



The Power Puzzle of Pakistan's Economic Trajectory: Lessons From the 2024 Nobel Prize in Economics

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Abstract: This paper analyses the exceptional influence of power on political and economic decision making, which emanates public policy necessary for the long-term prosperity of any nation. The inspiration of paper was taken from the comparative work of Daron Acemoglu, Simon Johnson, and James A. Robinson on Intuitions and prosperity (Makortoff, 2024). The analysis carried out in this paper based on wide range of literature on historic structures of power, decision, policy making ad role of institutions to create their connect and role in prosperity. The connection derived through seminal theoretical and empirical work to formulate a conceptual framework that evaluates how power of elites, state and institutional capacities influence public policies. After taking the extracts from the work of noble prize winners, this paper is the case analysis of Pakistan, identifying the loopholes in policy and institutional dynamics of Pakistan followed by policy recommendations tailoring political economy of Pakistan. This study infers policies leading to wider and inclusive welfare gains via augmenting non- discriminatory political system to elevate competency of state by inhibiting the elite capture.

Key Words: Pakistan, Power Puzzle, Economic Trajectory, Nobel Prize, Economics

Introduction

Economic and political powers are always considered to be the major concern of any political economy as these are the driving force that comprehend national prosperity and public policy. But prosperity of any nation always rooted under the incentive mechanism generated by institutional design and ascending distribution of power. The mutual relation of both distribution of power and role of institutions are always considered to be the point of discussion in political economies but their disproportion leads to unfair influence on economic decision making (North, 1990), so the distributional conflict to influence economic decisions impact development outcomes of the state (Evans, 1995; Besley & Persson, 2011). By using a wide range of literature analysis this research come up with the reasons that why countries having uniform resources do culminates with the different standards of prosperity? And the answer revealed that, it is the power, influential elites and political settlements that decides the level of prosperity. This chain starts from molding economic policies by political institutions which intern impact incentives and policy outcomes.

Literature Review

a. Institutions, Power, and Long-Run Development: Theoretical Foundations

Institutions, power and long-term development being the principal foundations, as discussed in the literature on institutions (North, 1990), is the idea that highlights how both formal (that includes constitution and law) and informal (can be patronage networks or norms) institutions may evaluate incentives and subsequently, distribute power. Decision-making power and limits are decided by the political institutions, whereas economic institutions generally decide the market incentives, their redistribution and property rights. Acemoglu and Robinson contributed to this idea by depicting how unique development trajectories can be guided by different institutional arrangements which can be both inclusive and extractive (Acemoglu & Robinson, 2012).

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Inclusive institutions are mostly known for generating investment and innovation incentives because they protect property and contract rights, along with the distribution of political power. Extractive organizations are different. They are known for focusing power among a few individuals or groups. Rather than facilitating lucrative investments, they provide incentives for rent extraction, along with the fact that historical power dynamics in many ways affect current policy choices (North, 1990; Hall & Jones, 1999; Acemoglu & Robinson, 2012). The paper also showcases one of the main empirical routes developed partly by the authors and relates how colonial policies in conjunction with settler mortality affect current institutional quality and the economic results. In the colonial origins theory, it is discussed that how extractive institutions were implemented instead of organizations that protect settler-based properties, at places where Europeans faced high death rates. This further helped in explaining cross-country income differences (Acemoglu, Johnson & Robinson, 2019). In addition, the study also served as the foundation for understanding today's cross-country income inequality, decided by the 2024 Nobel committee. The beauty of these historical pathways is that they serve to explain how contemporary policies are directly linked to institutionally imposed constraints.

b. Political Settlements, Elites, and Policy Bias

In addition to colonial legacies, the "political settlements" literature explores how political power arrangements between elites and groups in society help to shape policy outcomes and the ability for reform (Khan, 2010; North et al., 2009). In places where political power is centralized, elites will shape policy to protect their rents (tax regimes, regulatory capture, and public procurement) which diverts public resources away from public goods that are more broadly based to privileges for private benefit. This literature reveals why reforms that may seem to be technically rational fail in their efforts when they challenge elites' interests. Elites' capacity to veto reforms or to extract benefits influences the dynamic - not only what direction policy takes, but whether it is politically feasible or practical, and when reform occurs (Khan, 2017; North et al., 2009).

