



The United Nations
University

WIDER

World Institute for Development Economics Research

Research for Action

Habitat II and the Urban Economy

A Review of Recent Developments
and Literature

Pii Elina Berghäll

Research for Action

UNU World Institute for
Development Economics Research
(UNU/WIDER)

Research for Action

Habitat II and the Urban Economy

A Review of Recent Developments and Literature

Pii Elina Berghäll

UNU World Institute for Development Economics Research (UNU/WIDER)
A research and training centre of the United Nations University

The Board of UNU/WIDER

Philip Ndegwa
Sylvia Ostry
Maria de Lourdes Pintasilgo, Chairperson
Antti Tanskanen
George Vassiliou
Ruben Yevstigneyev
Masaru Yoshitomi

Ex Officio

Heitor Gurgulino de Souza, Rector of UNU
Mihály Simai, Director of UNU/WIDER

UNU World Institute for Development Economics Research (UNU/WIDER) was established by the United Nations University as its first research and training centre and started work in Helsinki, Finland, in 1985. The principal purpose of the Institute is policy-oriented research on the main strategic issues of development and international cooperation, as well as on the interaction between domestic and global changes. Its work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating institutions and scholars around the world.

Copyright © UNU World Institute for Development Economics Research (UNU/WIDER)

Printed at Forssa Printing House Ltd, 1995

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University of any of the views expressed.

ISBN 952-9520-25-5

CONTENTS

	page
LISTS OF TABLES AND FIGURES	v
ACKNOWLEDGEMENT	vi
PREFACE	vii
I THE UNU/WIDER CONFERENCE AND HABITAT II	1
1.1 Habitat I	2
1.2 Habitat II	4
II TRENDS IN URBAN EXPANSION	6
2.1 Current trends	6
2.2 Mega-cities	11
III THE CHANGING ENGINES OF URBAN GROWTH	14
3.1 Causes of urbanization	14
3.2 Urban primacy	17
IV ECONOMIC AND URBAN GROWTH	20
4.1 Rural-urban migration in theory	20
4.2 Spatial structure and economic growth	21
V THREATS AND OPPORTUNITIES OF URBANIZATION	25
5.1 Economic consequences of urbanization	25
5.2 Welfare effects of urbanization	34
VI POLICIES GUIDING URBANIZATION	37
6.1 Economic policies and instruments guiding urbanization	37
6.2 The role of government and regulation	37
6.3 The effects of structural adjustment programmes	41
6.4 Sustainable urban development	45
6.5 Financing urban development	46
VII PAST POLICIES AND SUSTAINABLE SHELTER STRATEGIES	48
7.1 Public works tradition of government built housing and slum clearance	48
7.2 Self-help building	49
7.3 Sites and services and squatter upgrading	49
7.4 The enabling approach or the global shelter strategy for the year 2000	49

VIII HOUSING THE HOMELESS	55
8.1 Housing starts – a leading indicator of economic cycles?	55
8.2 Informal – formal housing	58
8.3 Employment in housing construction	59
8.4 Inflationary effects	59
8.5 Import content and the effects of structural adjustment programmes on construction	60
8.6 Housing finance systems	61
IX THE CONSTRUCTION SECTOR IN BUILDING CITIES AND ECONOMIES	62
9.1 Economic importance	62
9.2 The informal construction sector	63
9.3 Building materials	64
9.4 Development of the construction industry	64
X FUTURE CHALLENGES	65
10.1 New global social and economic trends	65
10.2 Areas for further research	68
10.3 Summary	72
APPENDIX	78
A.1 The Mega-city Project of the United Nations University	78
A.2 Workshop in preparation of the UNU/WIDER conference	79
REFERENCES	81

LIST OF TABLES

	page	
Table 1	World population	6
Table 2	Urban population and percentage of population living in urban areas	7
Table 3	Average annual rate of change of urban population in the less developed regions	8
Table 4	Urban population and percentage urban in the less developed regions	9
Table 5	Number of urban agglomerations with population of five million or more	12
Table 6	Real interest rates in the informal and the formal sectors	63

