarded from public examination, can conceal its errors, and is not reprimanded when it does not perform in the public interest [Waseem (1994), pp. 171–188].<sup>41</sup> As a result, publicly available information is generally suspect. "Information processes were closely linked to familial connections and sources and were not strongly based on any institutionalised process" [LaPorte (1975), p. 165]. LaPorte pointed out that Pakistani elites were surprised by their defeat in the civil war with Bangladesh, although Western reports all predicted that outcome. The reluctance to accept information from sources other than family, friends, or connections to the bureaucracy was the cause. When access to information is a privilege, group inspired unreality—"group think"—results. Since outsiders are denied access to government reports or proposals, alternative proposals are not available.

Hidden information in hierarchies is a principle obstacle to effective governance for Pakistan's leaders. Superiors cannot get the information they require to set goals and expectations for subordinates because subordinates gain extra income from the strategic use of information. Subordinates typically misrepresent revenues of various projects or activities. This problem is even more intractable than the problem of hidden action. Action is easier to detect, and hidden action can be addressed by coercion, fines, confiscation of profits, jail, and even execution. By contrast, for superiors to gain access to information that only subordinates know is difficult and no obvious punishment exists when the information is denied. A system that guarantees profit for the leader while imposing losses on subordinates is not sustainable. The goal of an effective system of public administration is to satisfy incentive compatibility for subordinates while guaranteeing efficient decision making by the superior.

Lower-level officers have no incentive to tell government about the merits of a particular project or policy; instead, they will misrepresent the merits of a project to protect private rents. In the selection of investments, subordinates may be more interested in how much private benefit they derive from the project than with the effective use of resources. Subordinates can kill inefficient projects by telling the truth, but an arrangement does not exist in which they will be rewarded for sharing

<sup>41</sup>For example, even when the Planning Board was set up to be more independent of the CSP than other sections of the central secretariat, its recommendations had to be scrutinised by the CSP, allowing recommendations that might undermine CSP influence to be revised. The British tradition of secrecy in all governmental matters was carefully guarded: CSP officers could withhold information at will. The most important posts, including personnel and finance, were occupied by CSP officers, who through their control of information could influence virtually any governmental decision.

information that results in effective use of resources. Knowing this, central leadership can only with difficulty determine the merits of a project and may only discover the information when a crisis hits. For example, they may learn that educational standards are plummeting without being cognisant of the policies, procedures, or steps that led to the decline. In effect, they only become aware of the outcome when aggregate figures are available—long after the problems emerged.

The profit-maximising use of information by dominant coalitions at the expense of citizens is a rarely identified form of corruption. Hidden information obstructs intrajurisdictional relationships. Because local officials do not have incentives to report accurately on the value of resources they possess or the real use of the resources they request, central officials cannot get accurate information about the level of tax receipts that can realistically be expected, or about the optimal choice of capital investments. A budget-balancing, revenue-sharing rule or scheme is needed to induce local officials to reveal local information. However, there is no reason why the federal government would use the information gained in a way that respects local interests, since central power is unconstrained and unaccountable. When subordinates anticipate self-interested actions by superiors, they will find ways to circumvent their leaders. In anticipation of opportunism by the centre, the local leaders deny information. Hence, the centre does not have sufficient information for the effective choice of public investments.

Can subordinates be compensated for revealing this information by an efficient incentive system? An efficient arrangement to induce provincial authorities to reveal such information would require side payments that take the form of access to training for career development, and local autonomy in the choice of local revenue assignments and expenditures. In other words, subordinates would have to keep some of the extra income they gain from their use of local information. For example, to win support for economic reform, China's central leadership allowed local leaders to become stakeholders in reform, keeping some of the benefits.<sup>42</sup> However, the creation of incentives for effective local management can deprive central management of the tools to use the information once it becomes available.

