

Q NO 2

Elite Capture in developing economy hinders development, and perpetuating inequality.

**INTRODUCTION.** Elite capture refers to a situation in a social setting where powerful individuals or groups dominate the state institutions and resources to serve their private vested interests. These groups can be political, military, corporate and bureaucratic. This phenomenon seriously hinders economic development and worsens the socio-economic inequality with long term serious consequences. These hurdles compound with the situation and are interlinked through multiple channels which include: Misallocation of resources, failed governance, market distortion, fiscal stress and debt accumulation, inequality and poverty, reforms inertia and Brain drain. Poor public service and social instability are also enlisted in this. Underdevelopment and inequality lead to the deep social consequences as well and for the overall situation of society under-developed.

What is the phenomenon of elite capture in developing economies?

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Elite capture is a state in which a economic resources are drained by power elites for their private interests but at the cost of common public.

It undermines economic prosperity by unequal resource allocation, weakens the governance institutions, suppressing competition. Unfortunately, the serious condition of the developing economy of Pakistan has many reasons and the elite capture is one them. Due to this reason, Pakistan is locked in a vicious cycle of debt trap and underdevelopment.

How elite capture hinders the development of a economy and society

1) Misallocation of resources

2) Market distortion

Interlink between  
Elite capture and  
development of a  
economy

3) Fiscal stress due to unequal expenditures and revenues

4) Brain drain and capital flight

### 1) Misallocation of Resources among different institutions

In the state of elite capture, countries with developing status of economy face misallocation of resources among different institutions of the state that govern the day to day administration. Elite favored institutions get subsidies and tax exemptions while, the middle class faces the burden of direct and indirect taxes. Elite capture also formulates the policy making in its favor.

### 2) Market distortion reduces competition

Elite manipulates the market by expanding monopolies. State's policies become unfavorable towards the small and medium enterprises (SMEs). This results in the distortion of market and reduced competition. The growth of private sector halts.

### 3) Fiscal stress due to unequal expenditures and revenues

The fiscal policy sticks between elite and equal development of society. Unequal tax net, and indirect tax implementation on middle and poor class take place. This resulted in budget deficit, shrinking of budgets of education.

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ion, health, and human capital.

#### 4) Capital flight and brain drain due to elite capture.

Developing economies with elite capture replaces merit with patronage and nepotism. Human development declines and talented individuals exit the economy for the better future. Similarly, investors withdraw investments and foreign direct investment does not come inside. These two are called brain drain and capital flight respectively.

#### Developing economy of Pakistan and elite capture

The economy of Pakistan has become casino where elite annually cost Pakistan ~6% of GDP due to rent-seeking privileges and much more. (Dr Kaiser Bengli)

according to the local reports, the top 10% of Pakistan's population holds 39% of national wealth and cost ~6% annual GDP growth due to tax break and market manipulation.

How elite capture in developing economies perpetuate inequality?

1) Social marginalization of middle and poor class

2) Tax burden on middle and poor class

Elite capture and worsening inequality

3) Unequal access to opportunities

4) Intergenerational transmission of inequality

1) Social marginalization of middle and poor class

Less than five percent of elite class drains the resources and compounds the marginalization of middle and poor class, the wider segment of society and economy. Elite policies exclude middle and poor class friendly measures and increases the disparities

2) Tax burden on middle and poor class

Elite capture weakens the progressive and equal tax system. Direct taxes like income

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and property tax remain under-enforced while indirect taxes like duties and GST increases on poor and middle class which narrow the purchasing power.

### 3) Unequal access to opportunities

opportunities of jobs, starting businesses and education concentrated in the hands of elite and poor class remains out from the access of these opportunities. This increase intergenerational inequality.

### 4) Inter-generational inequality due to elite capture

Advantages of opportunities remain locked in elite capture across successive generations. This collapses the social mobility and harmony. Inequality divides the society of elite capture developing economy.

