

## **Skill Formation Strategies for Sustaining 'The Drive to Maturity' in Pakistan**

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### **I. INTRODUCTION**

Skill formation is a multi-faceted process. Skills are necessarily (by definition) instrumental—i.e. means for the achievement of a metaphysically defined objective. In Modernity,<sup>1</sup> this metaphysical presupposed 'rational' purpose of existence (both individual and societal) is freedom [Kant (2001)]. In the history of Modernity, the primary source of the growth of freedom has been capital accumulation.<sup>2</sup>

A nation committed to Modernity ('Enlightened Moderation') is necessarily committed to articulating a skill formation strategy which can transform 'human being' into 'human capital'. This transformation requires three distinct types of skills: individual, communitarian and political. This is because capitalism is not just a 'lifeworld' in the Habermasian sense but a system [Foucault (1976)]. Capitalist individuality requires a prioritisation of the preference for preference itself ('choice') over all preferences. This is necessary for the internalisation of capitalist norms (the commitment to profit/utility maximisation and competition to achieve this end). Capitalist individuality must also possess the skills which allow it to rationally identify and pursue its interest in the market and in the firm. It must also have the self-discipline to function as a diligent and co-operative participant in the capitalist work process.

Capitalist individuality flourishes in 'civil society'. The organisation of social and cultural life must facilitate the type of 'the care of the body'<sup>3</sup> which

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<sup>1</sup>Modernity may be defined as a historical era (roughly beginning in the third quarter of the sixteenth century in some parts of Western Europe) when human self-determination is socially accepted as a self-evident end in itself and reason is dedicated to the pursuit of human self-determination. 'Humanity' is the central theoretical construct of Enlightenment (Modernist) epistemology as well as ontology [see Habermas (1989), introduction p. x-xiv].

<sup>2</sup>Marxists argue that capital accumulation has also been a source of repression. But capitalism is seen as a progressive historical stage because it facilitates surplus accumulation [Marx (2002), Chapter XII].

<sup>3</sup>This term is Foucault's, see (1981, Chapter 7).

can make the body an effective instrument of capital accumulation. This requires the design and sustenance of efficient health and education institutions. Further, Adorno and Habermas have also stressed that a crucially important aspect of the functioning of Modernist societies is the organisation of communication, since in their view, ‘unforced’<sup>4</sup> linguistically structured interchange is the only means for sustaining a social consensus [Habermas (1981)]. Thus the sustenance of capitalist order requires the promotion of some skills which can only be generated at the meso level.

Finally, the ‘drive to maturity’ also requires the production of administrative and political skills. The World Bank inspired ‘good governance’ literature has focused on these and the new institutional economics has also sought to spell out the meso and macro level initiatives required for sustaining a flourishing market economy [Wilson (1989)]. The state must have the skill to ensure that the representational (electoral) process does not lead to dysfunctional results, e.g. the election of parties opposed to capitalist developments<sup>5</sup> or the selection of tradition bound, non-entrepreneurial bureaucrats. The political and administrative élite must possess the skills to ensure corporate sector accountability, promote monopolistic competition, enhance opportunities for the articulation of and response to citizens perceptions (the ‘voice function’) design effective incentive systems, reconcile firm preferences with the general social interest<sup>6</sup> and incorporate marginalised groups within market transaction structures.

This paper begins by summarising the views of Adam Smith and Amartya Sen on what skills are required for sustaining capitalist development and the means for developing these skills. Based on their views, these sections also contrast a ‘liberal’ skill formation strategy from a ‘social democratic’ strategy. Section IV then studies the post 1968 writings of Michel Foucault to understand the processes of production and sustenance of these skills in mature capitalism. The concluding section argues that the effective articulation of a coherent national skill formation strategy is frustrated by Pakistan’s subordinated incorporation within global capitalist order. Pakistan, unlike India and China, is therefore likely to share the fate of most developing countries which are experiencing ‘detechnologising’ growth in the sense that the technological gap between them and the metropolitan capitalist countries continues to increase overtime. These countries are becoming increasingly incapable of accumulating ‘social capital’ and of articulating effective capitalist governance processes at the level of the state.

<sup>4</sup>Two recent examples are ‘World Development Report 2004 and 2005’. See in particular the bibliography in these volumes.

<sup>5</sup>It is on this ground that Zakaria (2003) opposes the introduction of democratic reforms in the Muslim world.

<sup>6</sup>That is balance and co-ordinate profit maximisation and welfare maximisation strategies.

## II. SMITH: THE LIBERAL DEVELOPMENT STRATEGY

‘Vision’ is the ideology which presents a picture of things as ‘we want to see them’ [Schumpeter (1954), p. 41-42]. Smith’s vision of things as they ought to be in socioeconomic order originated from the ideology of the Enlightenment. In the *Wealth of Nations*, Smith was fundamentally concerned with the question, ‘what is a just economy?’ He characterised the just society by these features: (1) the existence of a well governed state (to be described below) in a country that has reached a high level of affluence, (2) a community committed to social justice (explained below), (3) perfect liberty for individuals to make their own decisions, (4) a world order in which all nations are parts of a liberal system of free trade [Smith (1759), pp. 350, 354, and (1776), pp. 56, 78-79, 462, 464, 506, 509].

In *Wealth of Nations*, Smith argues that the poor society existing in eighteenth century Britain could be transformed into his ideal state through appropriate policies. Smith identified *physical productivity*, the ability of labour to produce surplus product, as the main instrument for achieving the ultimate goal of the ‘affluent society’. If we resemble the five books of *Wealth* as five aspects of Smith’s thesis, we will see that all of them lead to a single underlying idea; that is productivity. In *Book I*, Smith talks about the determinants and impact of the division of labour on the wealth of nations; the central idea of *Book II* is justification of the ‘virtues’ of savings, investment and capital formation; *Book III* argues that the natural order of productivity growth runs from agriculture to manufacturing to foreign commerce. In *Book IV*, Smith explores the forces that motivate individuals to undertake productive activities; and *Book V* answers question about the role of the state in enhancing productivity growth through the provision of defense, ‘justice’ and other public goods. The whole Smithian discourse focuses on the idea that physical productivity is the foundation on which the wealth of nations can be built [Raymond (1976)].