c. State Capacity, Implementation, and the Role of Institutions in Policy Effectiveness

Institutional quality plays a pivotal role in policy making and its implementation. Whether policies produce the intended outcomes or not depend on various factors such as rule of law, state capacity, bureaucratic neutrality and administrative competence. High capacity states turn out to be more effective in the implementation of regulations along with tax collection and provision of public goods. On the other hand, low capacity states are prone to poor service delivery, patronage and leakages (Mann, 1984; Besley & Persson, 2011). Recent work discusses the interaction between state capacity and political incentives. It was observed that whenever accountability and political competition was broadened by political institutions, state capacity increased contributing to a better policy. An emphasis has also been laid down by the Nobel laureates on this interplay between institutions and capacity to elaborate on prosperity differences.

d. Evidence on Institutions Affecting Specific Policy Domains

Empirical research links institutional characteristics to specific policy outcomes in three areas: public goods provision (education, health), fiscal policy (taxation and debt), and regulatory regimes (property rights and business regulation). For example, countries with more inclusive political institutions build more schools and health facilities, leading to a faster accumulation of human capital; in contrast, extractive regimes tend to underinvest in public goods or use fiscal policy for patronage purposes (Acemoglu & Robinson, 2012; Pritchett & Woolcock, 2004). More recent scholarship has established relationships between institutional decay, democratic backsliding, and stagnating policy reforms and rising inequality (World Bank; other policy reports). The Nobel citation and some related commentaries explicitly link the links to a particular policy space.

e. Mechanisms of Institutional Transmission: Social Norms, Legal Frameworks, and Incentives

How do institutional legacies persist? Mechanisms include: (i) path dependence initial institutional choices shape subsequent incentives; (ii) elite reproduction entrenched groups reproduce advantages through legal and informal means; (iii) norm transmission social expectations about authority and corruption become embedded; and (iv) feedback loops between policy and distribution policies that favor elites reinforce their power and the institutions that support it



(Acemoglu et al. 2001; North et al., 2009). Understanding these mechanisms is essential to designing reforms that change incentives rather than only technical procedures.

f. Global Institutional Transitions and Digital Governance (2020–2025)

It is observed that, in the era of digital transformation, institutions all across the world are going through the process of evolution but a group of researchers believes in the fact that, although the technology driven mechanism of transparency, e-governance and data sharing improves institutions integration and inclusivity but at the same time will cause declines asymmetries of information, limiting rent seeking attitude so, there exist a question to answer that, either these digital governance mechanism to shape the policy receptivity are benefiting nations or undermine the institutional obligation on design (Kraus et al., 2021)

g. Power, Inequality, and Institutional Adaptation

Some school of thoughts examines the adaptive attitude of institutions under the intense pressures of global or national inequality and globalization which harshly impact domestic power balance by eroding representation of labor (public) and intensifying the stake of capital (Rodrik, 2021). At the same time other school highlighted the fact that, institution reform is the outcome of global market, but it is the power blocs that hampers the capacity of redistribution and fiscal transfer of wealth necessary to achieve equity (Milanovic, 2020)

h. The Future of Institutional Economics: Hybrid and Evolutionary Models

The newest wave of institutional economics integrates behavioral and evolutionary approaches to explain persistence and change. Aoki and Binmore (2022) propose a hybrid model where institutional evolution is viewed as a co-adaptive process involving formal rules, social norms, and bounded rationality. These models suggest that sustainable reform depends on incremental change supported by credible commitment mechanisms, rather than abrupt systemic overhauls.