How can incentives be created to induce subordinates to tell the truth without creating perverse incentives for superiors to use the power opportunistically? Incentive-compatible schemes that would induce subordinates to reveal costs accurately require tying the hands of executive authority to explicit constitutional limits [Root (1989); North and Weingast (1989)]. Unless executive authority is

<sup>42</sup>Che and Qian (1997) have argued that China's industrial reforms have worked because government officials received stakes in the newly privatised firms through hybrid private-public ownership. Morduch and Sicular (1997) have argued that rural reform progressed because officials were granted access to collective land used in high value production. These concessions were an implicit performance based incentive contract, allowing the officials to benefit from increased consumer demand. The question of how the central government can tax the revenue alienated to lower levels will have fundamental constitutional implications.

bound to respect the interests and rights of subordinates, subordinates will underinvest in the economic development of the country.

#### **4.2. Business and Government: The Veil of Secrecy**

The information scarcity that results from unaccountable bureaucratic discretion has had important long-term consequences for the industrial development of Pakistan. Frequent irregular interventions by government officials induces secretive business practices. As a result, the optimal amount of information needed for individuals to trade effectively is not available.

Pakistan's bureaucracy has enjoyed a high level of control over industrial and commercial policy making. Concentration of power to allocate the necessary resources for development was in the hands of a few ministries in the bureaucracy, providing government with far reaching powers to create patronage, yet few powers to control policy outcomes. Government had the power to shape the scope, pattern, and pace of development, by determining the establishment, size, location, and type of industry. Its raw material needs, machinery, spare parts, and expansion, including the formation of plans, scheduling industrial investment, and allocation of foreign exchange, were all at the discretion of government officials.<sup>43</sup> Among the instruments used to direct economic decision making was the central government's control over foreign exchange allocations, taxation, and tariff policy. Government could ensure that these privileges were allocated to groups supportive of the regime or in exchange for rents. Powers, such as the right to introduce or limit the entry of new firms, allow government to affect the level of competition and to charge a bribe to those benefiting from favourable action.<sup>44</sup> To capitalise opportunities for private gain, Pakistan's governments concentrated on those things governments do notoriously badly: industrial planning and neglecting those areas where government is essential—crime control, education, and law.

A discretionary tax code allows government to investigate, harass, and even arrest. Licenses could be cancelled randomly, criminal cases registered, and tax abuse prosecuted against opposition. Income tax investigations, criminal cases, or arrests under security statutes could arise randomly. At any time firms could be prosecuted for filing incorrect tax returns, black marketeering, dealing in illegal foreign exchange, or hoarding wealth abroad. In fact, Bhutto openly stated he would resort to such tactics to keep business in line politically. In addition, government

<sup>43</sup>In practical terms, the decision-making in this field was the preserve of the Planning Commission, the Department of Investment, Production and Supplies, the Licensing Boards, and the Chief Controller of Imports and Exports [Waseem (1994), pp. 171–188].

<sup>44</sup>Even if the government's intention is benign, corrupt bureaucrats can influence the rate of return on capital invested by asking bribes. Bribery effects competition by reducing the number of producers and thereby reducing the number of products available. By altering profit margins, bribery induces exit of firms and the loss of consumer surplus associated with consumption [Romer (1994); Bliss and DiTella (1997)].

controls economic statistics, making the limited but essential data on growth and investment public long after it is relevant.

Government discretion ranges from providing inputs below their opportunity costs, through cheap wages and curbs on unionisation, cheap capital from low-interest loans, import licenses, and overvalued exchange rates that make imported machinery cheap. A liberal fiscal policy, tax holidays, and generous price policies for infant industries, combined with corrupt and inefficient enforcement and widespread tax evasion, often provide start-up capital for entrepreneurs. In effect, the government creates policy distortions, and the political proximity of particular players allows them to gain shelter from the distortions. Therefore, access to government largesse—political proximity—is often the most important source of investment capital in the private sector and the single biggest factor in industrial success.

Government contracts, industrial and commercial licenses, cheap foreign exchange, subsidised agricultural inputs, trips abroad, low-interest loans, and low-cost land became the key to competitive economic strategies in the private sector. Government could alter the economic fortunes of its critics simply by denying access to patronage.