LIST OF FIGURES

Figure 1	Percentage of total population living in urban areas	7
Figure 2	Urban population	9
Figure 3	Distribution of world urban population: 1990	11
Figure 4	Money and water transactions in Onitsha, Nigeria	32

ACKNOWLEDGEMENT

I would like to take this opportunity to thank the members of the UNU/WIDER Conference steering committee, i.e., Professor Mihály Simai, Dr Reino Hjerppe, and Mr Eero Yrjö-Koskinen from UNU/WIDER, and Mr Martti Lujanen and Ms Outi Berghäll from the Finnish Ministry of the Environment for their invaluable guidance, comments and suggestions. In addition, support from UNU/WIDER staff members is gratefully acknowledged. Finally, the participants of the February brainstorming workshop provided insightful comments and views. A list of these participants has been enclosed in section A.2 of the Appendix.

Pii Elina Berghäll

PREFACE

The strategic conferences organized by the UN during the past 25 years have focused on assisting and mobilizing governments and other relevant actors of international life by enhancing collective thinking and action in those areas which may jeopardize the future of humankind. These forms of international action have proved to be useful and effective for the better understanding of the nature of the problems, for better articulation of the conflicting and converging interests influencing global cooperation in the given field and for the development of global coalitions of NGOs, academics, government officials, businessmen and others, for necessary or possible action. The strategic conferences on demographic issues, ecological problems, on social development and other topics have also increased global concern, making clearer the nature and the scope of the global issues humankind has to face. The United Nations University and its research and training institutes have been playing an important role by initiating new research and channelling new knowledge, developed in the academic community on these issues, to the UN system.

This booklet, written by Pii Elina Berghäll, a research associate at UNU/WIDER, is also such a contribution to the preparatory work of Habitat II, the strategic UN conference on urban development to be held in Istanbul in June 1996. It is an overview of the more recent results of research developed in the academic communities of a number of countries. The content of this booklet clearly indicates the great variety of issues related to urban development at the end of the 20th century. One of the important messages of the work is that urbanization must be looked at in a more complex manner. It is not just a question of the interrelationships of different dimensions of life and management in cities with the macro- and microprocesses of national economic activity. The fast increase of city dwellers, especially in the second half of the 20th century, has been the consequence of a number of interrelated demographic, economic, political, cultural and social factors. It has also become an important force in shaping many of the processes which determine major changes in the functioning of the society. While it is a global process, the specific problems of urban growth offer different challenges and opportunities for the developed and developing world, and represent a great variety of patterns even within the North and the South or in the transition economies.

I present this booklet, not only to those who are actively involved in the preparatory work on Habitat II, but also to readers who are interested in an overview of the contemporary thinking on the broader implications and global consequences of urban development.

Mihály Simai
Director, UNU/WIDER
April 1995

I THE UNU/WIDER CONFERENCE AND HABITAT II

The spreading of cholera, tuberculosis and other diseases manifest the lack of adequate housing and basic services. The second UN Conference on Human Settlements, (Habitat II) to be held in June, 1996, is aimed at spreading awareness of these and other human settlements problems and their solutions, and most of all, at raising political will and commitment for action both at the national and international level. Participating countries will prepare a plan of action including political commitments. Habitat II also pursues the UN Conference on the Environment and Development (UNCED) and is closely related to the other UN conferences of the 1990s. The key outcome of the conference will be political commitments to act to ensure environmentally, economically and socially sustainable shelter and human settlements development.

In its resolution 47/180, the UN General Assembly requested the Habitat II Conference to, *inter alia*, conduct a series of reviews. One of them was to review current global trends in economic and social development as they affect planning, development and management of human settlements and make recommendations for future action at the national and international level.