The key to Smithian social development are the necessary individualistic and social skills required for enhancing labour productivity. What skills did Smith choose? Understanding Smith’s choice of the necessary skills requires an understanding of his conception of *justice*, since it is his conception of justice which grounds his conception of the ideal society as an expression of a comprehensive set of liberal economic principles and policies. To Smith, justice is ‘natural’ in the sense that it directly flows from ‘human nature’, from that ‘general fellow-feeling which we have with every man’ [(1759), p. 149]. Society is a network of mutual interaction and assistance but it also creates a possibility of mutual injury. Justice controls injury so that mutual assistance may flourish and thereby makes possible the development of the higher virtues (love, gratitude, friendship etc.) [(1759), p. 124]. For Smith, justice is distinguished from all the other higher virtues by its legitimate public enforceability and therefore by its necessary connection to government. Thus, Smith’s idea of justice is related to the question, ‘for what purpose shall force be used in society?’ The *Wealth of Nations* is an attempt to express ‘the rules which the

*natural sense of justice* would dictate' [(1759), p. 502] for the economic order so that they may be embodied in positive law [Billet (1976)]. The natural purpose of just governance for Smith is the universalisation of *freedom*. It is so because to him the nature of man is complex—love, fellow feeling, generosity as well 'envy, malice and resentment' constitute human nature [(1776), p. 670]. And the most just guiding notion (enforceable if necessary by public authority) for social life, implied by the nature of 'so imperfect a creature as man' [(1759), p. 28] with differing notions of the good life and of happiness, is freedom; i.e. self-determination, living according to one's own ideal of life and bettering one's own condition in one's own way as far as this is possible.<sup>7</sup>

From this analysis follows the principle of economic liberty as desirable and just because it allows and encourages man's labour to develop in accordance with his capacities and purposes and enables him to maximise the rewards of his efforts. Smith believed that the wealth of society increases most justly when it results from the pursuit of the self-interest of individuals, utilising the most accurate knowledge they have of their own needs and resources.<sup>8</sup> Smith chose the human want for satisfaction grounded in self-love as the chief motivation for the economic behaviour of agents [(1776), p. 14]. The desire for "utility" as the "secret motive" "implanted ... in the human breast" is the *just* means for the achievement of "happiness of all men" [(1759), pp. 241, 338, 341]. Thus, the *just strategy* for economic development requires individuals to be oriented to their self-interest (maximisation of utility/profit) and the just public policies are those that aim at the structuring of society so as to promote this fundamental sentiment among individuals.

The above discussion implies that the *just* social structure would be the one which is most conducive for developing the skill of 'self-interest' orientation and for promoting 'physical productivity' at the same time. That structure is articulated by market society (civil society) based on the principle of *division of labour*. To Smith, the *division of labour* was the key to enhancing productivity. He argues that wealth is produced by the physical productivity of labour, which in turn depends upon the *division of labour*. But as individuals get more and more *specialised* in their productive talents, their mutual dependence on each other also increases for satisfying their particular wants. The extension of division of labour is possible when individuals enter into *exchange* to obtain goods they want for their use. And the expansion of these *exchange relationships* allows

<sup>7</sup>Smith's writes it as: 'It is the proper business of law, not to infringe but to support ... natural liberty' [Smith (1776), p. 308].

<sup>8</sup>Smith speaking of the essence of the relationship between individual economic behaviour and the development of society says that economic activity is motivated by "the universal, constant and uninterrupted effort of everyman to better his condition", and, "every individual ... intends only his own gain, and he is led by an invisible hand to promote an end which was not part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it" [(1776), p. 423].

more people to specialise and, therefore, have *more goods for consumption* in total.<sup>9</sup> The division of labour is determined by the size of the market and the size of the market is dependent upon the amount of goods and number of people willing to engage in exchange. Hence, *social relations* are the *relations of exchange* based on voluntary contracts between individuals where everybody feels that there is a personal benefit from their particular role in exchange. The underlying basis for making these social contracts is their capacity to facilitate individuals to accumulate as much resources as possible in order to realise their personal objectives; that is their ability to articulate their own conception of the good. Such a working model of society organised through *voluntary exchange* among free individuals acting in response to an acquisitive *self-interest*, unhampered by governmental regulation and restrained by the forces of an effectively functioning *competitive market* is a ‘free private enterprise exchange economy’, called Capitalism. Thus, development in the Smithian *just* social order requires citizens to possess at least three skills: (i) since each economic transaction is based on market exchange, the individual must possess the ability to maximise total utility by enhancing the utility generating effect of each transaction on every other transaction, (ii) since each individual has some capacity to toil and imagine (no matter to what degree), he must be able not only to identify his particular productive talent but also to create its market opportunities, and finally, (iii) since each transaction is mutually beneficial, a rational individual must possess self-discipline so as to maximise the available opportunities of exchange and production.

The break-down of religious, feudal and monopolistic barriers to the expansion of free-trade are the fundamental requirements for the Smithian conception of social justice to prevail [Smith (1776)]. It needs a state strong enough to break down all such restrictions leading to large open markets that allows more people to engage in the acquisition of necessary social skills through education, production and exchange. A crucial requirement for the production and sustenance of these necessary skills is the spread of a specific education system which universalises self-interest orientation and market rationalities. As Friedman argues: “a stable and democratic society is impossible without (i) a minimum degree of literacy and knowledge on the part of most citizens, and (ii) without widespread acceptance of some common set of values [i.e. freedom and equality]” [Friedman (1982), p. 86]. Smith regards the state as responsible for the development of a self and market orientation promoting education system. In Smithian theory, state organisation of education is justified because of ‘neighbourhood effects’ (externalities); that is the gains from education accrue not only to the child, but also to his parents and other members of the family and society. The most obvious government action that is justified by this neighbourhood effect ‘is to require that each child receives a minimum amount of schooling of a *specified kind*’ [Friedman (1982), p. 86].

<sup>9</sup>It is in this sense that individual gains cannot be taken apart from social prosperity for Smith.

Government, to Smith, is a justice-institution. What does justice require it to do? Obviously, if justice is equivalent to unhampered market functioning, then a just government does nothing more than developing, sustaining and promoting market institutions. It is clear that the organisation of economic activity through voluntary exchange presumes that government has already ensured (i) the maintenance of law and order to safe-guard capitalist property—i.e. property dedicated to accumulation, (ii) the enforcement of voluntary contracts, and (iii) the provision of a monetary framework to socially articulate capitalist valuation [Friedman (1982)]. Smith, writing on the responsibilities of a just government, argues:

“According to the system of *natural liberty*, the sovereign [government] has only three duties to attend to; three duties of great importance, indeed, ...: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing the exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society”. [(1776), p. 325]