i. Critiques and Alternative Perspectives

The institutions paradigm has faced critiques: some scholars argue that geography, culture, or technological differences also play independent roles or that the institutions-first inference risks overstating causality in the presence of complex co-evolutionary processes. Others emphasize micro-foundations: local informal rules and agency matter and can sometimes compensate for weak formal institutions. The 2024 laureates' work responded to some criticisms by combining historical, cross-country, and micro-level analyses, strengthening causal inference.

j. Recent Syntheses and Policy Implications from the 2024 Laureates' Corpus

The 2024 prize consolidated a body of evidence: strong, inclusive institutions borne out of particular historical processes produce sustained prosperity, while extractive institutions lead to persistent poverty and weak policy. The laureates' work implies that policy reforms should focus on changing the distribution of political power and expanding mechanisms of accountability, not merely introducing new technical policies. Several policy fora (World Bank blogs, policy briefs) echo these lessons and articulate implications for international development programming.

Methodology

This paper uses a mixed approach combining (1) comparative historical synthesis and (2) focused institutional analysis for Pakistan.

Comparative Historical Synthesis: I review seminal theoretical and empirical works (e.g., Acemoglu, et al. 2001; North, 1990; Khan, 2010) and policy commentaries (Nobel documentation, World Bank), extracting mechanisms linking power to policy and cataloguing evidence across countries. The Nobel advanced information and press release are used as anchor documents to interpret the laureates' core claims.

Case Analysis for Pakistan: Using secondary sources (academic articles, policy reports, and reputable media) and the comparative framework, I analyze Pakistan's institutional history, colonial legacies, post-partition elite structures, military civil relations, state capacity patterns, and trace how these factors shape contemporary policy choices in fiscal policy, education, and resource allocation. The Pakistan analysis employs process tracing logic: identifying causal mechanisms, intermediate variables (elite incentives, bureaucratic capacity), and observable policy outcomes.

Limitations: This is a desk-based, theory-driven analysis; it does not present new primary quantitative estimates. Instead, it aims to synthesize existing evidence into actionable recommendations for Pakistan, pointing out where empirical gaps remain.

Gaps in the Literature

Although the institutions-power literature is rich, important gaps remain:

- a. **Micro-Mechanisms in Weak States:** We need more micro-level studies that show how local power dynamics (village elites, patronage networks) aggregate to national policy outcomes, particularly in federal and heterogeneous states.
- b. **Dynamic Intervention Evidence:** There are few randomized or natural-experiment evaluations of interventions explicitly designed to alter elite incentives or political settlements (as opposed to narrow technical fixes).
- c. **Pathways to Inclusive Institutions:** While the literature explains the harmful effects of extractive institutions, less is known about feasible, politically realistic pathways to broaden inclusion in contexts where elites resist change. Comparative narratives often stop short of actionable sequencing recommendations.
- d. **Contextualized Policy Sequencing:** How to sequence administrative capacity building, anti-corruption measures, and political reform is under-specified; the "one size fits all" reform packages can fail without attention to power dynamics.
- e. **Country-Level Case Studies that link Historical Origins to Contemporary Policy in Pakistan:** While global cross-country work is strong, country narratives that combine long-run History, elite biographies, and modern policy choices for Pakistan remain comparatively fewer.

Addressing these gaps requires both careful field research and policy experiments that confront political economy constraints directly.

Analysis

Pakistan Case Study

a. Historical Context and Institutional Inheritance

Institutional progression in Pakistan has distinct footprints that show how power manipulates policy decisions where centralized bureaucracy regulates land revenue mechanism and design legal framework, where the signs of independence of landed elites, concentrated power of certain groups, political settlements, influence of landlords and urban elites are evident and visible, where entire economy is under the grip of administrative structures influenced by colonial legacies. The entire scenario depicts the hindered capacity and delivery of our institutions that we suppose to lead us on the roads of prosperity.