New global social and economic trends will change the world in coming years. Urbanization is an inevitable trend which forces countries to face mounting problems of homelessness, crime, unemployment, deterioration of the living environment, etc. Habitat II provides a chance for countries rich and poor to exchange ideas and experiences on how the enormous challenges can best be responded to. Awareness of the trends and developments makes them better prepared to address the problems and enable them to adopt efficient effective strategies well in advance. This will ease pressure and contribute to global security and stability. The clear establishment of development priorities will help direct resources into the most rewarding areas. Both developed and developing countries stand to gain, since problems such as massive international migration, pollution, crime, political and economic instability do not respect frontiers. There are plenty of examples of successful approaches, but they have mostly been employed on a small scale and need to receive wider attention.

As one of the lessons of the Habitat I Conference on Human Settlements, held in 1976, teaches that human settlements policies may be successful only in a favourable macroeconomic climate. Economic factors are often decisive. However, the mutually reinforcing linkages between construction, human settlements and economic growth are still obscure to decision-makers. Although inadequate housing is a symptom of economic problems, shelter development can also be at least a partial solution to them. The UNU/WIDER Conference provides an ideal opportunity to examine these linkages and provide answers on how to best combine the various seemingly contradictory

objectives. Clarity and general understanding of the economic benefits of sustainable human settlements policies should contribute to their actual implementation. The purpose of the UNU/WIDER Conference on Human Settlements in the Changing Global Political and Economic Processes is to serve as an independent academic background contribution to the Habitat II Conference. It is meant to gather academics and experts from various parts of the world and to provide a high-level intellectual input into the problematics of Habitat II.

1.1 Habitat I

At the Habitat I Conference, held in Vancouver, Canada in 1976, representatives from 132 nations approved 64 'Recommendations for National Action' the cornerstones of which were the rapid and continuous improvement in the quality of life and the satisfaction of basic needs relying on continued economic growth in the participating developing nations.

Little formal research has been done on the implementation of the Habitat I recommendations. Hardoy and Satterthwaite conducted one review in 1981. By then very few countries had followed the recommendations. A review by the Commission on Human Settlements on national action to provide housing for all since Habitat I, concludes that the Recommendations appear to have had some impact on subsequent shelter strategies, but there is little indication of the actual implementation of policies by the early 1990s.

There has not been a significant improvement in aggregate in the shelter conditions of the urban poor in developing countries since 1976, and in many cases there has been a serious decline. In most areas of shelter practice, large-scale, sustainable solutions still seem very distant. Resource constraints clearly play a key role in acting as a barrier to progress, they do not tell the whole story: misplaced policies and actions, a lack of imagination, vision, courage and commitment, are also major factors... The problem has been and remains today, the fact that policy is not implemented effectively in the field.' (UN Commission on Human Settlements 1995:25; Hardoy and Satterthwaite 1981).

According to the review by the Commission on Human Settlements, trends in housing policies reflect the evolution of general ideas about development and development interventions since 1976. Habitat I was the tail end of the case for the state as a creator of a master plan. The development of enabling approaches and the rising attention given to gender concerns and environmental stability have provided a supportive intellectual and policy framework within which to apply the recommendations of the Vancouver Declaration and Action Plan. In a few specific instances, the Conference almost certainly was responsible for helping to legitimize new approaches. It may well have given more weight to those factions in national governments (or that influence governments) which were demanding more support for settlement policies. It may also have helped hasten the acceptance of the basic needs approach within development planning. According to the Declaration of Principles

adopted at the conference, policies must facilitate the rapid and continuous improvement in the quality of life of all people, beginning with the satisfaction of basic needs with priority given to the needs of the most disadvantaged people. It remains a milestone in the development of shelter policy, influential in the evolution of subsequent policy statements, which put human settlements on the international agenda for the first time. In particular, Habitat I was influential in

