

**UNVEILING ELITE CAPTURE:  
A CLOSER LOOK AT ITS IMPACT ON  
PAKISTAN'S ECONOMY AND SOCIETY BY PROF. TAHIR KAMRAN**

## ABOUT BNU CENTER FOR POLICY RESEARCH

In recognition of the growing need to continue contributing to the stock of knowledge through enquiry, research, and interaction, Beaconhouse National University (BNU) set up the Center for Policy Research (BCPR) as the hub for policy-oriented research. Originally focused on applied socio-economic areas, the Center's remit has been expanded to include the entire spectrum of disciplines and fields of inquiry studied at BNU.

BCPR seeks to foster a culture of rigorous, policy-relevant research and analysis. In keeping with the interdisciplinary approach of BNU, the center explores new avenues by taking an integrated view of Pakistan's policy issues in the context of our economic, political, and social realities, their changing dynamics, and global developments. It is also a platform for interacting with organizations, academia, think tanks, and related institutions in Pakistan and abroad.

Thriving under the patronage of eminent personalities, including the Center's Director, Dr. Hafiz A. Pasha, BCPR is in a strategic position to benefit the policy research and practice communities from the unique experience of its diverse faculty. The BNU community has already been contributing extensively to the policy debate in the country, and their counsel has been regularly sought by successive governments in their respective disciplines, both through formal institutional structures and informal exchanges.

Using cutting-edge analytical and critical thinking techniques, often developed indigenously by our experts over the years, BCPR shall furnish evidence-based research to develop specific proposals and recommendations to all relevant stakeholders for informed and inclusive policy-making in Pakistan.

BCPR envisions formulating its recommendations from the lens of its likely beneficiaries, making them primary stakeholders in policy-making exercises. It aims to elicit research to contribute to the ever-evolving narrative for human development and sustainable growth, eventually benefiting the citizens of Pakistan.

“ The Policy Beacon is BCPR's Policy Brief series in which authors analyze contemporary challenges and present recommendations for decision-makers. The series covers all disciplines taught at BNU. ”

## KEY HIGHLIGHTS

- **What is Elite Capture?** Elite capture is described as a corrupt practice where a small group of individuals with superior social and financial status manipulate state and public resources, resulting in adverse effects on the larger population. These elites hold decision-making power due to various factors, such as social class, asset ownership, political influence, and economic position.
- **How Elite Capture is Carried Out:** Elite capture is carried out by entitled elites with *de jure* power, diverting public funds originally meant for the benefit of the general populace toward projects that exclusively serve their own interests. Information asymmetry, ineffective regulation, and inefficient allocation of resources contribute to the persistence of elite capture.
- **Impact of Elite Capture:** In areas where elite capture persists, overall well-being and fairness are compromised. The article highlights how decentralized governments are susceptible to elite capture, as local governments may prioritize the interests of influential elites over the broader community's well-being.
- **Who are the Elites?** The article identifies three ways to identify elites: positional, decisional, and reputational. In Pakistan, the elite is a complex web of power and influence, deeply entrenched in the country's socio-political fabric, comprising various segments with their own vested interests and sources of power.
- **Elites of Pakistan:** The article points out that the real locus of substantive power and governance in Pakistan rests with a conglomerate of business magnates, industrialists, feudal lords, religious figures, and civil and military officials, who work together to safeguard their political dominance and mutual interests.
- **Impact on Pakistan's Economy:** The article discusses the economic impact of elite capture, particularly in the industrial sector. It mentions significant financial losses due to low tax rates and favorable pricing structures benefiting the industrial elite.

## KEY HIGHLIGHTS

■ **Impact on Pakistan's Economy:** The article discusses the economic impact of elite capture, particularly in the industrial sector. It mentions significant financial losses due to low tax rates and favorable pricing structures benefiting the industrial elite.

■ **Need for Fiscal Reforms:** The article highlights the need for fiscal reforms in Pakistan, including addressing the low tax base and regressive taxation. It emphasizes the importance of directing subsidies towards industries that benefit the broader population.

■ **The Role of Independent Power Producers (IPPs):** The article discusses how IPPs have contributed to elite influence over Pakistan's economic resources, with attractive incentives attracting both local and foreign investors.