Apart from undertaking these positive actions, a just government must *abstain* from the ‘duty of superintending the industry of private people, and of directing it towards the employment most suitable to the interest of the society’ [(1776), p. 651] because Smith sees two sources of economic injustices in government administration of investment and distribution decisions: first the danger of abuse of an authority unwisely, and second the lack of wisdom to accomplish a task unsuitable to it [(1776), pp. 423, 463]. Thus, the state must possess the skills to (i) protect market institutions through strict regulation of law and order so as to ensure that the control of the economy remains in the hands of entrepreneurs,<sup>10</sup> (ii) expand and promote private execution of transactions through minimising trade-restrictions, rent-seeking etc., (iii) sustain development programmes through the efficient provision of basic infrastructure (public goods, most importantly public education), (iv) mediate market failures so as to minimise third party effects (externalities), (v) guarantee the dominant presence of financial markets to ensure compatibility between financial claims and obligations, the universality of the practice to buy and sell debts and evaluation of these claims in capital markets, for the continuation of capital accumulation, and (vi) ensure the election of parties that have firm belief in capitalist norms through the restructuring of

<sup>10</sup>The implicit political demand for entrepreneurial control of the economy has become so incorporated into the culture of western liberal-democratic societies that few people ever think about it. However, it would not be any less logical to hand the economy to engineers, labourers or religious scholars. The choice depends on underlying values, and liberals value entrepreneurship.

individuals' preferences.<sup>11</sup> In brief, Smithian justice requires state capabilities for reorienting the individual to the pursuit of 'self-interest' and for the 'marketisation of social relationships'.

### III. AMARTYA SEN: THE SOCIAL DEMOCRATIC DEVELOPMENT STRATEGY

All governments today claim to represent the interest of the great majority of citizens subject to their sovereignty. Social democrats lay stress on positive government action for sustaining a welfare enhancing society rather than just protecting basic human rights [Cole, Cameron, and Edward (1983)]. In principle, the belief in the market economy as the most effective means for allocating resources and attaining development is endorsed by social democrats, but they also criticise the market mechanism on several grounds. In their view, this criticism legitimises resource allocation by an agency that is not subject to market forces, i.e. government [Sen (2001)].<sup>12</sup> Amartya Sen while conceptualising the relationship between development and freedom asserts that 'the freedom to enter markets can itself be a significant contribution to development' and that 'it is (even) hard to think that any process of substantial development can do without very extensive use of markets, but that does not preclude the role of social support and public regulation', especially when they can improve 'human lives' [Sen (2001), p. 7]. To Sen, 'the implicit priorities of an 'unfettered' system of market based growth can involve serious neglect of significant human ends to which we have reason to attach importance. However, in arguing for a departure [to any other growth strategy], we have to identify what *these neglects* are, why they arise, and how they may be addressed in the choice of a development strategy' [Sen (1997), p. 2].

The first neglect, social democrats identify, is about the working of conventional general equilibrium models of the economy; that is 'what people do' in disequilibrium conditions is generally concealed in the assumption that the optimising behaviour of individuals is such that they regain equilibrium

<sup>11</sup>Though Smith does not explicitly write on this duty of a government, but it can be argued that it is the logical implication of his ideal of just governance. The explicit demand for capitalist government can be heard in the writing of Thomas Jefferson, Smith's contemporary and one of the leading figures in Modernity. He writes:

"We hold these truths to be *self-evident*, that all men are created equal; that they are endowed by their Creator with inherent and *inalienable* rights; that among these, are life, liberty, and the pursuit of happiness; that *to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or abolish it, and to institute new government, laying its foundation on such principles, and organising its powers in such form, as to them shall seem most likely to effect their safety and happiness.*" [Declaration of Independence, Papers 1:315, emphasis added]

Not accidentally, Smith's *Wealth of Nations* and Jefferson's *Declaration of Independence* appeared on the same year, 1776.

<sup>12</sup>See especially Chapters 1 and 3.

*instantaneously*. However, the process of acquisition of equilibrating activities which require particular *skills* to respond to a given disequilibrium position is assumed away by the presocial rationality of ‘universal utility-maximisation’ [Schultz (1975, 1961)]. Social democrats, therefore, see an active role for government in encouraging *entrepreneurial talent* (called human capital) and the accumulation of this capital through the spread of education and training of citizens that are targeted at enhancing the competency for reallocating resources in response to market signals so that markets can function efficiently.

Secondly, social democrats condemn the free market system on the grounds of the existence of large corporations and trade unions in contemporary societies. This is evidence that the ideal of a free market in which a large number of buyers and sellers interact with none having significant influence is no longer an accurate description of capitalist markets [Cole, Cameron, and Edward (1983)]. Therefore, decisions about who is to be employed and at what wage are not the outcomes of anonymous market forces alone. Rather, the decisions are the products also of the power struggles where people are discriminated against. ‘The crucial challenge of development in many developing countries today includes the need for the freeing of labour from explicit or implicit bondage that denies access to the open labour market’ [Sen (2001), p. 7]. It is on these grounds that social democrats advocate the need to assist the unemployed and low paid citizens through state intervention. Therefore, to Sen social security must also directly count as ‘developmental’ since it assists people to lead freer lives [Sen (1997)], which is the ultimate objective of development [Sen (2001)].

Finally, and most importantly, the issues of distributional equity and disparity are central to the social democratic strategy of development [Sen (1997), p. 5]. To Sen, even very high rates of growth can lead to poverty in the form of physical or social deprivation of marginalised individuals and groups in the society and the ‘concern for social justice cannot be brushed away in thinking about the promotion of economic development’ [(1997), p. 5]. In the social democratic perspective, since markets cannot remove poverty and all citizens have the right to rising material subsistence, therefore it is the primary role of state institutions to redistribute resources towards the deprived segments of society.<sup>13</sup> Poverty for social democrats is not simply the lack of income; it is the deprivation of basic capabilities that arise when people are not actively engaged in society [Sen (2001), p. 87], i.e. when they are marginalised in civil society. Poverty prevents people from being able to participate as citizens in capitalist order and as consumers, employees and entrepreneurs in the markets. Though poverty is largely a relative concept (this perception is a function of the

<sup>13</sup>This is compatible with the second principle of the Rawlsian scheme of justice according to which social and economic inequalities should be arranged so that they are to the greatest benefit of the least advantage groups.



reference group from which the poor take their standards of what comprises the necessities for a decent minimum life), yet when deprivation has easily identifiable characteristics, then resources can be purposefully directed through state institutions aimed at particular targets, e.g. the handicapped, the sick and the old. Famines also deny people the basic freedom to survive [Sen (2001), p. 15]. Sen asserts that “public health and nutritional care, in these situations, are also ‘economic matters’, and since they do influence the variables that make a difference [to economic development], why should that part of the story not come into the choice of development strategy” [Sen (1997), p. 13]. To Sen, people cannot be free if they do not have the resources *to do* what they like to do. The core of Sen’s conception of justice is ‘to favour the creation of conditions in which people have real opportunities of judging the kind of lives they would like to lead’ and to focus ‘particularly on people’s capability to choose the lives they have reason to value’ [Sen (2001), p. 63].<sup>14</sup> In this approach, ‘the focus has to be on the freedom generated by commodities, rather than on commodities seen on their own’ [(2001), p. 74]. The objective of increasing the ‘individual’s real opportunities to pursue her objectives’ requires an account not only of the primary goods<sup>15</sup> (as recommended by Rawls) ‘but also of the relevant personal characteristics that governs the *conversion* of primary goods into the person’s ability to promote her ends’<sup>16</sup> [(2001), p. 74]. Sen summing up the relationship between freedom and development writes:

“Political freedom (in the form of free speech and elections) help to promote economic security. Social opportunities (in the form of education and health facilities) facilitate economic participation. Economic facilities (in the form of opportunities for participation in trade and production) can help to generate personal abundance as well as public resources for social facilities” [Sen (1997), p. 11].

