

# DECOLONISING THE CITY FOR SUSTAINED DEVELOPMENT: LAND, COMMERCE, AND REAL ESTATE

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## ECONOMIC MANTRAS

Economics has become a science of the loudmouth with numbers. Economists come on TV to show off that they have numbers and predictions. They will invent all kinds of estimates and terms that no one has heard of to prove how erudite they are, but never will they submit themselves to peer review which is the international yardstick of quality work.

Whenever I hear them speak, I worry that this is not the economics I learnt — and I worked with about 10 Nobel laureates. These speakers and commentators always talk macro numbers — fiscal and BOP — and endlessly discuss simple accounting numbers with great aplomb. For example, “We must increase revenues because the government is losing money.” Never, “Why is government losing money like there is no tomorrow?” Then someone will yell, “We have money to repay and import bills that must be met, so look for aid or borrowing.” Why did we borrow so much? Why are our import

bills what they are? Why is the government borrowing at a faster rate than the economy is growing? These questions are never asked by our economists and therefore never debated.

Adam Smith, the father of economics authored the *Wealth of Nations* to initiate worldwide study of economics. Since then, understanding the forces of growth, development and income distribution have been the most important areas of study in economics. Individual behaviour — consumption, savings and investment decisions — are studied to understand how they can be tweaked for increased welfare. At the heart of economics is the quest for increasing human welfare by expanding opportunity for self-actualisation through innovation, entrepreneurship and risk taking.

## IS ALL GOVERNMENT EXPENDITURE FOR PUBLIC GOOD?

Seldom will you hear our economists talk of the Smithian grand quest of growth, development and welfare. Led by international donors, their quest is to malign Pakistan as a nation of tax cheats and a den of corruption. Revenues must be increased without telling us what, if anything, the government will do for us. They remain unaware that a large majority of Pakistanis are paying income tax on a withholding basis on many transactions. It is well known that this tax withheld is never returned.

The mantra is that government needs the revenue and it must be increased. My fellow economists think that all revenues collected by government will be utilised productively for the welfare of the country. They never review the waste in the government: the numerous houses made for officials; the real estate developments to provide plots to friends; the wasteful and needless road widening for cars of the rich; the expansion of sui gas pipelines even though we have run out of gas; whimsical projects that MNAs are allowed to direct for vanity reasons; wasteful expenditures on the PM or CM directives that are non-productive or too expensive; and ill thought out subsidies to the rich or political favourites.

The government is full of waste and no one wants to discuss this. Instead, we are all ready to give it more money through a bad tax policy. The government has no money or time for clever research to promote economic transactions and has lost more than Rs. 3 trillion in energy over the past decade — yet it continues to sign sovereign guarantees without thought or planning to build increasing energy capacity. As a result, both the circular debt and energy cost are increasing to impose a huge cost on the economy. Yet, my fellow economists think that a wasteful, inefficient, and thoughtless government's mistakes must be covered by more oppressive and senseless taxation.

## WHERE IS GROWTH AND DEVELOPMENT?

The biggest issue I take with my fellow economists is that they never focus on growth and productivity. At most there will be the usual plea for industrialisation and export promotion, for both of which the only instrument seems to be more subsidies in one form or another. For over five decades, these economists have pushed the flawed strategy of promoting the government coddled industry and exports. Despite a lacklustre performance and a considerable subsidy as well as many tax concessions and much tariff protection, industry grows sporad-

and exports as a percentage of GDP remain virtually static. Yet the mantra is preserved.

Economics in Pakistan has indeed become a set of mantras. Economists even go the extent of saying, "We know what is to be done, and have all the solutions." Basically, what they are saying is no new research is required. The old mantras of more taxation for more subsidies to industry for exports is enough. Mind you, this has been firmly drilled into us through a series of large advocacy programs organised by hugely expensive donor funding. Why do donors fund advocacy? Why do we allow expensive propaganda against ourselves? I will never understand.

For the last fifty years or so, we have been running on these mantras with committees, task forces and many, many donor consultants. Yet our long run growth seems to be declining as is our productivity. Few new industrial sectors have opened up while the old industry remains largely uncompetitive and cartelised if the Competition Commission is to be believed. The economy has grown thanks to the orphan sector that economists don't talk of: service or domestic commerce.

Einstein said that doing the same thing over and over again and expecting different results is the definition of insanity. Back then there was no donor funding! But now failed policies are repeated without much rethinking and it is not insanity. We merely call it 'implementation failure'.

Our economists also have little to say about the mess that is the public sector. Another mantra prevails here: just privatise. It does not seem to matter that our previous thoughtless privatisations were not as successful as we thought — badly priced, accusations of insider transactions, and some still not fully paid for. Is the purpose of privatisation merely to rid the government of a bad asset? Why would someone buy a failing asset? Can government monopolies even be privatised? Is a private monopoly better than a public monopoly? Should privatisation not improve the market and consumer welfare? Mantras don't consider these possibilities.