■ **Way Forward:** The article suggests various strategies to combat elite capture, including reconceptualizing the Charter of Economy, promoting inclusive growth, emphasizing human development, strengthening accountability and transparency, and empowering marginalized sections of society. It also stresses the importance of a balanced civil-military relationship.

In summary, the article highlights the adverse effects of elite capture on Pakistan's economy and society and offers a set of recommendations for addressing this issue and promoting more equitable and inclusive governance.

### What is Elite Capture?

Elite capture refers to a corrupt practice where a small group of individuals with superior social and financial status manipulate state and public resources that results in effecting the well-being of the larger population. These elites hold decision-making power due to factors like social class, asset ownership, religious affiliation, political influence, historical discrimination, party affiliation or economic position.

Elite capture is a form of corruption while social discrimination reflects societal beliefs. Elite capture and state capture are related as they involve diverting public resources for private gain but differ in how power is exercised.<sup>1</sup>

### How Elite Capture is Carried Out?

Elite capture is carried out by entitled elites with *de jure* power; state capture involves elites exercising *de facto* power, such as powerful unions or multinational companies, to influence decision-making processes. Both phenomena contribute to poor governance, creating a vicious cycle with long-term effects on institutional and bureaucratic performance. Generally, this form of corruption occurs when elites divert public funds, originally designated for the benefit of the general populace, towards projects that exclusively serve their own interests.

Elite capture thrives due to information asymmetry, ineffective regulation, or inefficient allocation of resources. As a result, elite intermediaries exploit legal loopholes, such as noncompetitive contract tendering, excessive pricing and overcharging, leading to a decreasing proportion of the government project's budget being utilized for its intended purpose. Consequently, the distribution of public goods and services becomes skewed, depriving certain segments of the population of adequate access. Hamza Alvi highlights the significant concentration of wealth and power in the hands of a small elite in Pakistan. This concentration is often attributed to factors like land ownership patterns, the dominance of powerful families and the influence of the military establishment.<sup>2</sup>

“Elite capture refers to a corrupt practice where a small group of individuals with superior social and financial status manipulate state and public resources that results in effecting the well-being of the larger population.”

<sup>1</sup> Bardhan, Pranab. *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India*. Princeton University Press, 2010. <http://www.jstor.org/stable/j.ctt1r2g0q>. & Acemoglu, D., & Robinson, J. A. (2006).

*Origins of Dictatorship and Democracy*, Cambridge University Press, 2006.

<sup>2</sup> Alavi, H. (1988). “The State in Post-Colonial Societies: Pakistan and Bangladesh.”

The elite's control over economic resources, political institutions and decision-making processes exacerbates inequality and hinders social mobility. Akmal Hussain argues that alliances and collaborations between economic, political, and military elites perpetuate the existing power structures, often at the expense of the broader population.<sup>3</sup> His analysis highlights the connectedness of the various elite groups and their symbiotic relationship.<sup>4</sup>

### Who are the Elites?

Analyst Muneeb Salman identifies three main ways to identify elites: positional, based on official or formal positions held; decisional, based on the authority to make and influence decisions; and reputational, recognized as elite members by other elites and credible observers.<sup>5</sup> When it comes to defining and classifying the individuals and groups that comprise the 'elite' in Pakistan, the definitions and classifications are often obfuscated. Economist Akmal Hussain holds that the Pakistani elite represent a complex web of power and influence, deeply entrenched in the country's socio-political fabric. He argues that the Pakistani elite comprises several segments, each with its own vested interests and sources of power.<sup>6</sup>

### Impact of Elite Capture

In areas where elite capture persists, the overall well-being and fairness of the situation tend to be compromised. The concept of Pareto optimality highlights that in a system, resources are allocated in a manner, where improving one aspect inevitably leads to the detriment of another. Initially, decentralized governments were believed to be capable of overcoming the limitations of a single societal planner.

“Both phenomena contribute to poor governance, creating a vicious cycle with long-term effects on institutional and bureaucratic performance.”

<sup>3</sup> Hussain Akmal, (2023), Pakistan, Institutional Instability & Underdevelopment: State, People and Consciousness, Lahore, Folio Books, pp.56-58.

