

Understanding sludge

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Bureaucratic friction, time-taking procedures, delayed outcomes add to the sludge drowning the developing world



If someone draws a comparison between systems in the developed world and those in developing countries, one of the first things that come up is that things get done quickly in the former and much slower in the latter. Have you ever imagined the economic cost of snail paced procedures? Let me put it this way: have you ever thought about why it is so difficult to function legally in developing countries, to the extent that people find it easier to operate in an extra-legal domain, to avoid the cumbersome processes? You would say things are not as hard as they might appear to be, but the ground reality tells us a different story. Let me explain.

A major problem, which a majority of the people in developing nations face, is trying to acquire legal property. It involves a daunting legal process. The processes are simple in developed countries, but they are just so needlessly difficult here. In order to gauge the amount of 'friction' in terms of the number of steps required and the impediments to the legal process and bureaucratic mechanism, Hernando de Soto Polar, a prominent Peruvian neoliberal economist known for his work on the informal economy and the importance of business and property rights, started an extensive study spanning over year across South America along with his teams of researchers.

These teams went to different departments as applicants, consumers etc and went through a different process each, whether it was to buy a piece of land or register a business. He and his team came up with fascinating, rather mind-boggling findings. For instance, obtaining legal authorisation to build a house in Peru could take six years and eleven months. The procedure to formalise a home purchase in Peru could take 207 steps in 52 government offices, just in the first out of five stages.

To get a legal title for that piece of land, 728 steps are required. Likewise, a private bus, jitney or a taxi driver who wanted to obtain official recognition of their route would face 26 months of red tape.

Another example is gaining access to desert land for construction in Egypt which used to take 6-14 years. This explains why 4.7 million Egyptians have chosen to build their dwellings illegally. If, after building a home, the settler decides to have the property legalised, they will risk demolition, a heavy fine and up to 10 years in prison. Formalising informal urban property in the Philippines takes 168 steps. The entire process involves 53 agencies and could take 13 to 25 years. The same is the case in Haiti, where buying a piece of land requires 111 bureaucratic hurdles and 19 years at least.

The long ordeal will not ensure the legality of the property “in the long run”. As these processes are so discouraging, operating outside the law becomes a very attractive option; creating an extra-legal sector – black market/ informal economy. While it may be a small chunk in the developed world, it is widespread in developing countries. People in the informal sector technically do not have any legal ownership of almost anything they possess.

It is pertinent to note that all of the above findings and much more are contained in a book named *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* by Soto. However, it is pertinent too that the book was published in 2000. Since then, all the countries mentioned in the book have come a long way and undergone many reforms. These countries, at present, may be much better than in 2000. Having said that, the reason to refer to this book here is that it still makes a lot of sense. Its comprehensive analysis shows how the mechanisms in developing countries work and how sluggish these can become, so much so that people just opt to function extra-legally.

In Pakistan, what Cass R Sunstein calls ‘sludge’, incurs substantial transaction costs. This can be attributed to various factors. First, there is a high degree of centralisation in organisational hierarchies. Everything moves to the centre or highest power of authority for approval or further action. This causes unnecessary delays. The central authority often has the least idea of what is happening at the grassroots level.

Second, the work culture is such that most officials are problem creators rather than problem solvers. Most do not want to take responsibility and rather sleep over decisions. Cumbersome processes make things more difficult. If you do one step wrong, you return to square one and restart the whole process afresh. This also creates space for corruption. Many are compelled to offer bribes to accelerate their application or request some government or state department to be exempted from the routine procedure.

Third, much of the friction is because at every step, there is a need for physical presence or contact. This makes a significant part of the transaction cost. A certain thing that can be done by

a click online, requires instead that you visit the regional office in person. Next, you have to visit many offices step by step. There is a dire need for digitisation and deregulation to simplify the processes, minimise the transaction costs and get rid of the sludge factor.

Meaningful reform cannot happen unless we know how much sludge is there. For this, we need to sludge audits at various organisations and for various processes. The Pakistan Institute of Development Economics (PIDE) has started such sludge audits of some government departments and processes.

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