- i) Laying the seeds of the 'enabling approach' to shelter. The basic principles of the enabling approach in the Global Strategy for Shelter for the Year 2000 use much the same wording as Habitat I recommendation E.6 that efforts should be directed into defining the strengths of the people and determination of government action accordingly. The Vancouver Declaration made constant references to approaches which have thereafter become common practice, such as regularization of tenure in informal settlements, upgrading in-situ rather than relocation, promoting popular participation in shelter planning and implementation, adapting shelter standards to local conditions, prioritizing government support for the provision of basic infrastructure, administrative decentralization, the role of community-based organizations and NGOs, and public-private partnerships.
- ii) Desegregating shelter policy and addressing the needs of especially vulnerable groups such as women. A large number of the recommendations stressed the importance of participation especially by the 'most disadvantaged' groups, in decision-making over all aspects of shelter planning and implementation. The Vancouver Action Plan called for explicit recognition 'of the changing role of women in society and encouragement of their full participation in development.'
- iii) Contributing to the later creation of the concept of sustainable development. The Vancouver declaration brought together the previously-disparate elements of housing, planning, and services, and linked them with environmental concerns and national and international economic development to create a new and holistic approach to shelter.

However, rising urbanization and urban poverty, coupled with declining government resources, have rendered implementation of the Vancouver Action Plan extremely problematic. There has also been a lack of commitment to implementation among some donors and governments. Although it is difficult to generalize about trends in the shelter options of the urban poor, it seems on the surface to be a depressing story worldwide. The shelter options of the urban poor are closely linked to trends in urban poverty, which is on the rise. Trends in urban shelter are intimately related to trends in the wider economy. As already mentioned above, one of the clearest lessons of the last twenty years is that significant shelter improvements cannot be achieved in a declining macroeconomic climate (UN Commission on Human Settlements 1995).

1.2 Habitat II

In its resolution 47/180, the United Nations General Assembly decided to hold the Habitat II Conference, based on the following justifications

Considering that a world-wide conference with broad, multidisciplinary and high-level participation could provide a suitable forum for considering the current situation in the planning, development and management of human settlements;

Noting that the proper management of human settlements was a prerequisite to the attainment of the overall goals for sustainable development;

Convinced of the need to reassess and systematically review particularly the concept of enabling strategies, and of new developments and trends in international economic relations and population and migration patterns, as well as the recurrence of natural disasters;

Noting with concern that in many countries, especially developing ones, the achievements in terms of policies, programmes and projects at the national level in the field of human settlements have not been sufficient to arrest or reverse the deterioration in the living environment of the people because, *inter alia*, of the pressure of population growth and urbanization and because the resource requirements for human settlement programmes far exceed the availability of resources in developing countries;

And cognizant of the fact that the continuing rapid rate of urbanization and population increase in the developing countries is contributing to the emergence and spread of large urban agglomerations, with adverse implications for the supply of adequate shelter, environmental infrastructure and services for the people, as well as for their employment prospects.

Furthermore, the Preparatory Committee for the United Nations Conference on Human Settlements (Habitat II) has recommended the following overall objective to serve as a guiding principle for all countries for Habitat II: 'To increase the world awareness of the problems and potentials of human settlements – as important inputs to social progress and economic growth – and to commit the world's leaders to making our cities, towns and villages healthy, safe, just and sustainable.'

It was also stated that sensitivity to a gender perspective, to gender equity and to socially vulnerable groups should be considered in all phases of Habitat II... (UN Report of the Preparatory Committee for Habitat II 1994).

The purpose of this paper is to provide background information and a brief review of the state of the art understanding of the issues to be covered at the UNU/WIDER Conference on Human Settlements in the Changing Global and Political Economic Processes. It surveys recent literature on the economic implications of urbanization, human settlements and the construction sector. In addition, it presents ideas for research and action. In order to avoid overlapping work, environmental and

mega-city issues are excluded. It has also been suggested that housing should only be included to the extent it is connected to global economic processes.

After the introduction, the second section briefly presents trends and figures in the urbanization process. The third section discusses the causes of urbanization and the fourth reviews some analytic frameworks attempting to explain this phenomenon. In the fifth section the effects and consequences of urbanization are listed, and in the following section, policy options and strategies attempting to respond to these developments are briefly presented. The following three sections discuss past and current strategies in human settlements management, and issues in housing and construction. Finally, the main global trends and areas for further research are summarized in the tenth section. Some data tables and figures on urbanization can be found at the end of the paper.