<sup>4</sup> Ibid.

<sup>5</sup> Munib Salman, "Identifying the 'elite' in elite capture" The Express Tribune, March 25, 2023. <https://tribune.com.pk/story/2407948/identifying-the-elite-in-elite-capture> accessed on 05/10/2023.

<sup>6</sup> Hussain Akmal, (2023), Pakistan, Institutional Instability & Underdevelopment: State, People and Consciousness, Lahore, Folio Books, pp.56-58.

Centralized governments, lacking sufficient knowledge and susceptible to lobbying, were seen neglecting some areas. Theory suggests, however, that involving people in governance and decision-making leads to more efficient, equitable and sustainable public spending.<sup>7</sup>

Many development projects in decentralized governments have fallen short of expectations. When power is decentralized to smaller units, local governments become more susceptible to pressure from interest groups. Failure occurs when these groups prioritize their own interests over the broader community's well-being. In fact, local governments are particularly prone to elite capture, surpassing even national governments in this vulnerability. Efforts to address elite capture in decentralized systems vary, ranging from returning to a highly centralized planning model to providing citizens with project-initiation funds.

In decentralized systems, local governments control the allocation of resources for development projects, which can result in elite capture. This happens when influential local elites divert funds away from public infrastructure, favoring their own interests at the expense of community needs. National governments, with their stronger checks and balances, provide more oversight and scrutiny.

Smaller local governments often struggle with limited access to information, allowing local elites to manipulate decisions. Their constrained administrative capacity further exposes them to elite capture. In some decentralized systems, politicians rely on personal networks with local elites, leading them to prioritize elite interests over those of the general population. Decentralization can weaken civil society organizations, reducing their ability to check the power of local elites. Additionally, the close proximity of local governments to businesses can foster corruption, benefiting politically connected companies over the community's interests.

To combat elite capture, strategies such as promoting transparency, strengthening local institutions, empowering civil society, and implementing robust oversight mechanisms are essential. These strategies should be tailored to the specific challenges of each decentralized system.

“ Efforts to address elite capture in decentralized systems vary, ranging from returning to a highly centralized planning model to providing citizens with project-initiation funds.”

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<sup>7</sup> Oates, W. E. (1999). An Essay on Fiscal Federalism. *Journal of Economic Literature*, 37(3), 1120–1149.

In Pakistan, most political parties show a greater interest in provincial governments. Both the Peoples Party and the Muslim League (N) have leaders who gained elite status through their political influence in their respective provinces.

In both elite capture and discrimination, we observe situations marked by an uneven distribution of power that results in an unjust allocation of public resources. However, it's crucial to distinguish between these two concepts. Elite capture occurs when a small group of privileged individuals unfairly wields significant power, using it to their advantage while depriving others of resources. This phenomenon is inherently linked to the unequal distribution of power. Discrimination, on the other hand, encompasses a broader range of scenarios where certain groups are treated unfairly or differently based on factors such as race, gender, or religion. While discrimination can indeed involve power imbalances, it does not always originate from such disparities.

### **Elites of Pakistan**

When the term elite capture is mentioned without clearly defining the parameters of elite networks and identifying the core decision-making elites in Pakistan, it is crucial to ask who is responsible for elite capture. The mystery surrounding elitism in Pakistan exists because there isn't enough concrete evidence about it. As a result, people are reluctant to acknowledge their own elite status. This has led to a convenient generalization, labeling all graduates of prestigious institutions, like Aitchison and LUMS, residents of affluent areas like Defence Housing Societies and Bahria Town, or members of the bureaucracy and armed forces as elites, without recognizing those specifically responsible for state and societal capture.

Pakistan's locus of substantive power and governance does not rest with the people; rather it lies with Elites Ltd, a conglomerate comprising business magnates, industrialists, feudal lords, religious figures, and civil and military officials. They work in concert to safeguard their political dominance, leveraging it for mutually beneficial exchanges.

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Real estate moguls, sugar barons, influential military figures and the business elite exert their influence on decision-making processes, wielding direct and indirect financial and political support. In return, they secure guarantees that meaningful reforms, which could potentially hinder future support from Elites Ltd, will be effectively thwarted.

