

# Effect of bhutto's socialist policies on pakistan's economy

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## **Introduction**

Bhutto wanted to implement the socialist economic setup, he did not support private ownership, and he encouraged the accumulation of the wealth to be in the favor of public ownership. His idea was to bring revolutionary changes through reform in various sectors of economy and therefore he declared immediate nationalization in January 1972.

The first step towards the policy of nationalization was in September 1973, which was to nationalize 26 vegetable ghee units. Later in 1974, Banks were also nationalized. They were placed in the hands of government to regulate the banking and finance system. 300 small units of cotton ginning, rice husking, flour milling was also taken in control in 1976. The exports and imports were to be controlled by government through trading corporation, basically government wanted to ensure the distribution of wealth and the prosperity among poor. The reforms introduced in the national education system were to benefit the masses so educational institutions throughout the country, including schools and colleges, were nationalized.

He had admired China for bringing, revolutionary change in the country and has held responsible for the development of socialist tendencies in his policies. He wanted to develop closer ties with Beijing, which at that time was a practicing socialist state, for Bhutto it was important to shape the national policies in such a way that would bring Pakistan on the same socialist page with its neighbor. The manifesto of PPP itself has mentioned the four basic principles which shaped Bhutto's political organization. Those

were; Islam as faith, democracy as the policy, socialism as the guiding principle of national economy and distributing power to the people of the Pakistan. These principles were immediately put into practice which showed positive results as well as negative results in short span of time.

## **Bhutto's Belief**

He believed in socialism and nationalization, so he could overlook industries and their potential and work on it, because country was in huge crisis. His belief was in uniting Islamic nations all over the World so we could be one and strong. He believed in bilateralism (being friends with both the super powers of the World at the same time and he did that) and non-alignment. He was with US and as well as Russia. Started friendship and partnership that gave us Pakistan Steel Mills. In his UN speech he tore pages because UN did not take any action when two countries were at war. He went on to make an independent policy, so India and Pakistan could resolve their own issues without external intervention. He believed in independent foreign policy where a country was free to choose relations with any other country and free of external intervention.

## **Background**

Zulfiqar Ali Bhutto ascended to power in 1971, at that time, Pakistan was going through a critical phase, the economy was deteriorating, the loss of the east wing, following the complete termination of intervening trade, Pakistan's international financial position was in severe pressure, Bhutto was in favor of communism and ideology of Karl Marx that is socialism. Later on, the policies that Bhutto adopted were primarily based on the ideas and

principles of socialism. Zulfikar Ali Bhutto came up with the idea of equality and social justice by adopting policies in the favor of common masses. Pakistan People's Party's (PPP) manifesto contained words " Islam is our faith. Democracy is our policy. Socialism is our economy. All power to the people, before using socialist policies.

## **Socialism Definition and Examples**

Socialism is defined as to produce for the satisfaction of human needs and not to make private profit. A Socialist government puts an end to cruelty by nationalizing the labor power and keeping them at the service of the people, they nationalize all transport system by replacing the present anarchy with proper and planned national transportation system that includes roads, rail, air and sea transportation, they have to defend themselves against enemies whether internal counter-revolutionary powers or foreign intervention

In China the government controls and manages the economy. Many companies are owned by the government. In recent years China has shifted more towards capitalism but is officially a socialist country.

In Denmark equality is considered the most important value. They have highest taxes in the World but also has wide range of welfare aids for citizens. The success rate of small businesses flourishing is very high.

Canada has free market economy and have a very extensive welfare system that includes free health and medical care. Canada is ranked in the best top five countries to live in by UN and Human Development Index rankings.

Finland has one of the best education systems and highest living standards in the World (no tuition fees and free meals to students). The literacy rate in Finland is 99 percent and equality is considered one of the most important values in their society.

## **Economic Policy**

Bhutto introduced socialist economic policies in a move to reduce the rich get richer and poor get poorer ratio and he did so by nationalizing most of the industry because he thought that once the industries were under government control, he could control them better and achieve his vision. He completely abandoned Ayub Khan's state capitalism. He set up many cement factories, Pakistan Steel Mills and port Qassim. However, when we compare Pakistan economy during Bhutto's time to the 1960s, there was a decline in the growth of the economy. The global oil crises in 1973 also had a negative impact on the economy but Bhutto's policies proved very beneficial for the poor and the working class and the poverty rate decreased from 46.5% to 30.78%.

Although Bhutto introduced these policies so the government could be in better control of the workers and tools of production, many historians argue that his policies had a devastating impact on Pakistan's economy and damaged investors' confidence and there was also growth in corruption. In 1974, to encourage foreign investment Bhutto said that the foreign companies and industries were excluded from nationalization policies. He also founded the National Development Finance Corporation (NDFC) to encourage investment.

