

Pakistan's Dead Capital



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FINANCE Minister Shaukat Tarin recently stated that putting the economy on a higher growth trajectory is the government's top priority, and that plans are afoot to spend a substantial amount of resources on large infrastructure projects to achieve the target. Unfortunately, there is nothing new in this recipe, and as I argued in my last piece (Obsession with infrastructure', April 30) in this paper, it might even end up creating more long-term liabilities.

So are there any alternatives that can help propel the Pakistani economy to higher, sustained growth rates? Yes there are, something that the Pakistan Institute of Development Economics (PIDE) panel and team on growth strategy considered while coming up with ideas/strategies to accelerate the economy's growth. It's not the usual document that is centred upon a few trite ideas, but takes stock of issues ranging from civil service to the judiciary's performance, and how they hamper growth. Amongst

these ideas, there is a discussion on the concept of 'dead capital'.

The term is usually attributed to Peruvian economist Hernando de Soto and his famous book *The Mystery of Capital*. Briefly put, what De Soto and his team found was that lack of formal rights were turning productive assets into 'dead capital' as they could not be traded on formal markets. The blame, De Soto argued, lay not with participants of the informal markets (mostly poor people) but with a plethora of stifling regulations that render productive assets 'dead capital'.

Before De Soto, Adam Smith articulated in his famous *Wealth of Nations* that the real wealth of a nation is the potential of a particular productive asset to contribute to the economy. But if such assets are confronted by legal and institutional morass, then they will remain unused and underutilised.

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A particularly striking, and evident, example in an over-regulated economy like Pakistan's is the way real estate is regulated. The procedures surrounding the use and transfer of physical property are so complex that it leads to the loss of millions of real estate-related transactions, thus turning opportunities into dead capital.

Land, for example, remains unsold for decades due to friction created by stringent, archaic regulations. Similarly, investment potential worth billions remains unutilised due to illogical restrictions on ver-

tical expansion. In cities like Islamabad and Lahore, valuable land remains underutilised. A crude estimate by PIDE, for example, suggests that changing regulations and allowing for high-rises in just the GOR Lahore (underutilised, prime real estate) area has the potential to generate economic activity worth billions of rupees while generating more than 100,000 jobs. Similarly, extremely valuable land in Islamabad's sectors like G-6 and Aabpara is in the use of government servants. If it is reserved for private, commercial use and vertical expansion is allowed, then there are investment opportunities worth billions to be had.

The public sector alone, in the form of various government departments, holds property worth trillions of rupees all over Pakistan without any use, thus constituting 'dead capital' since they can't be used in the process of wealth creation. Even the ones that are in use mostly constitute a non-productive venture, and occupation of prime land for nothing. However, the way such assets are administered in Pakistan, they do constitute exceptional rent-seeking opportunities, which is the primary reason why there are so many departments dealing exclusively with matters related to real estate.

Capital, though, is not just physical capital; in fact, in today's world, intellectual capital (ideas, innovations, etc) assumes even bigger importance. People often talk about Silicon Valley and its importance to the US economy. The place is all about ideas and innovation, about intellectual capital. To illustrate, the US government earned \$30bn in

2020 as 'charges' for the global use of intellectual property originating within its borders. Further, a 2016 report by the US Commerce Department (Intellectual Property and the US Economy) found that IP-intensive industries support 45m jobs, plus contribute \$6tr to the US economy.

This intellectual capital would be dead if it were not for facilitating business transactions, primarily through laws (patents, trademarks and copyrights). Like physical capital, a lot of intellectual capital-related business ventures in Pakistan die because the laws required to facilitate them are not present. EMI, a music recording giant, wrapped up its business from Pakistan as losses accumulated due to the absence of IP rights, leading to pirated music.

A similar case is that of pharmaceutical products, especially drugs, where patented drugs are easily

copied and sold in Pakistani markets, thus limiting the scope of the market for originator brands and proving to be a major detriment to attracting FDI inflows in this important industry.

Perhaps most crucially, we need to be cognisant of the fact that GDP is but a summation of mutually agreed transactions that benefit all the parties involved. A simple rule of thumb for any policymaker, therefore, is that to increase GDP we would need to increase and facilitate transactions. On the flip side, the loss of a probable transaction is a 'dead' opportunity.

For a country of approximately 220m, there are potentially trillions of mutually beneficial transactions that can considerably change the economic tide. But given the stifling of economic activities through byzantine regulations, beneficial transactions remain subdued, in-

complete and at the mercy of inconsistent economic policies. We do not have a monetary count, but it would not be surprising if such a count comes out someday, informing us that our economy's opportunity cost of working under stifling regulations runs into trillions of rupees. In essence, the opportunities that can perpetuate exchanges resulting in trillion-rupee activities are killed, hence turning them into dead capital!

It is time, then, to tackle the issue of dead capital seriously. Any attempt at a higher growth trajectory would remain incomplete without it, especially the role of public sector-led regulations that pervade all aspects of our economic activity.

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