Real estate magnates, sugar barons and business elites all exert their influence on political decision-making through financial and political support, receiving guarantees of no meaningful reforms that might jeopardize their future. According to the UNDP's Pakistan National Human Development Report of 2020, titled, The three Ps of inequality: Power, People and Policy, eight groups have captured the state apparatus for personal gains. These groups include state- owned enterprises, the military establishment, high-net-worth individuals (top 1 percent earners), large traders, exporters, banks, industry, and the feudal class.<sup>8</sup>

Asaf Hussain has expanded the concept of elites in Pakistan to encompass military elites that shape it as a praetorian state; bureaucratic elites contributing to its administrative structure; landowning elites establishing a feudal state; industrial elites shaping a bourgeoisie state; political elites driving a democratic state; and religious elites shaping an Islamic state.<sup>9</sup> Ayesha Siddiqa has introduced the concept of mil-bus, arguing that military capital is utilized for military personnel through business ventures of welfare foundations and military's involvement in toll collection, shopping centres, petrol stations and providing land and business opportunities for retired military personnel.<sup>10</sup>

“Replacing the rentier model necessitates reforms that confront elite capture and squarely place the responsibility for change on the elite themselves.”

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<sup>8</sup> Pakistan National Human Development Report on Inequality, April,6,2021.

<https://www.undp.org/pakistan/publications/pakistan-national-human-development-report-inequality> accessed 05/10/2023.

<sup>9</sup> Tahir Kamran, 'Elite capture in Pakistan — II', The News on Sunday, Lahore, June 11,2023.

<https://www.thenews.com.pk/tns/detail/1079048-elite-capture-in-pakistan-ii> accessed, 05/10/2023.

<sup>10</sup> Ayesha Siddiqa, Military Inc. Inside Pakistan's Military Economy (London: Pluto Press,2007).

### How has Elite Capture Impacted Pakistan?

In the fiscal year 2017-18, the industrial sector in Pakistan suffered a significant economic setback, amounting to a staggering loss of Rs 528 billion. This substantial financial downturn, which could have otherwise bolstered tax revenue, was instead relinquished due to a complex interplay of factors, prominently featuring low tax rates and favorable pricing structures entrenched within the sector. The culpability for these economic setbacks was distributed among various segments of the industrial elite, with banks accounting for Rs 196 billion in losses, while the broader industrial sector bore the brunt with a whopping Rs 528 billion in financial setbacks. This translated to an average loss of approximately Rs 332 billion for each group. In aggregate, these losses aggregated to a profoundly concerning total of nearly Rs 2.7 trillion, representing a substantial 8 percent of the nation's Gross Domestic Product (GDP).<sup>11</sup>

During the fiscal year 2023, the industrial sector as a whole displayed a disquieting negative growth rate of 2.94%. Further scrutinizing the data reveals that numerous subsectors within the industrial domain recorded unfavorable growth rates during this period, signaling a broader economic predicament. These subsectors encompassed Textile (enduring a formidable 16.03% decline), Food (contracting by 8.71%), Beverages (diminishing by 3.39%), Tobacco (witnessing a substantial 23.78% reduction), Rubber Products (experiencing an 8.08% downturn), Fabricated Metals (registering a decline of 13.83%), Electrical Equipment (navigating an 11.15% dip), Pharmaceuticals (enduring a notable 23.20% contraction), Wood Products (recording an alarming decline of 66.22%), Automobile (grappling with a significant 42.48% reduction), Iron & Steel (registering a 4.02% dip), Machinery & Equipment (experiencing a notable 46.01% downturn), Chemicals (declining by 6.29%), and Other Transport Equipment (suffering a substantial 38.91% decline).<sup>12</sup>

“Implementing these remedies requires a comprehensive approach involving political will, institutional reforms, and active participation from various stakeholders, including the government, civil society and the private sector.”

<sup>11</sup> Highlights: Pakistan Economic Survey: 2022-23, Economic Advisor's Wing, Finance Division, Government of Pakistan, Islamabad, pp.6-7.