The review is based on existing literature, which gives sometimes contradictory arguments and information. An attempt has not been made to determine which views are closest to the truth.

II TRENDS IN URBAN EXPANSION

2.1 Current trends

Between 1950 and 1990, the world's urban population grew from 300 million to 1.3 billion. As a consequence, an estimated 2.3 billion, i.e., 43 per cent of world population lived in urban areas by mid-1990, compared with 30 per cent in 1950. Each day, world population grows by approximately 250,000 new inhabitants of which about 170,000 add to the population of cities. Projected demographic trends indicate continuing urban growth, with an additional 600 million people living in urban areas by the year 2000. At these rates half of world population will be living in urban areas by the year 2005. It has been projected that by the year 2025 over 60 per cent of the world's population will live in urban areas, a total of 5.2 billion urban dwellers.

TABLE 1
WORLD POPULATION

Country or area	Mid-year population (thousands)			Annual growth percentage	Density Pop/km ²
	1994	2015	2050	1990-95	Mid-1994
World total	5,629,614	7,468,896	9,833,167	1.6	42
More developed regions	1,162,446	1,223,733	1,207,504	0.4	22
Less developed regions	4,467,168	6,245,163	8,625,663	1.9	54
Least developed countries	559,318	945,499	1,642,213	2.8	28
Asia	3,403,437	4,515,814	5,741,005	1.6	107
Europe	726,348	726,474	677,764	0.1	32
Latin America & Caribbean	473,542	641,098	838,527	1.8	23
Northern America	289,898	344,695	388,997	1.1	13
Oceania	28,123	36,924	46,070	1.5	3

Source: United Nations Department for Economic and Social Information and Policy Analysis
Population Division

From 1970 to 1990, urban population grew at the rate of 3.8 per cent per annum, while rural population grew only at the rate of 1.2 per cent per annum. On average, urban population has grown 2.5 times faster than its rural counterpart. Currently, in developing countries urban population grows at a rate of at least 3.6 per cent annually, i.e., about four times faster than in rural areas, while total population in less developed regions grows at the rate of 1.9 per cent per annum and at the rate of 2.8 per cent in least

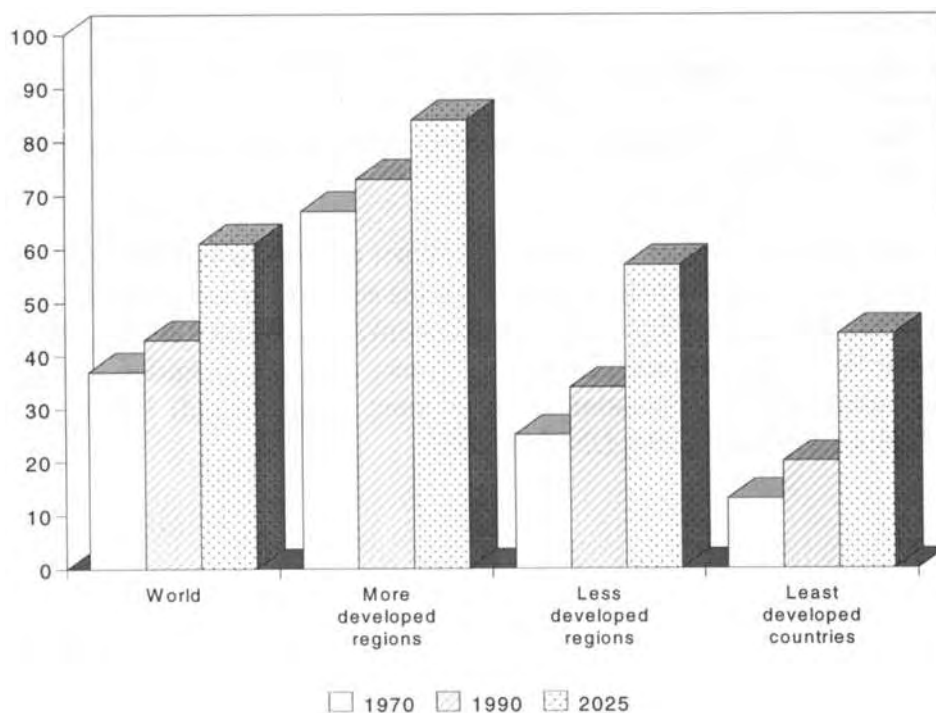
developed countries.¹ This is while the rate of world population growth has averaged 1.6 per cent per annum between 1990 and 1995.

