**[Political capitalism](https://www.dawn.com/news/1833127/political-capitalism)**

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THE last couple of years have witnessed a series of changes to decision-making structures of Pakistan’s economy. These include the [creation of the SIFC](https://www.dawn.com/news/1789409), the centralisation of economic governance, and greater economic proximity to the Gulf monarchies, [particularly Saudi Arabia](https://www.dawn.com/news/1832993). The latter is notable because it appears to have shifted (in rhetoric at least) the bilateral relationship from one of aid and security towards economic investments.

These changes were precipitated by a basic symptom afflicting Pakistan’s economy — an inability to earn sufficient foreign exchange to sustain growth, which in turn leads to recurring balance-of-payment crises and enforced slowdowns. It is important to call this a symptom because the actual problem is one of capital and labour productivity, which prevents the economy from producing what it needs to efficiently produce for either the domestic or the international market. However, no one seems to be very interested in solving that particular issue.

In their quest for foreign exchange, civil-military decision-makers are keen on opening up several sectors and industries to foreign investment. However, the chosen mechanism is not through market-based competition, but through state-to-state deals midwifed by the SIFC. The terms at which these deals are being negotiated are unclear at the moment, but, if the country’s bargaining position and its past record is anything to go by, they will likely be lucrative.

Alongside the Saudi deals, increased attention is also being devoted to privatisation processes. Here as well, the government is closely involved in setting up deal structures and providing incentives to various interested parties. Another lesson from the past is that while these government-sponsored deals will help resolve short-term forex liquidity constraints, they may pose payment problems in the future and are unlikely to lift the economy out of its productivity slump.

The current hybrid regime is incapable of undercutting an entrenched, unproductive elite.

Government involvement of such form is not the state-directed development seen in the mid-20th century, when socialist states took on the task of production or when developmental states coordinated private sector activity. Rather, these vaguely correspond to a new type that’s emerged over the last few decades, which Branko Milanovic labels “political capitalism”.

Milanovic, echoing Max Weber, defines political capitalism as “the use of political power to achieve economic gains”. Magnified at the level of the state, political capitalism means that the state will use its ability to exercise discretion, such as in offering sweeteners and incentives, bypassing existing regulations, and creating new regulations and structures, to fulfil certain economic objectives. Private entities will still control the economy (through ownership of the means of production), but the state will use its power to intervene on behalf of favoured interests that help it achieve its desired objectives. In other words, the use of discretion is central to this model.

The exemplar practitioner of political capitalism in today’s world is China. The Chinese economy now largely exists in private hands, but the Chinese state continues to intervene in a discretionary manner, favouring some entities over others to achieve economic or social objectives. In that sense, there is an absence of a uniform ‘rule of law’ in China, in so far that regulations may be applied selectively or not at all depending on the objectives set by the Chinese state.

According to Milanovic, if regulations are applied uniformly (ie, rule of law is practised), then over time the state loses its relative power over the private sector. This is the case we see in most liberal capitalist states across the world. However, if the state becomes too discretionary (and corrupt), it will stifle economic productivity and lead to economic stagnation. The Chinese state is remarkable in that it has struck a balance in using selective discretion to generate high rates of economic growth, though with accompanying inequality. Other countries that have managed this model well include Vietnam and Singapore, both of which have used state involvement to create prosperity. Increasingly, Cambodia, Bangladesh and Rwanda are following a similar trajectory.

There are two key reasons why political capitalism of this sort is less likely to be successful in the Pakistani context. A key ingredient in all successful cases listed is the presence of a technocratic, highly skilled, and motivated bureaucracy. Pakistan’s federal and provincial bureaucracies fail on all three counts: staffed with generalists in commanding positions, with low levels of average competence, and an incentive structure that prioritises self-reward over some larger public service motivation.

Secondly, all successful examples of political capitalism have been highly centralised, one-party states usually created in the aftermath of some major political upheaval, like a socialist revolution that wipes out an entrenched elite and creates an autonomous state, or a major ethnic secession that creates a strong attachment of the population with the state. Pakistani decision-makers salivate at the prospect of a one-party state but without paying attention to those additional ingredients.

Neither is the current hybrid regime capable of undercutting an entrenched, unproductive elite (since the civilian part is drawn from the same elite), nor has it managed to incorporate large swathes of the population through shared national or ideational attachment. If anything, it has managed to do the exact opposite of the latter by marginalising the most popular party and repressing its members and supporters.

These structural weaknesses of low, self-serving competence and weak autonomy and legitimacy are precisely why previous attempts at state-directed interventions in the economy created rent-seeking opportunities for local and foreign investors, rather than helped the economy out of its multi-decade slump. While the actual challenge lies in generating productive human capability through health and education, chasing temporary dollars continues to command most of the state’s attention.

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