The importance of political proximity creates uncertainty concerning the benefits others will receive from the government. In any transaction, government officials might keep some of the benefits for themselves. However, it is difficult to assess the political proximity of rival groups. Therefore, firms do not know the costs others will incur to gain government favours. Incomplete information about a rival's political influence makes cooperation across sectors and between firms difficult; therefore, interest group influence of business is weak. Moreover, incomplete information results in incomplete markets.

The dictatorial power of government has made it difficult for financial markets to impose discipline over management. Without well-functioning stock markets, the savings of the small saver are not brought into the productive sectors of the economy. Resources are transferred through government patronage which induces business to depend upon family contacts that it does not want to share with others rather than on financial markets. Since tight information management is essential, businesses are typically family affairs; even when corporations are formed, actual control generally remains with family members. Family-owned and family-operated organisations dominate formal corporate structures because informality protects decision making from random plunder by government.

A managing agency system is one common adaptation to uncertainty because it allows a large number of individual companies to be controlled by a small family group, with a single family member dominating the management team. Interlocking family ownership with representatives of closely linked families forming the board of directors is also common. Such family control of executive management positions

allows companies to reduce their vulnerability to political manipulation. With information tightly controlled by insiders, underpricing and overpricing of inputs and outputs can occur so that firm owners may appropriate profits without sharing them with the non-family stock holders. Consequently, "...the stock market value of the company seldom reflects the true value of the company nor do the shareholders get their proper share. As a result, the market is not able to exert its discipline on management, nor is the small saver able to invest fully in the development of business and industry" [Samad (1993), p. 109]. In other words, the same logic for why Pakistan's political leadership neglects the interests of voters applies in the private sector.

Business groups in Pakistan have not been able to consolidate their collective power to constrain government discretion. The different accesses to the government, enjoyed by different groups, inhibits the capacity for collective action and associational development, diminishing the business communities' advisory and advocacy roles. Government acts secretly, refuses to discuss issues, and does not take the proceedings of business councils seriously. Moreover, a critical view of government policy could lead to withdrawal of individual benefits, which makes participation in business associations highly risky. The dominant families stand aloof from business associations, concentrating instead on their contacts for individual benefit<sup>45</sup> such as credit, foreign exchange, and industrial licenses. However, when the fortunes of business families are closely tied to that of the political regime, when politicians leave offices, the property rights of their cronies must be renegotiated.

One consequence of crony-capital accumulation is public resentment of business and of the private sector as a whole, making business activity an easy target of populist attack. The most dramatic example being when the families that Ayub had enriched were attacked by Bhutto. Populist pressures against business are rooted in the perception, not unfounded, that industrial and commercial wealth has its origins in crony deals with government. With opposition groups having a reservoir of resentment towards capitalism to draw upon, it is difficult for government to muster broad public support for liberalisation.

## 5. WHY PAKISTAN'S POOR INSTITUTIONS THRIVE

Successive governments have acted in ways that decrease the overall pie while increasing the share for the leadership. How have these governments retained power without worrying about the adverse economic consequences of the policies they advocate? When the governing elite is small, the government can stay in power by creating private goods for its supporters if national wealth is sufficient. Poor

<sup>45</sup>A war of attrition pits rival families against each other in a struggle to dominate the small domestic market. "This struggle involved individual competition among the top families for the limited benefits available in a relatively small Pakistani market. The major families, allegedly twenty-two, fought among themselves in the process of building their own personal empires. They succeeded in securing positions in key allocation agencies in the system which controlled these benefits" [Kochanek (1983), p. 79].



policies mean that globally less wealth will be created, but since the size of the winning coalition is small in relation to the general population, the government can stay in power simply by using the apparatus of government for dispensing spoils, or private goods.