TABLE 2
URBAN POPULATION AND PERCENTAGE OF POPULATION LIVING IN URBAN AREAS

Region	Urban population (millions)			Urban share (percentage)		
	1970	1990	2025	1970	1990	2025
World	1352	2282	5187	37	43	61
Less developed regions	654	1401	4011	25	34	57
Least developed countries	38	103	532	13	20	44
Other countries	615	1298	3479	26	36	59
More developed regions	698	881	1177	67	73	84

Source: United Nations Department for Economic and Social Information and Policy Analysis Population Division

FIGURE 1
PERCENTAGE OF TOTAL POPULATION LIVING IN URBAN AREAS



Source: UN. 1993. World Urbanization Prospects. The 1992 Revision. New York.

¹ The terms developing countries, developed countries, least developed countries, etc. are employed here as they were in the sources.

All countries in all regions have experienced sustained urbanization as annual growth rates of approximately 4 per cent have added 45 to 50 million new urban residents every year. Yet, the global picture of urbanization shows considerable differences in rates of urbanization. Rapid population growth and rural-urban migration in developing countries had shifted the balance of urban population in their favour already by 1975. By 1990, the share of developing countries had increased to 61 per cent, and by 2025 developing countries are estimated to have four times as many urban dwellers as developed countries, i.e., 77 per cent of urban dwellers will be living in developing countries. Population growth between 1990-95 averaged 2.8 per cent in Africa, 1.6 per cent in Asia, and 1.8 per cent in Latin America and the Caribbean. Excluding the Arab countries, the rate of urbanization is the highest in Africa and Asia, the two least urbanized continents.²

TABLE 3
AVERAGE ANNUAL RATE OF CHANGE OF URBAN POPULATION
IN THE LESS DEVELOPED REGIONS
(Percentage)

Region	1965-70	1985-90	2020-25
Less developed regions	3.60	3.79	2.37
Africa	4.75	4.51	3.39
Asia (excluding Japan)	3.22	3.96	2.31
Latin America	3.99	2.86	1.20
Oceania (excluding Australia and New Zealand)	7.34	3.59	3.04

