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CSS-2025

Qno:3 Critically evaluate the impact of public's nationalization in the economy of Pakistan?

ANSWER :

① Introduction:

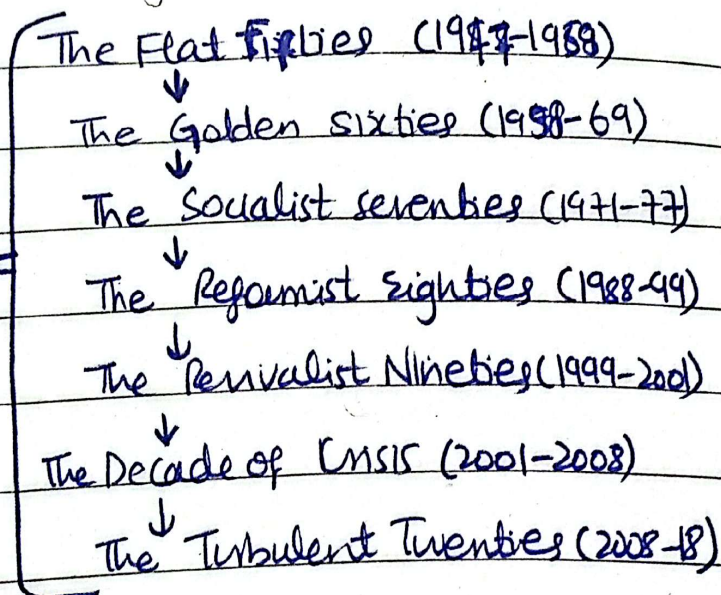
Since its inception, Pakistan's economy has been faltering from one crisis to another. With the exception of Pakistan's golden 1960s when it was considered one of the top 10 Asian economies, the nation's whole economic history has been on the brink of collapse. Even today, Pakistan's economic landscape is a case study of policy missteps, governance failure, and lack of proactive economic management. Also, the transitional nature of Pakistan's political history from industrialization and nationalization to economic liberalization and ad-hocism in its economic policies.

② Historical Background

Following Ayub Khan's era in 1960s which was considered as the decade of development

due to rapid industrialization, Zulfikar Ali Bhutto raised the slogan 'socialism is our economy' with pledges of 'roti kapra, makaan' to bring inclusive equality in the country. However, his nationalization policies led to a huge burden on economy. Though he had well-intentioned economic plans, they failed to buckle down to reach the down-trodden segments in society.

Economic History of Pakistan



③ Impact of Bhutto's Nationalization on Economy:

(a) Short-Term Immediate Impacts

(i) Undermined Private Banking

The link between finance and

productive industry was severed. Bhutto nationalized all private banks in 1974. It disrupted credit inflows and deflected the efficiency of private sector.

(ii) Detoured Private Investment in Large-Scale Manufacturing

Private investment in LSMC (large-scale manufacturing) was decreased as all major companies and banks went into direct state control. Industrial output growth was declined by 50%.

(iii) Decelerate Agricultural Output Growth

Bhutto enacted land reforms in 1972 to redistribute land from feudal lords to tenants. Diversion of investment and rigid farm policies dented the agricultural growth output.

(iv) Spiked Inflation

After the 1971 war, GDP growth reduced in Pakistan. Moreover, inflation

spiked to 15% to 17% in 1972-1977.
Current Account Deficit also widened
and foreign aid added to the already
blooming debt.

(b) Medium-Term Impacts

(i) Weak Trade Competitiveness

Exports fell significantly due to state
regulation and control over economic
sectors. Also, export revenues from
key economic sectors declined drastically.

(ii) External Debt servicing

Pakistan struggled heavily to pay
its bills as debt rescheduling began in
1974. Pakistan business council diluted
the state Bank of Pakistan's role.

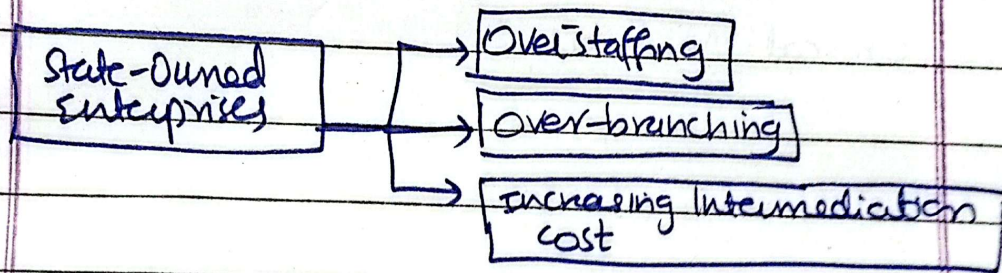
Interest-free rural credit programme also
dented capital flows

(iii) Market Disruption

Shultz also controlled food prices and the export controls, too. By 1980, exports of cotton and wheat had resumed growth due to modernization.

(iv) Loss-Making SOEs

It is not the business of government to do business. Many PSOs continued to operate at a loss. Nationalized industries were adding to the fiscal burden, instead of reducing it.



(C) Long-Term Impacts

(i) Underperforming Public Banks

The decades of non-performing public banks has minimized their efficiency over time.

The public sector control did not allow private sector to function effectively.

(ii) Mounted Macro-Economic Imbalances

Inflation rose to two digits due to state monopoly over economy. Key economic sectors showed stalled growth and poverty increased significantly.

(iii) GDP Growth Decelerated

Macro-economic growth worsened as state-owned enterprises underperformed. Also, fiscal deficits widened to finance subsidies to the state-owned companies.

Critical Analysis

Even the best of policies, regardless of how well-intentioned they are, falter when timely implementation, political continuity and collective ownership are absent. Bhutto's nationalization policy did lift millions out of poverty by breaking the elite capture of 22 families. However, its trickle-down effect could not

grow under one line for the general public

Conclusion

Thus, it could be concluded from the above discussion that Bhutto's nationalization plan had overall negative impacts on the key economic sectors. However, there were some positive impacts, too, which were immediate in nature and had no long-term positive effect on economic sectors. Therefore, Bhutto's nationalization plan institutionalized governments' overcentralization of key economic sectors, only to render them more inefficient, corrupt and cost-expensive.