Thus, in Sen’s perspective, (i) specific individual skills are needed for adjusting to market disequilibrium that arise largely due to new market opportunities, and (ii) state functionaries must possess the skills to foster individual capabilities through anti-discriminatory policies and the provision of social security, health and education.

<sup>14</sup>Sen calls it the ‘*Capability Approach of Justice*’ as opposed to the utilitarian approach. Sen tries to articulate Mehboob-ul-Haq’s idea of ‘Human Development Index’ into his system of justice [see Sen, (2001), Chapter No. 3]. Sen equates capabilities of a person with his opportunities to make use of alternative choices.

<sup>15</sup>Primary goods in the Rawlsian scheme of justice include (i) rights, (ii) liberties and opportunities, (iii) income and wealth, and (iv) social basis of self-respect. See p. 60-65 of Rawls (1971).

<sup>16</sup>To make his point clear, Sen gives the example of a disabled person who ‘may have a large basket of primary goods and yet have less chance to lead a normal life (or to pursue her objectives) than an able-bodied person with a smaller basket of primary goods.’

#### IV. FOUCAULT: MANAGING FREEDOM

Michel Foucault's post 1968 writings<sup>17</sup> focus on analysis of the relationship between the 'accumulation of men' and the 'accumulation of capital'. Foucault seeks to show that capitalist order manages<sup>18</sup> this relationship not through repression but through freedom. Capitalist order is primordial<sup>19</sup> for both accumulation processes. Moreover the coexistence of the two regimes of accumulation is regarded by Foucault as a historical necessity [(1970), p. 157–159].<sup>20</sup>

Foucault studies the process of the accumulation of men as an aspect of capitalist governance which is seen by him as a means for the accumulation of both men and capital. Capitalist governance is committed to the production of the type of docile bodies which efficiently maximise utility/profit. The type of docility (that of the monk and the *faqir*) which hampers utility/profit maximisation is unacceptable. Governmental techniques (Foucault calls them 'disciplines') are concerned with the "assuring of the ordering of multiplicities (so as to maximise) both the docility and utility of all the elements of the system" [Foucault (1970), p. 218].

In Foucault's view the processes of the accumulation of men and capital are inseparable, "each makes the other possible; each provides a model for the other" [(1970), p. 221]. There is a specifically capitalist ('primordial') form of the relationship between the two accumulation regimes (the economic and the political). The regime of the accumulation of men (the governance system, the polity) is primordially and intrinsically an aspect of capitalist order. It is not an instrument in the hands of capitalists. Foucault defines the disciplines enabling governance (including all social sciences) as "the unitary technique by which the body is reduced as a political force at the least cost and maximised as a useful force" [(1970), p. 221]. Thus, "capitalist government and the capitalist system of productivity and exchange are two sides of the same coin" [Foucault (1981), p. 141]. Since both men and wealth are valued as capital in capitalist order, both the polity and the economy must block the accumulation of men and wealth in non capitalist forms. This inseparability

<sup>17</sup>Specially *Discipline and Punish* and the *History of Sexuality*.

<sup>18</sup>Foucault was deeply influenced by the student lead uprising in Europe in 1968 and radically changed his social analytic methodology. Honneth (1991) has commented on this in detail documenting Foucault's explicit renunciation of semiological structuralism [see Honneth (1971), Chapter 5].

<sup>19</sup>Foucault sees capitalism as (a) a political order which Foucault describes as a 'regime of the accumulation of men' (b) an economic system which is the regime of the accumulation of capital and (c) an order that is the basis of both these regimes.

<sup>20</sup>This implies that we can understand the process of the accumulation of men and the process of the accumulation of capital only within the context of the whole capitalist order. As Brandon (2000) shows this whole can be explicated not directly but only through a description of its particulars (i.e., the accumulation of men and the accumulation of capital).

of the regimes of power and capital accumulation has been operative since the seventeenth century [(1984), p. 67].

The ‘human accumulation’ regime is based on the production of capitalist subjectivity possessing freedom but amenable to organisation under the singularity of efficiency (i.e. maximisation of profit). As Foucault puts it “power is exercised only over free subjects and only as far as they are free” [Dreyfus and Rabenow (1983), p. 221]. Capitalist order requires a constant sustainable expansion in both utility/productivity and freedom/diversity. Management is concerned with inhibiting the production of “dangerous subjectivity”—subjectivity not governed by the single principal of profit/utility maximisation!<sup>21</sup>—and of reconciling the sometimes conflicting requirements for increasing diversity/freedom and singularity/profit maximisation. This is the essential task addressed by ‘capitalist governance’—governance for the accumulation of capital. The expansion of freedom must serve the need for profit / utility maximisation [Foucault (1983)]. Freedom imposes singularity over multiplicity by creating capitalist subjectivity—i.e. subjectivity “(n)ot subject to someone else by control and dependence (but) tied to (one’s) own identity by self knowledge” [Foucault (1983), p. 221]. In capitalist order I am subjectified by surrendering to my own desires. Management ties diversity to singularity by referring all diversity to the singularity of one’s own desire. “(Capitalist) power applies itself to immediate everyday life which attaches (the individual) to his own identity<sup>22</sup> (and) imposes a law of truth on him which he must recognise in him (self)” [Foucault (1983), p. 212]. This imposition of power from within reconciles the pursuit of freedom with utility—one is free to the extent one is free to maximise one’s own utility and if freedom takes on any other meaning it becomes dysfunctional for capitalism.<sup>23</sup>

The primary source of power in capitalist order is the self [Taylor (1991), p. 73-80]. The need for externally imposed discipline is systematically reduced as individuals become capable of exercising self-discipline in the rational pursuit of their individual self-interest. Capitalist discourses—e.g. economics—‘articulate a general politics of truth’.<sup>24</sup> The single truth—the necessity of perpetual profit/utility maximisation—contextualises and orders the multiple truths produced in capitalist discourses. This contextualisation takes the form of constantly increasing reproduction of the ‘objective truths’ that facilitate continuing profit maximisation. The (self) subjected individual’s body and soul is normalised through the processes of reproduction and circulation of these ‘objective truths’. The capitalist truth regimes seek to ensure that only those

<sup>21</sup>In other words constructing/sustaining capitalist order requires the articulation of a particular synergy between the two regimes of accumulation. Capitalist order cannot be historically constructed or will be historically transcended when this synergy breaks down. On the motion of historical necessity [see Veyne (1997), p. 228-229].