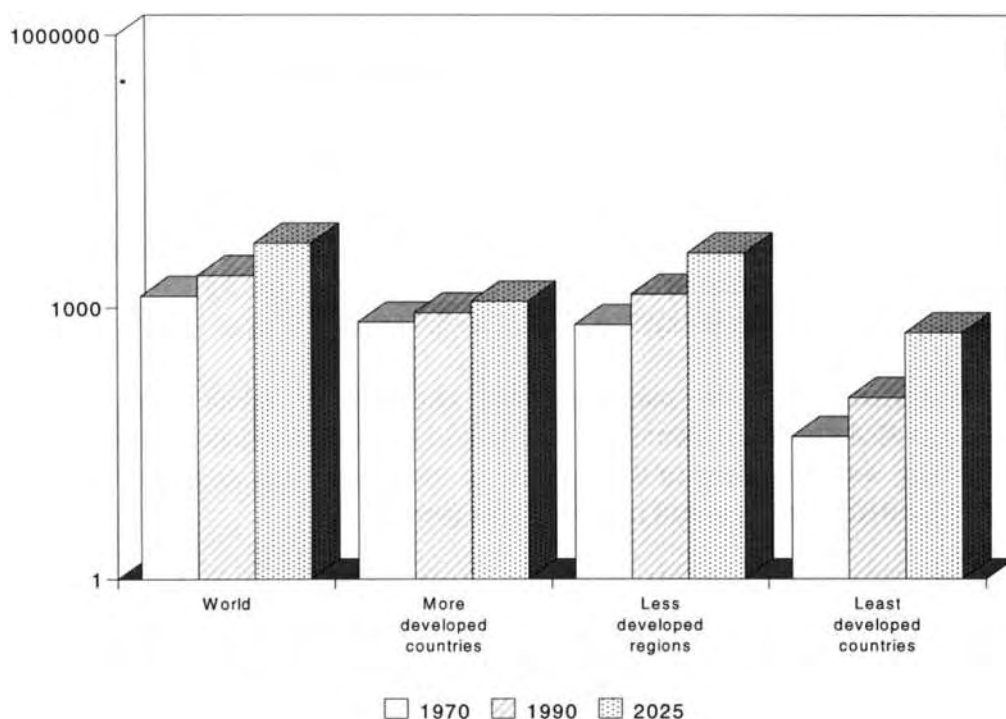
Source: United Nations Department for Economic and Social Information and Policy Analysis Population Division

United Nations projections show that 40 per cent of the population in developing countries will live in urban areas by the turn of the century. In the less developed regions the level of urbanization³ will reach 50 per cent only by 2015. By the year 2025, about 4 billion urban residents are projected to live in less developed regions, and by the year 2030, two thirds of the population in developing countries will live in urban areas (United Nations 1993 and 1994; UNCHS 1994).

² The rate of urbanization is defined as the difference between the rate of growth of a country's population and the rate of growth of its urban population (United Nations 1992).

³ Level of urbanization is defined by the percentage of the total population living in urban areas (United Nations 1993).

FIGURE 2
URBAN POPULATION



Source: UN. 1993. World Urbanization Prospects. The 1992 Revision.

At the same time there are large differences between countries since the share of urban population varies between 20 and 80 per cent. Already three quarters of all inhabitants in the developed countries and in Latin America live in urban areas, while a third of the population in Africa and Asia (excluding the Arab countries) is urban. In 1990, 72 per cent of Latin America's 441 million people lived in urban areas. By 2025, an estimated 84 per cent of the population of Latin America will be urban (United Nations 1993).

TABLE 4
URBAN POPULATION AND PERCENTAGE URBAN IN THE LESS DEVELOPED REGIONS

Region	Urban population (millions)			Urban share (percentage)		
	1970	1990	2025	1970	1990	2025
Less developed regions	654	1401	4011	25	34	57
Africa	83	206	857	23	32	54
Asia (excluding Japan)	407	879	2556	20	29	54
Latin America	162	315	592	57	72	84
Oceania (excluding Australia and New Zealand)	0.7	1.5	5.3	18	24	45

Source: United Nations Department for Economic and Social Information and Policy Analysis Population Division.

In Africa, the most urbanized regions are Southern (46 per cent) and Northern Africa (44 per cent). About a third of Western and Middle African population is urban, while the corresponding figure is only 19 per cent in Eastern Africa. By 2005, the order is projected to remain the same, but the level of urbanization is expected to vary from 41 to 66 per cent in Africa. In numbers Africa's urban population has increased from 83 million in 1970, to 206 million in 1990, and projections for 2005 show 400 million and more than double this by 2025 at 857 million, which means that Africa is expected to have more urban residents than Latin America (United Nations 1993).

By 2005, Asia will have the largest number of urban residents. By 1970, Asia (excluding Japan) was home to 408 million urban residents, and by 1990 to 879 million. By 2025 urban population is expected to rise to 2.5 billion (United Nations 1993).