<sup>12</sup> Ibid.

These observed trends underscore the multifaceted challenges that beset the industrial landscape in Pakistan and, by extension, the broader economy. From an analytical standpoint, these figures underscore the pressing necessity for a comprehensive investigation into the policy and economic dynamics contributing to the sector's underperformance. This necessitates strategic interventions aimed at rejuvenating these pivotal segments of the economy, thereby addressing the negative role played by the industrial elite in perpetuating these adverse trends.

The elite capture is perpetuated by their self-perceived role as custodians of extraction, both internally and externally. They believe that this extractive function is crucial for the survival of the state. This extraction takes the form of rents, which are effortless income streams. Relying on substantial external rent for state revenues, often observed in oil-rich countries, Pakistan fits into the rentier economic model. However, it should heed the cautionary tale of Sri Lanka, which failed to save its economy by relying on the rent alone. Pakistan still has an opportunity to change its course. A critical aspect highlighted by Alvi and Ishrat Hussain is the limited investment in productive sectors of the economy. The elite's focus on speculative investments and real estate development diverts resources away from sectors that could foster job creation and sustainable economic growth. This contributes to a lack of industrial diversification, overreliance on imports and widening of the current account deficit.

Pakistan's elite class has displayed proficiency in seeking external sources of income, diversifying their earnings from Western, Chinese, and Gulf countries, all while neglecting the development of domestic capacity. Traditionally, Pakistan's elite have capitalized on the country's strategic location, although the nation's geostrategic importance has now shifted toward the Arabian Sea.

Notably, the United States and Europe maintain an interest in supporting Pakistan's government, partly out of concern for potential refugee crises. This support takes the form of IMF bailouts, deferred oil payments, diplomatic backing, and military assistance. This domestic and international support has allowed policymakers to avoid imposing direct costs on the public to sustain the extractive nature of the state, maintaining the rentier model. Tariq Hussain & Khizra Rana draw attention to the prevalence of rent-seeking behavior and corruption in the elite economy model. The collusion between the political and business elites often leads to favorable policies, monopolistic practices, and the exploitation of public resources for private gain. Such practices create barriers to entry for new businesses, stifle competition and impede economic progress.<sup>13</sup>

However, the elite's assumption that Pakistan's advantageous global position will indefinitely safeguard their interests is being put to the test. Changes in the politics, priorities, and interests of major players like the United States, China, Saudi Arabia, and the UAE are altering the international landscape, diminishing the significance of Pakistan's elite. It is now imperative for them to transition away from over-reliance on rent extraction and focus on implementing structural reforms within the country.

Policymakers are cognizant of the need for fiscal reforms. Currently, a mere two percent of Pakistanis contribute to the income tax base, while over sixty percent of tax revenue is generated through indirect, regressive taxation, disproportionately burdening the poor. Furthermore, a substantial portion of individual wealth (approximately 80 percent) is invested in untaxed residential properties, contributing nothing to the economy's productivity.

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<sup>13</sup> Tariq Hussain & Khizra Rana, "Rent Seeking Policy, Institutions and Corruption in Specific Countries of the World" *Journal of Policy Research*. Vol. 8 No.4 (2022), <https://doi.org/10.52281/zenodo.7635023>

Significantly, most subsidies are directed towards industries such as sugar and real estate, primarily serving the interests of political backers rather than fostering entrepreneurial endeavors. Pakistan's primary export remains blue-collar labor to the Gulf. As Pakistan's elite's influence wanes in the evolving international landscape, their ability to rely on past achievements is increasingly challenged. Replacing the rentier model necessitates reforms that confront elite capture and squarely place the responsibility for change on the elite themselves.

Independent Power Producers (IPPs) have emerged as a significant contributor to the consolidation of elite influence over Pakistan's economic resources. The genesis of this phenomenon traces back to the power policy introduced in 1994 under the aegis of the Pakistan Peoples Party (PPP) government, which subsequently persisted during the tenures of the Pakistan Muslim League-Nawaz (PML-N) to incentivize private investment within the power sector. However, owing to the dearth of both capacity and willingness among local investors, the government was left with little choice but to extend enticing terms to attract foreign investment.

