

# UNMASKING THE HIDDEN COSTS

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In the corridors of power in Pakistan, a financial challenge of staggering proportions lurks beneath the surface—an issue stemming from unnecessary expenditures and an abundance of nonproductive government employees. As politicians take pride in appointing their favourites to public sector roles, the burden ultimately falls on the taxpayer, who remains voiceless in the process. Yet no one looks at what the cost of this dirigiste politics is! Not only are most political employees generally employed in positions where they are not productive, they are also a drain on the budget. An employee when hired represents a stream of commitments from the budget for her lifetime and beyond that, granted guarantees of lifetime employment, pensions and pension to surviving widows as well as unmarried daughters – besides all the invisible benefits.

According to the Pakistan Bureau of Statistics, the latest headcount of federal government employees stands at a staggering 1,374,911 as of December 2022. This number includes civilians, armed forces and autonomous/semi-autonomous corporations.

The financial implications are daunting, with the cost of paying these employees reaching approximately Rs. 3 trillion, and pensions adding an additional Rs. 1.5 trillion to the burden. Project workers, government company employees, and others contribute an estimated Rs. 2.5 trillion, while the military's wages and salaries consume around Rs. 1 trillion.

In a recent study by the Pakistan Institute of Development Economics (PIDE), under the leadership of Dr. Nadeem Ul Haque, the invisible costs or benefits associated with public servants are brought to light. The financial benefits, excluding salaries and pensions, for class-4 employees (BPS I-4) average around Rs. 9.7 million,

with an operational cost of Rs. 10.8 million, resulting in a total undocumented cost of Rs. 20.5 million. Supporting staff (BPS 5-16) fares even higher, enjoying an average of Rs. 40.9 million worth of benefits, not visible in their pay slips. Meanwhile, the perks and privileges of BPS 17 and above skyrocket to an average of Rs. 470 million, shattering the common perception of low salaries in the public sector.

These perks and benefits of civil servants are contradictory to the common perception of low salaries in the public sector. In fact, there are a lot more which never are reflected in their salary slips. These in-kind benefits, which have never been accounted for in the total cost of public servants includes Special Allowances, Medical Reimbursement, Job Security Discounts. Similarly, operational expenses (non-salary expenditures) such as the cost of physical space, cost of electricity, cost of telephone and internet, maintenance cost, cost of security for office space, etc. have never been considered as a cost of public servant. The PIDE study argues that if these in-kind benefits were monetised, it would dispel the myth of low public sector salaries.

Furthermore, the study estimates the length of service for public sector employees and the corresponding years of financial liabilities to the government. On average, class-4 employees serve for 39 years if they retire in 60s, and 25 years of services if they retire after serving 25 years - with government liabilities extending to 53 years. On average supporting staff (BPS 5-16) serves for 32 years, with liabilities for 47 years, while BPS 17-19 employees serve for 29 years (if they retire in 60s), with government liabilities persisting for 44 years.

In Pakistan, high-ranking officials often make politically

motivated appointments without assessing the actual need or planning. These poorly executed recruitments not only fail to enhance public sector performance but also burden the government economically. Inefficient recruitment procedures contribute to the low productivity of government departments, particularly autonomous bodies. The costs of such recruitment can be substantial, both in terms of financial losses and the opportunity cost of lost opportunities. Political governments in developing economies often stem from a combination of political motivations, short-term focus, lack of economic expertise, and societal expectations. While immediate job creation can have positive effects, it's crucial for governments to also consider the long-term financial implications and strike a balance between short-term gains and sustainable fiscal policies. Though it might not appear initially, however, when an employee is recruited without any analysis, we are not looking at immediate salary that shall be paid to that person; we are looking at the burden that taxpayers must carry until that employee or his next of kin is receiving pension.

The findings of the study underscore a critical need for a reevaluation of the public sector's financial structure. While the public perceives low salaries, the hidden costs and benefits reveal a more complex reality. The burden on the budget extends far beyond salaries and pensions, encompassing a myriad perks and privileges that contribute significantly to the fiscal strain. As Pakistan grapples with economic challenges, it is imperative to scrutinise and address the intricacies of public sector expenditures. This calls for a transparent dialogue on the true costs of government employment and a collective effort to streamline resources efficiently. Only through a comprehensive understanding of these hidden costs can we pave the way for a more fiscally responsible and sustainable public sector.

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