A small dominant coalition need only consider the effect of a policy in terms of their own utility and can act in ways that disregard the well being of the nation. Profit maximisation is what the governing coalition gets. Compensating the coalitional linchpins is part of the cost of doing business, but compensating the entire population may be viewed as a cost. Under Ayub, for example, industrial wages were a small proportion of expanding industrial profits. Social output and organisational efficiency were evaluated in terms of firm profits captured by leadership and distributed as spoils. The welfare of the general population may actually be viewed as a cost if it interferes with the profits of the governing coalition. Thus, a large broad-based economy with benefits for all—East Asian style—may be costly to the small winning coalitions that dominate Pakistani politics.

Economists use the notion of pareto-optimality to hypothesise a competitive market economy. In such an economy, policies are chosen that make all better off without making some worse off. Under conditions of small-numbers rule, however, pareto-optimality may make it harder for the regime to satisfy the decisive coalitions that brought it to power. Regime supporters, instead, are paid off through access to the fruits of corruption, which politicians can control, since they control the courts and the career paths of the bureaucracy.

While Bhutto altered the pattern of small-number rule by introducing patronage for the masses, he did not eliminate the need to make substantial payoffs to the elite. In fact, his coalition evolved from being based on small farmers to include large landholders. His policies changed the distributional mix rather than the incentives for government to commit itself to broad-based growth. Political survival through disbursement of patronage goods, rather than broad wealth enhancing policies, continued to be the rule.

The logic of patronage-driven politics allocation conflicts with assumptions common to neo-classical economic models about individual behaviour. In standard economic models, coalitions with other traders are unlikely to change the competitive forces that shape prices. A neo-classical actor is a price taker who can accomplish little through collusion or boycotting the market. The market provides all the necessary information to make profit-maximising adjustments to create an effective investment portfolio. Property rights can be legally enforced by a neutral third party and owners have clearly defined rights to all acquired prices and quantities; economic agents can maximise profits without knowing the names or families of particular trading partners. Competitive forces will drive the market to efficient outcomes, making political organisation unnecessary.

However, when political access determines economic outcomes, coalition formation becomes essential to economic success. Firms do not share their expertise

and resource holders have limited knowledge of the government's strategies and goals. Both sides limit information dispersal and disguise motives. Publicly available information is discounted. Government business relations are characterised by strategic misrepresentation; for example, firms that disclose their assets to tax authorities risk levels of taxation that may put them out of business. Common knowledge that leads to mutually beneficial trades is lacking. Political proximity determines the terms of trade and relative prices of scarce commodities, gains from exchange will not be exhausted; specialisation and cooperation will be undermined.

When trade is based on complex coalition formation, conflict over property rights and decision-making authority will abound. In a patronage economy individuals are not price takers, they hold capital that is specific to their particular political connections. By giving market power to favourites, economic success engenders political rivalries and instability. Owners that quit the political coalition to which they are party may lose their property rights. If a regime changes hands, property rights of the dominant coalition may be altered, elevating the stakes of political competition so that political assassinations and violence become routine. Political leadership is unstable because government cannot fully resolve the coordination and information asymmetry that they nurture.

The fringe benefits needed to keep a governing coalition together in Pakistan have continuously increased. First, a small military elite expanded to match the size of the civil service elite. Knowledge about the private perks needed to keep these elites happy was limited to a small inner circle within the government. Monetary advances to build houses, buy imported cars, purchase land at cheap rates, employment of relatives, land schemes in the names of wives and relatives, all added to the weight of corruption that the economy had to bear and created secrets that had to be shielded from the eyes of the public. Since each new regime needed its own set of loyal supporters, the top grew heavy with the weight of several layers of privileged elites, an increasing burden to the economy. Of course, the government had to ensure its supporters that they would not suffer retribution if ever they were caught or singled out for attention, so anti-corruption devices were deliberately weak, further undermining the legitimacy of government. Tax evaders and corrupt government officials are rarely prosecuted.