How would I like economists to think differently? In my book, "Looking Back: How Pakistan became an Asian Tiger in 2050," I have outlined an approach. We must look at the economy as a complex system in which humans interact individually or in groups to learn, innovate and transact for their collective and individual welfare. Spatially, much of this interaction happens in cities where markets, institutions and the mass of people are located. Much of this activity is guided by laws and regulations that define markets both physical and virtual.

Economic growth is driven by technology that people in cities strive to develop to increase the exchange of goods and services in the market place. Discovery through exchange lies at the heart of the human enterprise.

Conceptualising the economy properly in this fashion immediately suggests that at the heart of the economy is the city and its markets and how they are governed. My fellow economists must ask themselves if we have this nexus of city-market-governance configured for the requirements of the 21st century! The answer is immediately obvious. We do not.

The Pakistani state can probably best be described as an attempt at preserving the colonial structures for continued ‘control and extraction’ – now for the brown elite instead of the Empire. Much of the legal and judicial system, as well as the executive and regulatory agencies continue to function as inherited. If any innovation was made in these, it was to introduce politicisation and corruption. The shortfalls of this system are often measured in the Ease of Doing Business indicators of the World Bank. Sadly, these measures distract from the main point: the need to modernise the state and reform it for the 21st century.

How can you expect the city and the market that is organised by a state not only stuck in past practices but also distorted for personal gain to provide for the needs of progress and discovery? Our cities lack modernity and are hotly contested spaces for various mafias, one of which is officialdom that enriches itself through controlling city land. Similarly, the colonial state so used to ‘control and extraction’ grants huge advantages to vested interests such as large industry and large landlords. Antiquated legal laws and judicial systems make transactions and businesses extremely complicated at the cost of growth and welfare.

Is it possible to expect this state to deliver the kind of laws, institutions and governance systems that the 21st century requires? If not, how do we expect good things like exports and taxes to increase?

## THE COLONIAL STATE CHOKES INVESTMENT

This state imposes a huge regulatory burden on the economy which does not seem to concern my friends. We estimated in the ‘Framework for Economic Growth’ that I developed in the Planning Commission that this regulatory burden may be as high as 70% of GDP. It is clear that the economy is labouring under the yoke of obsolete, unreformed and distorted colonial governance structures. Yet this issue is not of central importance to the economist at large.

Frequently, commentator economists lament the lack of investment in the economy — the investment to GDP ratio remains at 15 percent, whereas in India it is over 30 percent and in China it is 40 percent. Because these numbers are pronounced upon without understanding the structure of the economy, analysts seldom ask, “Where is the room for investment?” Dig deeper and you will find that the colonial enterprise is holding back investment in more ways than one.

As shown in, “Looking Back: How Pakistan became an Asian Tiger in 2050,” the state controls over 70 percent of the market. With that big a footprint, market competition, which is the premier driver of investment, is crowded out. In addition, crony capitalism which has captured the colonial state is able to erect barriers to entry in the form of SROs (selective tax exemptions), protective tariffs as well as exceptional access to inputs. In such an environment, investors correctly find limited opportunity.

As if this were not enough, the colonial state lacks specialised skills to manage the requirements of modern public good provision. Complex areas like energy and water management, city design and development and market regulation are clearly far beyond the competence of the ‘control and extraction’ civil service. The accumulated losses resulting from the poor management of the economy has led to repeated fiscal and balance of payments crises. IMF adjustment programmes have frequently been requested but with little success in managing policy coherence for sustainable growth. This policy uncertainty, which once again arises from the lack of professional management of the economy, is a deterrent to investment.

## SPRAWLS WITHOUT COMMERCE AND INVESTMENT SPACE

Physically too, space for investment has been severely restricted by the colonial hangover state. Modern city development was never a part of the colonial enterprise. They wanted people to continue living in old cities while the masters lived in airy suburbs. Natives had no need for serious enterprise. They would have small shops, limited schooling and limited space for modern activities. They needed to be controlled and the only enterprise necessary was to extract for the welfare of Empire.

The bureaucracy and the army took over the role of the colonial state, immediately occupied the colonial habitations and proceeded to keep the colonial traditions alive. At first, they tried to keep everyone where they were to maintain the divide between the brown sahib and the natives. With the relentless population pressure, they had to reluctantly cede ground. They protected their colonial

habitats which by then had become the centre of cities and were interfering with both commercial development as well as city mobility plans.