<sup>22</sup>Foucault describes this “dangerous subjectivity” in graphic detail in (1998, p. 125-151)

<sup>23</sup>i.e., interests and desires.

<sup>24</sup>Ansari (2004, p. 74-77) argues that practical freedom cannot take on any other meaning.

forms of being and behaving are accepted as normal and rational which can be subsumed under the singularity of continuing profit/utility maximisation.

The 'capitalist truth' regime (as embodied particularly in economics and the other 'human sciences') thus has two functions:

- (i) Presentation of normalised being and behaviour as 'correct' and 'rational' and therefore provide a legitimate basis for self-discipline.
- (ii) The development of procedures and techniques to gain access to the actual/factual preferences and behaviour patterns of individuals and populations. This is necessary for subsuming the factual truth about specific individuals and population within normative truths produced by 'capitalist truth' discourses.<sup>25</sup>

The efficient performance of both these functions is necessary for managing populations in a manner which functionally balances freedom and utility. Capitalist truth regimes are designed to produce capitalist individuality. This truth regime produces the 'soul' which ensures that exercise of freedom will not endanger 'perpetual capital accumulation'.<sup>26</sup> Foucault sees the capitalist state as the primary agency responsible for producing and sustaining the capitalist truth regime (and therefore capitalist individuality). The state corresponds to the coercive and administrative instruments of power which depend upon "the rudiment of anatomo and bio politics created as techniques of power present at every level of the social body utilised by the family, the army, the school, and the police, individual medicine (etc)" [Foucault (1981), p. 141]. The state "penetrates" society<sup>27</sup> and creates a population<sup>28</sup> [Foucault (1988), p. 83-85]. The capitalist state must govern the society/population which it creates but which also "has its own laws and mechanisms of reaction (and) its possibilities of disturbance" [Foucault (1984), p. 242]. "Power relations are rooted in the system of social networks" [Foucault (1983), p. 224] through institutions such as the school, the hospital and the prison. The state is thus responsible both for capitalist individualisation and socialisation. The state is seen to

<sup>25</sup>Foucault rejects the notion of truth as a universal category. Truth is produced only in historically situated discourses and it is in Foucault's view meaningless to speak of truth outside discourses "which are in themselves neither true nor false" [Foucault (1988), p. 60].

<sup>26</sup>The primary purpose of correction and education in capitalist order, according to Foucault is the inculcation of self-discipline. This requires the production of a capitalist "soul" within each individual through his internalisation of truth(s) produced in capitalist discourse and through observation, surveillance and punishment. "The man described for us, whom we are invited to free is already in himself the effect of a subjection much more profound than himself. A soul inhabits him and brings him to existence which is in itself a factor in mastery of the power exercised over the body. The soul is the instrument and effect of a political anatomy" [Foucault (1970), p. 30]. The capitalist soul is what makes possible self-surrender to the logic of capital.

<sup>27</sup>"Society is individuals in their relations with each other" [Foucault (1988), p. 83].

<sup>28</sup>Population is "(a) group of beings living in a given area" [Foucault (1988), p. 84]. Foucault often uses "society" and "population" interchangeably.

be a particular rationality of governance of individuals and populations. This “rationality of governance” is a primary condition for the formation and continuation of capitalism [Foucault (1983), p. 213–215]. The capitalist state is a new historical phenomenon.<sup>29</sup> Pre-capitalist states did not individualise and socialise.<sup>30</sup> The capitalist state assigns to itself the task of life administration [Foucault (1988), p. 136–138]. Power is exercised in the name of the existence of everyone. The capitalist state manages life and guarantees “the existence of the individual”. Power is “exercised at the level of life and the large scale phenomenon of population” [Foucault (1988), p. 138]. The capitalist state is a totaliser: “Never I think in history has there been such a tricky combination in the same political structure of individualisation techniques and of totalisation<sup>31</sup> procedures” [Foucault (1983), p. 213].

The capitalist state is thus the prime agency for the ‘accumulations of men’ through individualisation/diversity and socialisation<sup>32</sup>/singularity. The state produces and manages a subjectivity and a sociality, both diversity and utility. It also sustains the capitalist truth regimes which articulate management practices on the basis of self discipline. The capitalist state does not control/manage through repression but through dissemination,<sup>33</sup> multiplication, life enhancement and empowerment. It manages free individuals and populations on the basis of the meta-ethical presupposition that freedom is intrinsically valuable and on the condition that it can maximise freedom (of the individual and the population) through capital accumulation. Markets must be managed to demonstrate that profit/utility maximisation is the only rational means for the maximisation of freedom. In Foucault’s perception it is the capitalist state which has the primary responsibility for managing both the regime of the accumulation of men and the regime of the accumulation of capital so that the simultaneous reproduction of capitalist individuality and sociability is sustained.

## **V. SKILL FORMATION AND STATE CAPABILITIES IN PAKISTAN**

Appendix Table 1 summarises the views of Smith, Sen and Foucault with regard to (a) skills required for the construction and sustenance of a mature capitalist economy, (b) the agency they consider responsible for building these skills, and (c) the instruments those agencies should use for this purpose.

<sup>29</sup>This process according to Foucault began in the late sixteenth century [(1983), p. 201–216].

<sup>30</sup>They did not need to do so because their basic function was prohibition and the organisation of the retributive function.

<sup>31</sup>In this text (1983) Foucault uses the word “totalising” and “socialising” interchangeably.

<sup>32</sup>Foucault as we have seen interprets this as “totalisation”.

<sup>33</sup>Habermas (1981) would call this “uncoerced communication”. See also Honneth (1991), Chapter 8.

The Table 1 provides the analytical framework for assessing Pakistan's skill capabilities for sustaining 'the drive to maturity'. We have not considered the work of any neoclassical economist in this paper and, therefore, we have excluded consideration of the neoclassical view that the freeing of markets is itself sufficient for capitalist structural transformation and that extra market policy interventions by civil society or state agents is not required. The neoclassical position has been refuted in the WIDER studies grouped together by Nayyar (2002) which argue that policy liberalisation even when it is growth enhancing does not lead to technological upgrading since it is based on exploiting existing—and not dynamic—comparative advantages. While the growth performance of 'open' economies may sometimes be superior, the skill and technological capability gap between them and the metropolitan capitalist countries has continued to widen during the liberalisation era. "Free" markets are thus seen as efficient only in a static and not in a dynamic sense. It is "non", "super", "extra" market intervention which allowed the USSR, China, India, South Korea and Taiwan to institutionalise skill capability enhancing initiatives at the level of both civil society and the state [Khan and Ansari (1998)]. The work on Smith, Sen and Foucault reviewed in this paper provides partial explanation of this phenomena.