**Conclusion** Elite capture is the chronic issue for the developing economies, especially with weak institutions that severely halts the development and expands the inequality with serious repercussion which is connected to social domain.

Q NO 1

Elucidate Ideology of Pakistan. What were the reasons which contributed for the development of two-nation theory? Discuss in light of Sayings of Muslim nationalist leaders:-

INTRODUCTION. Ideology of Pakistan is deeply entrenched with the vision of its founding fathers particularly Quaid-I-Azam and Allama Iqbal which argue that the Muslims of the Indian Sub-Continent need the separate homeland to peacefully practice the religion, culture and lives under their own laws. Two-nation theory, 1930 Allahabad address of Allama Iqbal, distinct religion, culture, social justice and Islamic way of life are some of the components on which the Ideology of Pakistan is founded. Similarly, the two-nation theory makes Muslims as a separate nation from the Hindus of Indian Sub-Continent. It argues that the social, cultural and religious values of the Muslims are different from Hindus and they both do not co-exist and the separate homeland is inevitable in South Asia for Muslims.

8

The reasons that contributed for the development of two-nation theory.

Reasons that  
Contributed for the development  
of two-nation theory

Religious differences

Distinct civilization  
and culture

Failure of Hindu-Muslim  
unity

Political marginali-  
zation and ~~state~~  
majority rule threat

Congress ministries  
(1937-1939)

Philosophical  
foundations of  
Allama Iqbal

### 1) Religious differences (The core differences)

One of the most serious reasons of the formulation of two-nation theory was the religious differences between Hinduism and Islam (Hindus and Muslims). Islam believes in oneness of God and Hinduism believes in various gods. Social values, customs and rituals are not same. This reason gives the foundation of the two-nation theory in Indian Sub-continent.

"Muslims are the nation by any definition of nation." (M.A. Jinnah)

### 2) Distinct civilization and culture of Indian Muslims

There was a severe differences between Hindus and Muslims in culture and civilization. Their language (Arabic (Urdu) and Hindi) are not same. Dresses, food, customs are not same. Art and literature are different. Islamic civilization is purely different from Indian civilization.

### 3) Failure of Hindu-Muslim Unity under British rule.

Congress claimed the representation of whole Indian population and promoted the interests of Hindus, Urdu-Hindi Controversy (1867)

(10)

and the Congress ministries proved the Hindu majoritarian mindset which not only not safeguarding the muslim interest but also opposing it. Nehru report (1928) was the evidence of this.

#### 4) the threat of majority rule and political marginalization in Sub-Continent

Democracy in post-colonial India meant that the permanent Hindu majority and muslim minority. The muslim feared that their religious cultural and political freedom would be on stake.

"India is a land of different groups belonging to different races, languages and religions."  
(Allama Iqbal)

#### 5) Congress ministries (1937-39) proved muslim fear

The policies of congress exposed its real face under semi-autonomous ministries under British Raj. They introduced Wardha education, Wande matran ~~compulsory~~ compulsory, cow protection law (Hindu-Muslim clashes). M.A Jinnah declared the end day of congress ministries as

day of deliverance.

"Congress ministries are the rehearsal of British Raj in India"  
(M.A. Jinnah)

### 6) Philosophical foundations of Allama Iqbal

The philosophical foundation of Allama Iqbal in the form of 1930 Allahabad address in which he proposed the separate muslim homeland in North western muslim majority regions. It was the tangible intellectual justification of the muslim statehood and two-nation theory.

"I am seeing a separate muslim homeland in North-western muslim majority regions of India where muslim will practice their religion and customs according to them independently".  
(Allama Iqbal (1930))

**Conclusion** The ideology of Pakistan is deeply embedded in two-nation theory. Two-nation theory and ideology of Pakistan were not a sudden ideas but the logical outcome of co-existence in sub-continent for centuries with distinct religions, political, social differ

(12)

-encees. These two ideas succeeded in the acquisition of muslim state in India in the form of Pakistan in 1947 with the visions of the founding fathers Quaid-I-Azam and Allama Iqbal.