Tight controls on building were preserved, preventing the development of organised density, commerce, leisure, and even education. For decades, city demand for space for commerce, storage and warehousing, offices, education, leisure, mobility and many other functions increased. All these developments were forced into the informal sector through encroachments or violations of poorly conceptualised colonial zoning. Even today, we are going through a cycle of litigation and the demolition of encroachments which arose because of poor city zoning that sought to prevent the natural growth of cities.

The poor, the enterprising, and other constituencies counted for little in the colonial model. But the growing elite, of which the bureaucracy, army and judiciary were now a part had to be accommodated. Responding to this demand as well as the availability of the car, the colonial state allowed for suburban development beyond the areas they had inherited from colonialism. As a result, cities have expanded to giant unmanageable sprawls with the centres being occupied by elite mansions and clubs instead of mixed-use high-rise development as in other parts of the world.

## CHOKED UP ENGINES OF GROWTH

Early development advice suited the colonial bureaucracies, for it prioritised industrial growth which policy-makers conveniently put outside the city in industrial estates. In fact, it expanded their power since the development policy advice of the time emphasised planning industrial development through licenses, subsidies, cheap credit, protection etc. — all of which were dispensed by the colonial bureaucracy.

The country has remained beset with this early development model, refusing to see fresh developments in economics. Our PhDs in economics remain rooted in the old planning models vacillating from prioritising between industry and agriculture to looking for exports. Domestic commerce, services and construction were deliberately repressed in an effort to develop what were thought to be leading sectors — industry and agriculture.

In 1996, the Nobel prize was awarded to Robert Lucas and in 2018 to his student Paul Romer. Both of them pointed to the engine of growth being the city, a place where people converge to exchange and share ideas, goods, money, services, space and activities. Many thinkers have pointed to the importance of the city in history as a crucible of innovation, entrepreneurship, knowledge

and creativity. It has also been shown empirically that cities that are engines of growth are dense, walkable with mixed use, high rise city centres.

Unfortunately, our cities are sprawls with estates for colonial officials and polo grounds in the middle. And sadly, this research has not reached our policy economists who sit on task forces.

Construction always leads development. Even today, markets are continuously watching leading indicators: many of which are based on construction activity. Go to any city in the world you will see tower cranes everywhere, many of them. A rapidly growing economy like China has sites that look like forests of tower cranes. Yet most Pakistani cities have hardly seen a tower crane.

As analysed above, in Pakistan, the continuation of the colonial enterprise has preserved colonial estates in the centre of the city while also maintaining the colonial bias against enterprise in the middle of the city. To preserve this model, the colonial bureaucracy, which controls the city, has archaic zoning and building laws that are biased against density, walkability, mixed-use and high-rise. Is it any wonder that the construction industry is not a growth industry in this environment? Can we expect to accelerate our growth without a strong growth of construction based on real city development and not this colonial sprawl development?

## UNLOCKING DOWNTOWN DEVELOPMENT

There is an opportunity for real and sustained growth acceleration and for huge improvements in welfare if the challenge of changing the city paradigm is undertaken. Colonial centres that are located in busy downtowns must be uprooted and high-rise mixed-use construction fostered.

In most cities, city centre land for urban regeneration is hard to get. The colonial enterprise has kept this precious capital inert for their private use and held back city development as well as employment and growth possibilities. It is time make this dead capital work for us.

There is tremendous opportunity that is possible. The key challenge is going to be how to do it right for maximum public benefit. As an example, consider Lahore has more than 10,000 acres of prime commercial land held by the public sector in various areas. We must use this land for maximum value creation and employment gains. My tentative calculations show for only the 5 GORs, which represent about 4000 acres, the following possibilities.

■ We can make about 35 buildings of high-rise mixed-use buildings like Centaurus leaving more than half empty for greenery. Say, each costs about USD 500 million. Total investment will amount to USD 17.5 billion.

■ Employment in construction — 5000 per building and similar indirect — will generate around 350,000–500,000 jobs during construction. Each building will employ similar amounts or more when completed.

■ At an average height of 35 floors, this will represent 225 million square feet of construction for all uses.

This should not be made a speculative play for trading. It should not be hijacked by qabza mafias. This land represents a huge part of city wealth.

My suggestion would be for all cities to allow for City Wealth Funds which own this land and professionally manage these resources. Professional managers can develop projects and sell these as public private partnerships on a build, own, operate and transfer basis. This could be a way for cities to earn maximal revenues over longer time horizons. The time-bound nature of these contracts would force quick construction and returns.

Sadly, the Framework of Economic Growth (FEG) of the Planning Commission did present this approach to developing growth acceleration to the cabinet and parliament in 2011 and 2012. Though the FEG was approved, it was never implemented due to the opposition of the colonial bureaucracy to preserve its estates. It will require a strong government to do this and good processes to make it possible to ensure professionalism, i.e. protected from politics.

If we want to progress, we must truly end vestiges of colonialism and move into the 21st century.

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