Taking a synoptic view, it is clear that according to Smith, Sen and Foucault, self-interestedness is the key skill necessary for the flourishing of capitalist individuality. Self-interest is seen as being adequately served through maximising appropriately discounted consumption flows in a finite life time and for this, skills necessary for the enhancement of labour productivity are also required. The individual must have the talent to assess the impact of a given transaction on his aggregate consumption and accept self-discipline to achieve this end.<sup>34</sup> One must also have the talent to identify one's 'comparative advantage' and to effectively exploit it given one's market opportunities.

Citizens must have the political skill to select representatives who have the capability of devising effective policies for legitimating capitalist property, ensuring macroeconomic stability, sustaining the market institutional infrastructure and mediating market failures. In the social democratic agenda citizens' representatives must have the ability to promote functional disequilibria response behaviour of market participants, reduce distributional inequities and opportunity related discrimination and incorporate marginalised groups within civil society.

Foucault stresses in particular the 'governmentality skills' required for integrating 'the regime of the accumulation of men (the polity) with the regime of the accumulation of capital' (the economy). These skills are exercised for the simultaneous production of docility/singularity and freedom/diversity. 'Dangerous subjectivity' is to be managed through enrichment not repression. This requires a

<sup>34</sup>Rule utilitarianism provides an eloquent statement of how this can be done. See, e.g., Sen and Williams (1981), p. 74–77.

capitalist normalisation of individuality through the articulation of “truth regimes” and the management of social disturbances.

As we have seen Foucault unambiguously identifies the capitalist state as the premier agency for the production and sustenance of capitalist individuality. This it does through articulating a micro politics which makes the family, the school, the market, the army, the hospital and the prison instruments for the operationalisation of a comprehensive system of disciplining and punishment. Extensive data gathering, ‘truth regime’ embellishment and social provisioning are continually necessary for the capitalist state (unlike any of its predecessors). The capitalist state guarantees individual and social enrichment. Sen also endorses this ‘enrichment’ role of the state through his stress on the need for state subsidisation of health and education and state provisioning of support for the famished, the peer, and the unemployed.

Unlike Foucault, Smith and Sen. do not see capitalist order as a historical construct. In their view it is the natural/rational way of organising individuality and society. But even Smith recognises (and of course Sen does so more emphatically) that capitalist individuality and society can flourish only in a constitutional republic which guarantees capitalist property,<sup>35</sup> universalises capitalist valuation processes (through both finance and education), produces and sustains a critical minimum stock of public goods and services and provides resources for the incorporation of a rising proportion of the marginalised unemployables within civil society. Smith fully endorses these essential functions of the capitalist state (Appendix Table 1 and Section II *passim*).

Pakistan has been following at least that part of Smith’s agenda which calls for a relaxation of state controls on economic transaction since 1988 but the impact of this policy change on skills formation in Pakistan has not been pronounced. Appendix Table 2 shows that Pakistan’s rank on the basis of the UNIDO, Comparative Industrial Performance (CIP)<sup>36</sup> declined from 47th in 1990 to 49th in 2000—it had susen from 53rd in 1980 to 47th in 1990 [UNIDO (2004), Annex Table 1].

This shows that skill capabilities were built up more effectively during “the import substitution” policy era and that Pakistan’s present technological backwardness is caused by production sector inefficiencies fostered by the liberalisation strategy. Policy liberalisation has impacted negatively on skill capability enhancement since Pakistan has become a small open economy and in such economies domestic policy effectiveness is necessarily undermined [Caves, Frankel and Jones (1999)].

<sup>35</sup>For an emphasis on democracy in Sen, see Sen (2001), Chapter 6.

<sup>36</sup>UNIDO classification of industrial branches in terms of technological content is highly aggregate (based on the three digit SITC Classification). Thus assembly operations are classified as ‘high technology’. A more realistic technological content classification would significantly reduce Pakistani MHT/MVA and MHT/MX ratios (especially in 2000). See Ansari (2004), p. 61–63.

Pakistan's CIP score as a percentage of the maximum CIP score fell from 28.37 percent in 1990 to 28.21 percent in 2000. Pakistan's MVA per capita was almost equal to that of India in 1990. By 2000 Pakistan's MVA per capita was 70 percent of Indian and only 18 percent of Chinese MVA. The medium and high technology (MHT) content of Pakistan's net manufacturing output and manufactured exports is significantly lower than that of both India and China—the MHT content of Pakistan's MVA had been almost equal to that of China in 1990. In 2000 the MHT/MVA ratio as a percentage of the corresponding Chinese ratio was 61 percent. In 2000 the value of the Indian MHT/MVA ratio was 65 percent higher than that of Pakistan. Pakistan's performance in terms of the technological content of its manufactured exports (MX) is even more discouraging. In 2000 the Pakistan MHT/MX ratio was 8.9 percent, as against 19.7 percent for India and 44.0 percent for China [UNIDO (2004), Annex Tables].

It is clear that Pakistan is falling behind in terms of the technological skill content of its production and exports on a global level. Recent evidence presented by UNESCO (2005) shows that progress is also not significant with respect to the growth of skills required for participation in capitalist markets and civil society—Pakistan is ranked 135th on UNESCO's HDI index in 2005. Social development indicators compare poorly with most developing countries. During 1975–2003 social sector expenditure as a proportion of total federal expenditure hovered between 39 and 32 percent with wide annual fluctuations and no significant upward trend. Public per capita social expenditures (measured at constant prices of 2003) have also stagnated during this period [SPDC (2004), p. 190]. Most commentators such as the World Bank and the Asian Development Bank recommend an increase in public social expenditure and the adoption of pro-poor policies [World Bank (2002)].

Average Pakistani exists in a state of apathy and powerlessness unwilling to accept responsibility for his own fate and actions (Sartre's 'bad faith'). Capitalist individualism does not flourish naturally in Pakistan and personal autonomy has little social value. As Prof. Manzoor Ahmed writes "all sections of (Pakistani) society are incapable of accepting a rational culture. Pakistan has been anti intellectual and non rational for ages. The people have a proclivity for sentimentalism and a mental setup that cannot sustain rational argument" (2002, p. 61).