## **Industries**

The Bhutto government took over 31 industrial units under 10 categories of industries when it came to power on January 1st, 1972. The nationalized industries included shipping, iron and steel, engineering, motor vehicles, chemicals, Petro-chemicals cement, gas, electricity and water. The nationalized companies were put under the management of BIM (Board of Industrial Management). The government did assess the nature of the industries they were taking over and took over the units which were already making huge losses and they became a burden on the public sector and strained its resources. Initially the plan was to take over only the management while the ownership remained with the original owners, but in August 1973 the government issued rules which stated that they will take over majority units with compensations. In November 1973 the government issued orders to acquire majority ownership in public limited companies and entire equity in private limited companies. In between 1972-1973 the BIM employed 40, 817 people and the number went up to 64, 643 people in 1976-1977, which was almost a 58% increase, but the production did not increase correspondingly, and this resulted in the decline in labour productivity in majority of units. Salaries, wages and benefits for BIM increased over 322 %. Profits were only available in the cement sector that too because of repeated price increases. Many industries were set up without any economic planning or consideration. For example, the setting up of sugar mill in Larkana which was set up by the PIDC. The sugar mill was set up despite knowing that it would not be viable in Larkana as it is not a cane

growing area and the cane would have to be transported from a huge distance. The mill incurred losses of about Rs. 20 million in its first two years.

The military government appointed a commission in October 1977 to review the profitability of state-owned industries. It reported that only 15 out of 54 were in a position to maintain profitability. The commission also reported that the 54 units suffered total losses of Rs 320. 9 million during the Bhutto period. The labor productivity declined in 39 out of 54 units as per the commission's report. At the end of 1977 there were 12 BIM units with a negative net worth as compared to the 2 BIM units in 1970-71.

## **Agriculture**

The agriculture growth rate throughout Bhutto's regime was 2 % per year as opposed to 6. 4% during the 1960s. In July 1976 the government announced it was taking over cotton ginning, rice husking and flour mills throughout the country. A total of 2815 units were nationalized under this policy which included 578 cotton ginning units, 2113 rice husking and 124 flour mills. Cotton trading corporation, rice Milling Corporation and flour milling corporations were set up to handle the nationalized units. During 1976-77 the rice Milling Corporation did not achieve any objectives in terms of both quality and quantity and the losses amounted to Rs 200 million. The cotton trading corporation was also just a source of unproductive employment.

## **Social Aspects**

### **Education**

Education is a necessity, without it, no society can function. Bhutto initiated many policies which are worth praising and ultimately encouraged the promotion of education, science and technology. The educational reforms were introduced in many of the medical colleges and institutions early in 1972 in 3 phases. In the 1st phase the educational policy was introduced, in 2nd phase education was made compulsory to class 8 and finally in 3rd phase education was made compulsory and free till class 10th. There were around 400 colleges which were nationalized. The teachers were also given a respectful salary with other benefits, another excellent initiative in order to empower the health & education sector of the country, it can be seen that many medical colleges and institutions were established during Bhutto's period. It made number of students choose medical as their major subject.

A grant commission was formed to provide monetary aid to universities and higher education institutes. The commission was responsible to provide and facilitate the institutes of higher education, universities to issue funds required for the development in all relevant fields and researches. The National Book Foundation was also established in 1972 as a service rendering educational welfare organization by Bhutto It is a statutory Corporation created through an Act of the Parliament in order to make books available at moderate prices and to assure uniformity in curriculum of the national educational institutions to develop the course curriculum.



## **Health**

He did number of developments in the sector of health. The prices of medicines used to be very high before. To end this, it was initially necessary to make medicines available within the reach of the common man by bringing down the prices and rationalizing their means. To achieve this goal, an act called the Drug act, 1972, was enacted which prohibited the manufacture, import or sale of any drugs under brand names after March 1973. The policy was to replace brand medicines with generic ones, but later international companies resisted the change.

It was also in Bhutto's regime that doctors were instructed formally to write a proper medical prescription for the patients before this time patients were only given medicines in exchange of the fee charged by doctors. This outdated practice was banned during Bhutto's era and a proper and official prescription became a compulsion to be followed by every medical personnel operating.

## **Foreign Policy**

### **Independent Foreign Policy**

Before Bhutto was prime minister, he had remained Pakistan's foreign minister from 1963-65, and had good diplomatic skills and knowledge of international relations.

After the unfortunate loss of Bengal in the war of 1971, Pakistani spirit was low. Despite its alliance, U. S. had not been able to help with the matter of East Pakistan. So, Bhutto sought an independent policy free of external

interference, and in favor of non-alignment, and went for bilateralism, which means it can have relations with both the World powers, equally.

Bhutto visited the Soviet Union, and his Minister for Industries got the funds for the Pakistan Steel Mills that we have today. But overall, Pakistan's relation with the Soviet remained tense.

