Rising crony capitalism

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Usually, entrepreneurs invest their energy, ideas and money to increase the quality of the products they produce, higher knowledge-worker and thereby improve manufacturing process and increase productivity.

But at some point, entrepreneurs think that it is not worth investing additional money to improve and innovate but to invest in buying politicians and get involved in rent-seeking to scuttle the regulatory mechanisms and grow. In return, entrepreneurs get tax breaks, subsidies, grants etc.

So, if the definition of crony capitalism is an economic system in which private businesses thrive not as a result of risk, competition and investment in manufacturing process but as a result of a nexus between the business class and the political class then the history of Pakistan is riddled with such nasty nexus.

For the first time, this nexus came to light soon after the creation of the country. Pakistan was industrially barren and did not have enough industrial capital to propel the country towards development. What it had at that time was the merchant capital that migrated from India. The political and bureaucratic class wanted to turn this merchant capital into industrial capital. Financial institutions such as PICIC and PIDC were established. The state provided patronage to merchant capital in the form of cheap capital (loans with low interest), cheap labour, cheap raw material and cheap machinery (all the duties were waived on the import of machinery) to this merchant class. As a result, 22 families emerged – monopolising the banking, insurance and industrial sector.

No doubt industrialization and rural development took place during the Ayub era. Industrial and agricultural output increased phenomenally as a result of the ‘Green Revolution’ under which high-yielding varieties of rice, wheat, tractors, and tube wells were introduced. But at the same time, stories of corruption and nepotism emerged. There were stories of how the wealth of the rulers increased astonishingly.

The upshot of this nexus was that not only did income inequality soar, but more than five million people fell below the poverty line, worker’s wages dropped by 60 percent and significant economic disparity raised its ugly head between East and West Pakistan, culminating into the dismemberment of Pakistan.

Literature on the nexus between the industrial and political elite shows that this alliance got further clout during Zia’s regime as he injected new life and brought the industrialist class directly into politics just to counter the increasing mass appeal of the PPP.

In the preceding year, crony capitalism has thrived as a result of unprecedented corruption and tax fraud under various
regimes. On the one hand, crony capitalists were given huge tax breaks and on the other hand common people have been burdened with high taxes. Today, Pakistan has very dismal figures; out of 207 million people, only 2.6 million have a national tax number, out of which hardly 1.2 million people are tax filers, out of which 0.7 million pay taxes and 0.5 million file their returns but don’t pay taxes. Very interestingly out of 0.7 million, 90 percent are from the salaried class whose income tax is deducted at source.

The reason for this may be lack of capacity on the part of the state to extract taxes due to ineffective and inefficient institutions. The FBR is said to be riddled with corruption and incompetence. Imran Khan appointed Shabbar Zaidi as head of the FBR but the latter too failed due to opposition to his policies by crony capitalists, and finally he has pretty much left too.

The entire span of Imran Khan’s political struggle was against corruption caused by the unholy alliance between money and politics, which, he thought was responsible for all the ills Pakistan was going through. He frequently accused the Sharifs and Asif Ali Zardari for corruption and stashing billions of looted money away in foreign banks.

In his pre-2018 election campaign speeches, Imran Khan’s entire narrative was built on making Pakistan corruption and nepotism free through iron-clad accountability and building systems on the basis of equality and fair play.

But today what we are witnessing is totally opposite of what he said earlier; corruption is as rampant as before; institutions are in total chaos and Imran Khan himself is surrounded by a charming circle of crony capitalists, who even funded his recent trip to Davos.

This charming circle has caused a severe blow to the economy that can best be illustrated by recent examples of hikes in the prices of flour, sugar, medicines under the PTI government. They have punctured the promise of the PTI that it would not only work for the welfare of the poor but provide justice to common people, work towards building an egalitarian society modelled on the pattern of the state of Medina, and eliminate cronyism and corruption.

The fallout of the alliance among the troika – crony capitalists, political elite and the state big-wigs – operating under the umbrellas of global capital (IMF) has created economic precarity for common people. Inflation has skyrocketed to a record level of 14.6, and the price of flour and sugar jumped from Rs53 to Rs80 and Rs70 to Rs80 per kg respectively during the current government. The prices of medicine have increased by 200 percent based on their cost of production and formula prices, which common people cannot afford to buy.

Reports suggest that there are mafias who manipulated the flour crisis. First, 500,000 tons of wheat were allowed to be exported out of the country during the year 2018-2019 and when the resulting scarcity hit the market, the same mafia advised the prime minister to import up to 0.4 million tons of duty-free wheat to avert the flour crisis in the country. This is sheer bad public policy and the PTI government did not foresee the impending flour crisis in the country. But who cares!

As for medicines, for the first time in the history of Pakistan, the current government allowed pharmaceutical companies to increase the prices of 45,000 medicines up to 15 percent, whereas the prices of 463 hardship medicines
have been increased up to 200 percent – the highest increase in the last 40 years, according to press reports.

The impact of the nexus between the ruling elite and crony capitalists has echoes that go far beyond the sugar, flour and medicine. Big businesses hardly pay taxes, due to which the government has to get more loans. The PTI government has borrowed more than Rs11 trillion in addition to a $106 billion foreign loan. Despite the increase in the tariffs of gas and electricity and the austerity measures the government has taken, Pakistan is facing a shortfall of Rs387 billion.

Amid this muddy economic situation, the IMF has estimated that Pakistan’s economy will slow down to 2.4 percent growth in 2020. But according to Dr Hafeez Pasha, the growth rate of Pakistan is less than 2 percent. Excessive borrowing and a high interest rate of 13.25 percent, which is crowding out the local business, will also likely render 2.2 million people jobless in two years.

If the goal of public policy is to optimize the role of government, promote competition and create jobs, cronyism must be curbed because it wastes the limited resources of governments. At the same time, it reduces the efficiency of the private sector by using subsidies and other incentives that undermine healthy competition.

Therefore, it is high time the government ended the culture of crony capitalism and businesses showed their national responsibility to play a vital and responsible role in the process of overall development to pull the country out of its current economic quagmire.

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