These incentive structures primarily hinged on the assurance of returns indexed to the US dollar, with an additional indexation tied to US inflation rates, rather than reflecting the inflationary dynamics specific to Pakistan. At that juncture, the particularly alluring Return on Equity (ROE) of 17% served as the proverbial icing on the cake, effectively complementing an array of favorable conditions.

Subsequently, local investors succumbed to the allure of these incentives and eventually joined the IPP bandwagon, motivated by the continuation of these mouthwatering returns, which remained intact even following the revision of the power policy in 2002. The key distinction lay in the reduction of the ROE to a still substantial 12%. It further accentuates the enduring allure of lucrative terms within the power sector, indicative of the broader implications of IPPs on the distribution of economic resources and elite interests in Pakistan.<sup>14</sup>

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<sup>14</sup> Faraz Ahmad, "Are IPP contracts original sin?", The Express Tribune, September 11, 2023, <https://tribune.com.pk/story/2435178/are-ipp-contracts-original-sin> accessed 03/10/2023.

**Way Forward:**

- **Reconceptualizing Charter of Economy:** One potential approach is the implementation of a long-standing concept known as the Charter of Economy, although political will for it remains limited. While discussions about the charter historically aimed to prevent the politicization of the economy for electoral gains, a substantive charter must go beyond this and collectively acknowledge and address elite capture as a core politico-economic issue.
- **Promoting inclusive growth:** Prioritize policies and investments that foster inclusive growth and address the needs of the majority. This includes allocating resources for education, healthcare, and social welfare programmes.
- **Emphasis on human development:** Ishrat Hussain has emphasized the detrimental impact of the elite economy model on human development indicators. He argues that the model has prioritized large-scale infrastructure projects, such as highways and energy plants, while neglecting investments in education, healthcare, and social welfare.<sup>15</sup> As a result, Pakistan has struggled to achieve inclusive growth, leaving a large portion of the population marginalized and deprived of basic services.
- **Strengthening accountability and transparency:** Implement effective measures to combat rent-seeking, corruption, and undue influence of the elites. This can be achieved through comprehensive anti-corruption strategies, robust legal frameworks, and independent oversight institutions.
- **Political reforms:** Introduce reforms that promote a more level playing field and ensure a more equitable distribution of power. This may involve measures such as campaign finance regulations, electoral reforms and reducing the influence of money and vested interests in the political system.

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<sup>15</sup> Hussain, I. (1999). Pakistan: The Economy of an Elitist State, Oxford University Press, Karachi.

- **Encouraging diversification:** Promote investment in productive sectors of the economy to foster job creation, reduce reliance on imports and stimulate sustainable economic growth. This can be achieved by providing incentives and support for small and medium-sized enterprises, innovation, and entrepreneurship, while discouraging speculative investments and excessive focus on real estate development.
- **Civil-military balance:** Strive for a healthy balance between civilian and military institutions, ensuring civilian oversight and strengthening democratic institutions. This can be achieved through constitutional reforms, transparent defence budgeting and the promotion of a culture of dialogue and consensus-building between the military and civilian leadership. While recognizing the importance of a strong defence establishment, Akmal Hussain also stresses the need for civilian oversight. He argues for a more inclusive and participatory system that ensures the accountability of the elite and empowers the marginalized sections of society.<sup>16</sup>
- **Empowering the marginalized:** Create avenues for the participation and representation of marginalized sections of society in decision-making processes. This includes promoting inclusivity, diversity, and equal opportunities in all spheres of society, giving voice to underrepresented groups and addressing systemic inequalities.
- **Public Discourse and Awareness:** Foster public awareness and engagement in discussions around elite power dynamics and their impact on society. This can be achieved through an open and free media, access to information and platforms for dialogue that encourage informed citizen participation.

Implementing these remedies requires a comprehensive approach involving political will, institutional reforms, and active participation from various stakeholders, including the government, civil society and the private sector.

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<sup>16</sup> Ibid



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13 KM, Off Thokar Niaz Baig  
Raiwind Road, Lahore-53700, Pakistan  
Telephone: 042-38100156  
[www.bnu.edu.pk](http://www.bnu.edu.pk)