Huntington (1991) argues that the "developmental" state run by praetorian élites has played a critical role in the successful modernisation of broadly similar Third World countries such as South Korea, Taiwan and Singapore. Such states have been seen as "Bonapartist" since the 1870s—autonomous of the influence of social classes [Marx (1964)]. The developmental state was a strong state dominating all social forces [Alavi (1972)]. Foreign aid during the cold war period strengthened the autonomy of developmental states such as Singapore, South Korea, Taiwan and India under Nehru and made patronage seeking social classes dependent upon it. The autonomous states became a source of social empowerment and class formation. Evans (1995) argues the



Indian state's "midwifery and husbandry" created a 'national capitalist class' which has now become independent of it.

Imperialism's need for strong, autonomous, developmentalist (anticommunist) states<sup>37</sup> disappeared with the end of the cold war and weakening the nation state has become a central objective of the globalisation/localisation strategy [World Bank (1999)]. The insistence on the universal application of 'Washington consensus' macro and meso type policies and the use of international law governing trade, transfer of technology and investors right to enforce compliance with new liberal norms and practices undermines the social legitimacy of the developmental state and erodes its capacity for undertaking social modernisation initiatives. The imperialist client state is systematically deprived of the resources and the legitimacy possessed by the developmentalist state—needed for the type of institutional restructuring recommended by the World Bank. "(Such) a disempowered state rapidly degenerates into a predatory state where state bureaucrats evolve into private entrepreneurs" [Sobhan (2002), p. 14]. Disempowered nation states presume the existence of strong societies,<sup>38</sup> they do not possess the resources to create such societies.

It is clear that the global hegemon (America) cannot provide adequate resources for developing the skills necessary for sustaining capitalist order (specially flourishing markets) in Pakistan. Personal skills include self-interest orientation, market rational calculativeness, productivity enhancement capabilities, self discipline, disequilibrium responsiveness and the capability for reconciling the potentially contradictory demands of docility and freedom State functionaries must possess skills to institutionally sustain markets, mediate market failures, ensure macro stability, perpetuate the socio-political dominance of capitalist parties, manage distributional inequities and social marginalisation, employ governmentality techniques for the synergic reproduction of plurality (freedom) and singularity (productivity, utility), bar the accumulation of men and wealth in non capitalist forms and the emergence of 'dangerous subjectivity, articulate 'truth regimes' for generating knowledge about the preference of citizen and the molding of these preferences through the capitalist normalisation processes and guarantee continuing enrichment of capitalist individuality and of the social organisation which sustains it.

That the foreign sponsors of Pakistani modernisation are not willing to provide adequate resources for this mammoth task of generating individual and state capabilities required for building a mature capitalist society is evident from a cursory glance at balance of payment's data. In the post 9/11 era (FY 2002 to FY 2005) annual net long term foreign capital inflow (public and private) averaged only about \$ 1 billion, less than 2 percent of average GDP during this period.<sup>39</sup>

<sup>37</sup>Such as Korea, Taiwan and India.

<sup>38</sup>That is a mature civil society capable of sustaining capitalist order.

<sup>39</sup>Net official assistance averaged only about \$ 650 million during the period [Pakistan (2005), Appendix Table 8.1].

The Pakistani state does not have the resources to guarantee the satisfaction of even the basic needs of its citizens and the concept of the autonomous individual with time to invest in social projects and sufficiently enlightened to perceive win-win outcomes is a cruel joke on the reality of shanty town and village life individuality [Nausbaum (1990), p. 186]. Nor does the incumbent Pakistani state elite possess resources to resist global market domination and the distortion this introduces in the patterns of national asset and income distribution. Subordinated global integration undermines nationalist ideology which has historically been the main instrument for the spread of capitalist values. Moreover global subordination and policy liberalisation leading to 'openness' reduces the potency of national macroeconomic policies which have to be synchronised with the policy preferences of the multinationals and the international financial markets. Reducing marginalisation and distributional inequities is not a major concern of global market forces. Bhaduri (2002) has argued that globalisation systemically disempowers and delegitimises nation state policy initiatives. International organisations do not have the resources to play a major role in promoting capitalist individuality and social modernisation. That is why their main functions are 'peace-keeping', surveillance and advocacy—attempting to persuade or pressurise third world governments to adopt and implement neo liberal and neo-institutionalist policies.

On the other hand the system hegemon—America—does possess adequate resources for this purpose. But America remains committed to nationalism and this commitment constrains its ability to sacrifice national profit/utility for achieving capitalist individuation and social modernisation in developing countries. The new realist view that the existence of the hegemon guarantees the existence of a stable, open international system assumes that there is a correspondence between maximising liberty / utility for the hegemon and for all members of this system. If this is not the case the hegemon will define the system's 'public good' in terms of its own national interest and the hegemon's preponderant capabilities will ensure, that more 'good' gets done" [Ashley (1989), p. 273]. America's explicit commitment to the unilateral use of pre-emptive force means that "America will not seek security. (through) the pursuit of a strategy in which institutions, democracy and integrating markets reduce the importance of power politics" [Ikenberry (2002), p. 48-49]. American resources will be used not for capitalist development in the Third World but for resisting immediate challenges to America's global hegemony.

The vast majority of developing states are marginalised within global order in the sense that though they are subject to global surveillance by the hegemon and its global agencies (the UN, IMF, WTO, etc.) the hegemon and the agencies do not provide adequate resources for developing the skills necessary for capitalist individuation and social modernisation. Moreover dilution of national sovereignty and deligitimation of nationalist ideology deprives Third World states of capabilities required for the successful implementation of capitalist individuation and social

modernisation projects. Therefore the managerial and technological skill gap between the metropolitan capitalist countries and the majority of the Third World countries continues to widen at an accelerating rate.

Unlike China, India, South Korea and Taiwan, Pakistan did not build the social capital and institutional capabilities necessary for sustaining capitalist individuation and social modernisation during the Cold War period when America did not have the capability or was willing to tolerate the empowerment of nationalist regimes.<sup>40</sup> Ayub during 1958-1963 and Zia during 1977 to 1988 could have established a developmental state in Pakistan with American support. Musharraf never had this opportunity as is evident from the paltry foreign assistance received since 2001<sup>41</sup> and the increasingly close strategic relationship between India and America, Pakistan is therefore likely to share the fate of the vast majority of developing countries which are experiencing de-technologising growth in the sense that the organisational, production and social skill gap between them and the metropolitan capitalist countries is continuing to widen over time. Thus, spelling out a skill-formation strategy which transforms Pakistan into a mature capitalist order is unrealistic, for this paper has argued that the achievement of capitalist maturity by Pakistan—and by the vast majority of developing countries—is impossible as long as a nationalist America maintains its hegemony within global capitalist order.

<sup>40</sup>This opportunity was effectively exploited by Chiang, Park, Nehru and Mao and the preconditions for capitalist individuation and social modernisation were secured in China, Korea and Taiwan. The outcome in India (specially north and east India) remains somewhat uncertain.