b. Elite Capture and Policy Bias

There are multiple forms of elite capture in Pakistan i.e. patronage of fiscal allocations in budget to divert gains towards elites, favorable regulation mechanism for official documentation like licenses, permits for the privileged elites etc. these kind of activities reduce investment in human capital and infrastructure development that definitely benefits large masses via education, health and other basic facilities while the political elites who rely on patronage networks and coalition politics often lead to short-term, distributive policies over long-term public-good investments. This pattern is consistent with extractive institutional theory, where concentrated power undermines public goods provision (Acemoglu & Robinson, 2012; Khan, 2010)



c. State Capacity and Implementation Failures

Since its inception, Pakistan was experiencing the lopsided state capacity where operational competencies are always a question mark. Local governments and basic needs like education, health, drinking water etc. are the symbols of chronic underperformance. The root cause of such a disastrous performance lies under the implementation gaps, accountability flaws, regulatory enforcements, social transfer leakages, reward and discretionary allocation which definitely need to be addressed.

d. Political Constraints on Reform

As all the power to introduce reforms in any of the basic issue is in the hands of veto players including political stakeholders, business elites and other influential actors so decision to initiate reforms always leads to either half measures or roll backs. The lesson which we should learn from the noble work (economics) of 2024 is that policy makers and policy followers are two separate entities. Making policy is the core responsibility of policy makers not the one who are heading the country (political parties heading a country), and it is the state or leading party is responsible for execution of economic policies (policy followers) formulated by policy makers. State leaders are just the policy followers not the makers .this is the true mechanism that generates consistency in policies leading to prosperity.

e. Pathways and Strategic Entry Points

While significant constraints exist, there are feasible strategic entry points for policy that can generate coalitions for inclusion.

Recommendations

General Recommendations

- ▶ To broaden the political participation and legal protection it is necessary for the state to decline the rent extraction of elites by promoting redistribution of public goods to prioritize institutional inclusivity.
- ▶ It is necessary to conduct the political economy diagnostics as the pre-requisite of designing any political reform because it will not only classify players having veto power but also provide support in revamping the reforms.
- ▶ Visible returns always demand administrative competency so it is mandatory for the state to invest in capacity building by aligning the incentives in a proper manner.
- ▶ In the world of globalization where everything is going digital, it is necessary to introduce fully operational e-governance mechanism to reduce discretionary returns by backing the safety and enforcement of policies.

Pakistan-Specific Recommendations

- ▶ To ensure equity in system and to have broader access of resources and opportunities to general public it is necessary to invigorate the strength of economic and political institutions.
- ▶ Tax base broadening mechanism and additional fund allocation is necessary to finance the public goods.
- ▶ Efficiency and quick delivery are the mandatory requirement of any welfare state so, merit system should be adopted to improve the process of public service delivery where local bodies are fully independent to take actions regarding essential services without any political disruption.
- ▶ Government is always working hard to attract and boost private investment in the economy, but this is not possible without supremacy of law, protection of property rights, transparent contract enforcement and effective dispute resolution mechanism so, implementation of all of these is necessary.
- ▶ To create supportive business environment in the country reforms are required but in a proper step starting from policies of ease of doing business to major fiscal reforms but all should be executed without any external and political pressure.
- ▶ Government should include the representation of civil societies to intensify the impact of policies and spark the civic engagement so, everyone considers themselves to be the part of change and growth.
- ▶ Elite capture is always the major issue of Pakistan creating obstacles in development of equitable policies so, it is necessary to introduce non-privileged mechanism for achieving broader economic development.



- ▶ For acquiring broader benefits; investment should be diverted from privileged to marginalized and underserved communities to promote social justice.

Conclusion

The 2024 Nobel Prize awarded to the laureates affirms a central idea or truth: power shapes policy. Institutional set-ups that concentrate power create incentives for extractive policy and slow growth; inclusive political institutions create the incentives necessary for provision of public goods and sustainable prosperity. For the case of Pakistan, the implication for policy is clear: technical reforms should be complemented with political strategies that change incentives and accountability. Capacity of the state, rule of law, alliances for reform are not simply managerial issues; they are political processes that change the incentives of local leaders. In addition, future empirical work should analyze micro mechanisms and conduct dynamic studies of intervention by utilizing country-specific sequencing strategies to tackle the political economy of reform head on.

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