Regimes that cater primarily to narrow elites are rarely able to collect information about discontent or project failure since they see only loyalists who will tell the regime what it wants to hear [Wintrobe (1997), pp. 20–39]. Those who have something negative to say can find their benefits removed. Since the majority were disempowered, they have no reason to believe that government will solve their problems. A government that cannot provide basic law and order but enriches those who exercise power is not likely to gain broad respect or admiration. Why should people pay taxes to a government that has become irrelevant to their welfare?

## 6. CONCLUSION

Institutional development occurs when the profit-maximising motives of political leaders are inhibited by the existence of institutional incentives for supporting economic efficiency. When those out of power assume that government officials may violate their trust, they will deny superiors needed information to make good decisions and to establish a credible fiscal system.

Economic growth depends on constraining the discretion of those who exercise political authority. A government's reputation for opportunism discourages investment needed for economic growth. By subscribing to policies that produce predictable flows of wealth, the government may actually collect more revenue. The government must be persuaded to acquiesce to institutions that will credibly constrain hierarchical authority in order to ensure accountability, transparency, and predictability. Any attempt by the ruler to squeeze the surplus available to citizens in favour of the ruler's coalition will induce subjects to hide their assets. Peasants will respond by keeping their wealth under a stone in the garden, workers will keep their savings under their mattress. Rather than invest, businesses will keep their profits in overseas bank accounts. No group wants to produce revenues that can be randomly seized by those exercising political power.

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## Comments

This paper represents a textbook approach to problems of governance in Pakistan. The author starts with a framework of analysis based on institutional collapse over the years and then moves on to a discussion of a series of failures of the state managers couched in the context of a corporate model. He draws heavily upon the organisation theory, market approach to politics, and a kind of a moral discourse on the Rousseauian model. It is an interesting paper inasmuch as it seeks to cast a fresh look at politics of Pakistan from the perspective of public policy. However, it is also clear that the author has neither developed a credible explanation of the problems of governance in Pakistan nor a policy framework to overcome its managerial dilemmas.

Following are some of the main observations about the paper.

The author has a poor grasp of facts about Pakistan. While it is clear that he is not an expert on that country, he has also not worked his way through the political history of that country for the purposes of writing this paper. Some examples of factual errors are as follows:

- (i) No constitution or government lasted *for more than a year* during the first ten years of Pakistan.
- (ii) On *October 7, 1958*, Ayub Khan became prime minister and then president.
- (iii) Bhutto became the first *elected president* of Pakistan in the 1970 elections.
- (iv) Bhutto's administrative reforms integrated all services and cadres into a *unified service*, with *twenty* graduation.
- (v) Under the 1973 Civil Service Act, civil servants held office at the pleasure of the *President*.
- (vi) Before 1972, the civilian and military bureaucracy was based on *landed wealth*.

Footnotes are, in almost all cases, not related to the main text, and are therefore redundant. All references are to secondary material and none to primary sources. This has cost the paper much in terms of credibility as a piece of serious research.

There are spurious arguments such as: Jinnah's choice of governor-generalship for himself led to a model of autocratic rule; Bhutto dismissed those military and civilian officers who did not follow his orders; and Ayub launched his military coup to save the country from national disintegration. No explanation is provided to support these assertions.

The paper is set in a conceptual framework of governance. Forcing the Pakistan situation to fit in the prescribed model has not led to a better understanding of the situation in that country. Random listing of deficiencies of the system and various sub-systems creates the piling-up effect, especially as no references are made either to concrete situations to illustrate the relevant points or to rules and regulations to provide the overall context.

There is an unmistakable impression that many paragraphs have been taken straight from a textbook dealing with organisation theory and flow of information in the context of corporate management. Towards the end, there is an unguarded assertion that the reforms being suggested by the (present?) government will transform politics in a fundamental sense inasmuch as political leadership will become responsible and there will be real control over policy outcomes.

One may conclude that a closer reading of the Pakistani scene and more original research is needed. It is suggested that the perspective on governance should be properly contextualised for an analysis of politics in Pakistan.

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