<sup>41</sup>Total long capital inflow, official and private amounted to less than \$3.6 billion during FY 2002 to FY 2005 (OP 2005, Appendix Table 8.1), averaging at about \$772 million annually, i.e., less than 1 percent of GNP.

Appendix Table 1

*Necessary Skills for Mature Capitalist Order: A Summary*

Author	Necessary Skills	Agency to Promote Skills	Instruments for Skill Development
<b>Adam Smith</b>	Self-interestedness	Human Nature/State	Education
	Labour productivity	Market and State	Division of Labour/Marketisation of society through removal of restrictions on production and exchange / Education
	Self-discipline for maximising utility	State and Market	Education and enterprise organisation
	Identify one's own productive talent and create market opportunities	Market	Competition
	Ability to protect and sustain market institutions	State	Monetary policy / Trade policy / Liberalisation / Taxation / Anti-monopolisation
	Mediate market failures	State	Provide public goods
<b>Amartya Sen</b>	Economic stabilisation	State	Monetary and fiscal policies
	Ensure dominance of capitalist parties	State	Restructuring preferences via media/Education
	Self-interestedness	Human Nature	None
	Disequilibrium adjustment and market response skills	State and Market	Human capital formation through education and training and market supportive policies
	Social participation	State	Employment enhancing policies and social security
	Reducing distributional inequities and marginalization	State	Fiscal policy/ Public health and nutrition/Anti-poverty and anti-discriminating policies

*Continued—*

Table 1—(Continued)

**Michel Foucault**

Establish relationship between 'accumulation of men' and 'accumulation of capital'	State	Freedom (not repression) enhancing governance process
Blocking accumulation of men and wealth in non-capitalist forms	State, markets and micro institutions	Discipline and punishment systems
Simultaneous increase in freedom and productivity	State, markets and micro institutions	Management and articulation of 'truth regimes'
Preventing the emergence of dangerous subjectivity	State and micro institutions	Management
Tying all diversity to the singularity of accumulation	State, markets and non-market institutions	Management and 'truth regimes'
Normalisation of individuals	State and micro institutions	Truth regimes
Data gathering and analysis of actual behaviour of citizens	State and micro institutions	Truth regimes
Governing social disturbances and guaranteeing capitalist individuality	State	Social insurance and security system
Guaranteeing social organisation	State	Sustaining 'truth regimes'/Multiplication/diversification/life-enhancement/Management of market

Appendix Table 2

*Pakistan's Global Industrial Competitiveness 1990-2000*

	CIP Score (a)		CIP Rank		MVA per Capita(b)		MHT in MVA %	
	1990	2000	1990	2000	1990	2000	1990	2000
Maximum	0.772	0.833						
Pakistan	0.219	0.235	47	49	56	63	31.9	35.1
India	0.262	0.275	36	40	60	90	55.3	58.4
China	0.323	0.375	26	24	113	350	34.6	57.3

Total number of countries in sample in both 1990 and 2000 = 93.

Source: UNIDO (2004, Annex Tables).

Notes: (a) UNIDO's Comparative Industrial Performance Index (CIP) measures industrial performance on the bases of (1) MVA per capita (2) manufactured exports per capita (3) the share of MVA in GDP. (4) the share of medium and high technology (MHT) branches in MVA and (5) MHT shares in manufactured exports. Scores obtained on the basis of these indicators are aggregated, averaged and standardised to yield an overall CIP score for each country and the 93 countries in the sample are ranked on this basis (conceptual problems involved in the construction of this index are discussed in Ansari (2004), p. 60-61.

(b) In constant 1990 US \$.

Appendix Table 3

*Pakistan's Post 9/11 Long-term Net Capital Inflow*

	2001-02	2002-03	2003-04	(US \$ Million)	
				July-March (P)*	
				2003-4	2004-05
Long-term Net Capital	1280	1035	-200	-291	1775
Pvt. Net Capital	-177	225	691	394	582
Official Net Capital	1457	810	-891	-685	1193

Source: *Pakistan Economic Survey* (2005), Appendix Table 8.1.

\*P = Provisional.

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## Comments

This paper examines the views of Adam Smith and Amartya Sen with a particular focus on their perceptions on markets, society, and skills that are necessary for sustaining an economy's drive to maturity. It then goes on to explore the writings of Michel Foucault with a view to understanding the process of production and required skills in mature capitalism.

My major comment on the paper is that it refutes well established theoretical and empirical economic constructs without any credible justification. In particular, the paper takes an unduly pessimistic view of the market economy and of the process of globalisation.

Take the case of a market economy first. On the theoretical front, rigorous theoretical propositions exist which demonstrate that the competitive markets produce outcomes that are efficient in the pareto sense. To be more specific, the first fundamental theorem of welfare economics establishes that markets allocate resources efficiently. On the other hand, the second fundamental theorem of welfare economics shows that any given efficient outcome can be supported by competitive market mechanism provided redistributions are allowed.

On the empirical front, there is now overwhelming evidence that countries that adopted market-oriented reforms have performed significantly well than those which did not embrace such reforms. A case in point is the recent economic performance of Pakistan's economy that has been attributed to wide ranging structural reforms that focused on strengthening markets and on minimising the role of government in production.

Now take the case of globalisation. Trade and growth theories generally predict a positive relationship between openness to international trade and economic growth. There are a number of channels through which openness is thought to influence economic growth. First, a liberal trade regime enhances efficiency through greater competition and improved resource allocation. Second, greater access to world markets allows economies to overcome size limitations and benefit from economies of scale. Third imports of capital and intermediate goods can contribute to the growth process by enlarging the productive capacity of the economy. Fourth, trade can lead to productivity gains through international diffusion and adoption of new technologies. Empirical studies on the relationship between openness and economic growth have largely supported the view that openness has a favourable impact on economic growth. It is not surprising, then, that the proposition that more

open economies tend to grow faster has gained wide acceptance in academic as well as policy circles.

I have some other comments on the paper.

First, the paper gives the impression that Pakistan is falling behind in terms of technological skill content of its production because of increasing openness to international trade. However, there is a wide agreement that this situation was the outcome of the years of import substitution policies in the past that left little incentive for entrepreneurs to innovate and hence improve the skill content of their products. In contrast, a system of production that is geared towards exports puts pressure on firms to become competitive through innovation and skill development.

Second, the paper argues that despite relaxation of state controls on economic activities, there has been no significant impact on skill formation. However, this claim remains largely unsubstantiated in the absence of a systematic empirical examination to examine the statistical significant of cause and effect.

Finally, from the title, one gets the impression that the paper would spell out key elements of skill formation strategies for sustaining the drive to maturity in Pakistan. However, such an analysis is completely absent from the paper.

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