

Monetization: How Valuable is Your Bureaucracy?

Nadeem ul Haque



For decades now the issue monetization of perks has been on the table. No action has been taken because the powerful secretaries who monopolize access to perks block the reform and because our austerity mindset keeps us from financing a reform that accelerates growth and employment. This reform is most necessary in housing because the current distribution is iniquitous and because its holding back economic development and employment. Let us see how!

Inequity

- Recall government-owned accommodation such as houses, bungalows or apartments located in the posh areas of metropolitan centers. The location and addresses themselves are prestigious and symbolizing power. What is less well known is that not all civil servants get these houses. Of the 447155 civil servants,
- 8% have the privilege of getting government-owned accommodation such as houses, bungalows or apartments located in the posh areas of metropolitan centers;
- 20% are living in government hired accommodations,
- the rest, 72% are getting house rent allowances which are equivalent to 45% of basic pay in Islamabad and some big cities while in smaller cities the allowance is 30%.

These disparities in entitlements have adversely affected performance in many ways.

- Competition for the scarce resource happens through means other than performance on public service delivery. Performance on the job is no longer a focus.
- Officers are distracted from their function and performance and focus in getting their privilege. Hence they are compromised.
- The availability of good housing is also be a control device.
- Coveted housing such as in the posh areas of Islamabad, Lahore and Karachi could have a rental value of Rs 300,000 whereas the comparable allowance that is given to a comparable officer who is not given a house would be in the range of 45,000. Taxes exacerbate the situation: The officer with the house pays no income tax on the Rs 300,000 compensation he gets while the latter does.

No transparency in expenditure on maintenance of housing

Government budget figures do a great job of hiding the cost of maintenance of these houses. It is well known that over the years, the powerful have been able to do more to their housing such as making additions, expensive renovations, even swimming pools and of course building boundary walls etc all at tax payer expense. When asked all divisions deny any knowledge of where this expenditure is. They are absolutely unable to quantify it.

Given the lack of information, I think we would not be wrong in putting forward the hypothesis that maintenance expenditures are likely to also be distributed in a manner that is inequitable, wasteful and sets up perverse incentives.

Monetize for growth.

The Framework of Economic Growth (FEG) that the National Economic Council accepted in 2011 put forward a major innovation in the development narrative of the country. Recognizing the importance of cities in development and the large excess demand in all areas of city activities --housing, schooling, public places, commercial, leisure--FEG suggested a shift in paradigm for our city development. FEG argued for a move from current car-friendly, suburban-sprawl approach to cities characterized by increased density and high-rise, greater availability of mixed use and less use on cars and more walkability. A move in this direction would unleash a construction boom

which will be employment friendly. Moreover, a high level of construction activity would have huge spinoffs which would create further growth and employment opportunities. In addition, as history has shown, the newer cities with increased commercial, community and public space can be expected to lead to innovation and entrepreneurship.

An important factor holding back this vision that was embedded in the FEG is the large hold of the bureaucracy on urban development. Not only are all the zoning and building regulations in urban areas controlled by the bureaucracies -- army and civilian-- they also occupy most of the prime land for official housing and for giving free plots to themselves.

Be that as it may let us examine the possibilities emerging from monetization. .

Monetization in Islamabad

When I was at the Planning Commission in Islamabad, we estimated the gains from a monetization of housing reform only in Islamabad.

Cost:

The reform would begin by adequately compensating all civil servants so that their welfare is not reduced. Previous pay commission recommendations have failed because they recommended giving them only the existing housing allowance which was a mere fraction of the rental value that the powerful were getting. It is no wonder the reform was blocked.

A better approach that is used in most countries was also considered. Link civil servant salaries to the market through periodic salary surveys of the relevant private sector. Of course a certain discount would apply and that would be decided by policy. This is a preferable approach as it gets rid of the many allowances that have crept into the system over the years.

Our estimates suggested that the cost of this reform would range from about Rs 30 billion annually (restricted to housing monetization for grades 17 through 22) to about Rs 165 billion (if all grades included). Changing the system would cost about Rs 140 billion annually since it would change the relativities within the system. Please note those figures are probably upper bounds since we are assuming that no reform such as changing the size of the civil service is made.. Of course a fuller reform would be able to control these costs with better outcomes.

Value if business as usual:

The moment you mention this reform, many factions start salivating since the land we are taking about is the most prime in the country. For example the incumbents would like to grab it at book value pocketing a huge gain.

What we want is the land for complex, high rise, investment and employment friendly construction. For that the current use of housing in fact is a waste and needs to be urgently discontinued. CDA estimates suggested that about 864 acres would be available after if all these government houses were vacated in Islamabad. Importantly thus land is available in large parcels of about 20 to 50 acres. Given CDA planning, finding such parcels for commercial development is now almost impossible. Such fragmentation has destroyed construction possibilities and hence eroded value.

If we go the route of the usual CDA planning and sell this land in small housing parcels, the value is estimated to be Rs.233 billion.

FEG Build for growth approach:

Assemble the land into large parcels for mixed use complex development. Zoning building laws would be changed to accommodate such construction.

Even with a generous allocation (about 50%) for common areas and amenities, about 423 of the 864 acres would be available for complex modern development. Note that Centaurus has been built on 5 acres with an investment of Rs 50 billion or USD.5 billion. Let us say we build the equivalent of 80 Centauruses on this land we are looking at an investment potential of USD 40 billion.

With generous height and use rules, it was estimated by the best experts available that this could result in an investment potential of Rs 6 to 10 trillion. This is equivalent to about USD 60 to 100 billion or 30 to 50 % of our GDP.

Jobs:

Looked at from any perspective these are staggering numbers. If the construction of each of these buildings directly involves about 3000 workers and indirectly another 3000. We are talking of about .5 Million new jobs.

It is estimated that up to about 60 million square feet could be added in Islamabad through this construction boom. Even if a third of it is devoted to flats we could add on well over 15000 dwellings to the housing stock. Let us say each apartment generates .5 job to service it, we are talking of over 75000 jobs.

If the remaining commercial development eventually yields 1 job for every 1000 square feet, about 40000 jobs will be generated.

The numbers are so exciting I do not know why we all do not come in the streets and ask for this long overdue reform. We are begging for aid which is given to us in dribs and drabs with hardly an impact on the economy. Here we have billions of dollars of investment at our feet.

Growth: Think about it! This development if done well without bureaucratic interference could take 10 years. Let us take a straight line approach, investment would increase by 3 to 5% of GDP annually. Based on our existing growth-investment relationship, this could increase growth by 1-2 % annually over and above other initiatives.

The value of bureaucracy: So the current comforts of the bureaucrats are costing us about 3-5% of GDP in forgone investment, about a million jobs, and 1-2% of growth annually. Think about it are they doing that valuable a job?

Finally this is in Islamabad alone. What if we could do it in the whole country? It would transform Pakistan. Now do you see why we argued for it vociferously in FEG,