### **Bilateralism**

India: Bhutto came up with a new approach to resolving issues with India, which was through bilateral means, without any external intervention.

Simla Agreement was reached in June 1972, which was mainly a peace treaty. Pakistan released the prisoners of war.

But the bilateral approach was overall a fail. Pakistan and India failed to resolve any further issues between the two countries, and Kashmir was largely ignored by Bhutto.

China: Pakistan straightened its relations with China, as the new Pakistani government now shared similar ideology with it. Bhutto had been the foreign minister and responsible for the Sino-Pak boundary pact, which resolved the dispute over borders of China where they met northern boundary of Pakistan. This created friendship between the two countries, which has held to this day. Trade and military agreements were also made afterwards.

In 1974, over Soviet's dispute with China on ideological matters, and Pakistan and Albania were China's only supporters. Pakistan also supported China at the UN, which the latter greatly appreciated.

The U. S. did not appreciate Pakistan's ties with the communist country, and the then U. S. President, Lyndon B. Johnson, threatened to cut off aid to Pakistan. While China had never criticized Pakistan for having relations with anti-communist states.

### **Relations With Islamic Countries And The Middle East**

Bhutto believed in unity of the Islamic World, as evident by the successful 1974 Islamic Summit at Lahore, attended by most of the Muslim countries. This was an important display of unity and support among the nations, on important causes such as that of Palestine.

Pakistan maintained friendly relations with the countries and in turn gained their support, especially Iran and the Arab states. Iran came for Pakistan's aid at the crucial time of the loss of Bengal in 1971.

Pakistan also became part of the Non-Alignment Movement, which is a group of countries independent of "alignment" with any of the World powers. It is the largest assembling of countries after the UN. Following the chaos of Second World War, that had divided the World by bipolarity, countries started to reach for sovereignty and freedom from having to choose an alliance between the two World powers. This appealed to Bhutto's own national ideology greatly, and he was a supporter of Afro-Asian countries as well, which were what constituted the majority of the Non-Alignment Movement. So much so, that he came to be called a Leader of the Third World. It has remained one of his legacies.

## **Nuclear Policy**

After the 1971 war, that Pakistan lost, Pakistan realized how very vulnerable it was against India. Seeing the failure of UN's support for Pakistan in that period, Bhutto took it upon himself to ensure the security and protection of the nation. Within a month of Bhutto's arrival, a meeting of nuclear scientists was held in January 1972 how to go about the nuclear plan.

Much resistance was faced, locally as well as internationally. After World War 2, people had seen the destruction that nuclear power creates. Japan was a prime example. Other people insisted the venture was futile, or too expensive. To which Bhutto is famously known to have said: ' We will eat grass, but we will have the atom bomb.' While internationally, the American and European powers did not want a developing country to be a nuclear power like them. Bhutto believed that matching power to power was the way to maintain peace, and besides, he strongly felt for the Third World countries who were always being squashed by the more powerful countries. Acquiring nuclear power, he believed, would change the case for Pakistan.

Pakistan Energy Commission (PAEC) was formed in 1956 but only started fully operating during Bhutto's regime. He sought help from North Korea and China as well, for arsenals, and from a Dutch company for centrifuge. When India bombed Pakistan in 1974, the need for having a nuclear power to retaliate intensified all the more. Bhutto called Abdul Qadeer and entrusted him with the task of setting up uranium plants, which were planted in Islamabad, Karachi, Dera Ghazi Khan, Kahuta, etc.

In 1976, an agreement with France on purchase of a nuclear processing plant was approved by the International Atomic Energy Agency (IAEA). Karachi had a nuclear plant; it just needed a processing one as well. For heavy water, Canada was negotiated with. In 1977, when Pakistan was at the brink of being a nuclear power, Zulfikar Ali Bhutto was arrested and then eventually executed by Zia-ul-Haq's orders in 1977. But Bhutto had commissioned Edward Stone to build Pakistan Institute of Nuclear Sciences and Technology (PINSTech), in Islamabad's wilderness. 5 MW research reactor was negotiated. Finally, 137 MW nuclear plant in Karachi was inaugurated, when Canada agreed to provide it.

Pakistan's friendly relations with the Islamic countries greatly helped in getting financial aid for the project. In fact, they were major contributors, the likes of Iran and Saudi. Pakistan, the first Muslim state to acquire nuclear power, owed this success to the tireless endeavors of Zulfikar Ali Bhutto.

## **Conclusion**

By looking into various point of views of people we came to conclude that although he wanted to implement policies which would be very beneficial for masses and giving them rights, but they were in short-run and in long-run things took a downturn which was not anticipated. When Bhutto came into power Pakistan was dealing with many issues and was not stable that is why he had problems to stabilize the economy. Poverty did decrease because of him but his policies weakened Pakistan's economy.