In general, the rate, magnitude and character of urban concentration have differed significantly across countries. The World Bank (1993) has grouped countries in the following way according to their period of most rapid urbanization, the percentage of urban population, and present rates of urban growth:

Large Latin American countries are typically highly urbanized with more than 75 per cent of their population living in urban areas. Urban growth is slowing down and growth is mainly due to natural increase, although high population growth rates are putting pressure on large and small cities. Concentrations of population are historically high and the region has several mega-cities.

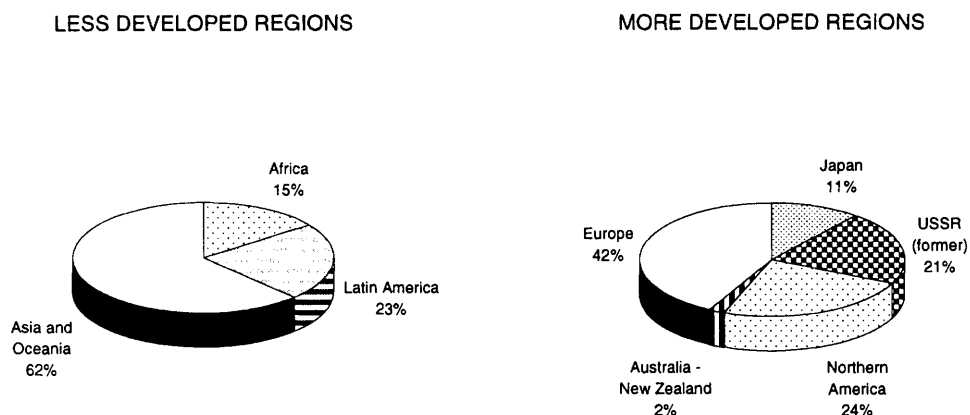
In North African and some Asian countries (Algeria, Morocco, Tunisia and Malaysia) urbanization rates are levelling and beginning to decline. High population growth rates have relatively recently pushed about half of the population to migrate out of rural areas.

In many African countries (Senegal, Ivory Coast, Nigeria, Sudan, Kenya and Zaire), there are high rates of urbanization in both primary and secondary centres, although the majority of the population is still mainly rural. The shift from male migration to household migration will eventually replace migration with natural increase as the main source of urban demographic growth. Secondary towns function as centres and markets places for rural activities.

The density of rural population in large Asian countries such as India, Indonesia and China has led to the expansion of several mega-cities, secondary cities and towns. High population growth rates continue to keep urban growth rates at high levels, although the level of urbanization is likely to remain low as a percentage of total population.

In more developed regions higher levels of urbanization are prevalent. Australia-New Zealand, Northern Europe and Western Europe are at least 80 per cent urbanized. Southern Europe, Eastern Europe and the former USSR are less urbanized: Southern Europe is 66 per cent urban while Eastern Europe and the former USSR region are 63 Per cent and 66 per cent urban, respectively.

FIGURE 3
DISTRIBUTION OF WORLD URBAN POPULATION: 1990



Source: Source: UN. 1993. World Urbanization Prospects. The 1992 Revision. New York.

There were signs of a counter-urbanization trend in the developed world in the 1970s and 1980s, when growth in large metropolitan areas decelerated and people moved away from the largest urban agglomerations towards medium-sized and smaller cities. First observed in the United States in the mid-1970s, then in Canada, counter-urbanization spread during the 1980s particularly to Europe, Australia, New Zealand and Japan. Throughout the 1970s the level of urbanization was virtually static remaining at 74 per cent in the United States and at 76 per cent in Canada. Now there has been a return to population concentration in the largest urban agglomerations. Particularly in the United States, the revival of growth in the late 1980s of some of the largest cities has been detected. Cities that specialize in services and technology-based enterprises seem to be gaining population faster than those with manufacturing-based economies. In more developed regions population growth between 1990-95 averaged only 0.4 per cent per annum, of which 1.1 per cent came from North America, and only 0.1 per cent from Europe. By the year 2025, about 1.2 billion people are projected to live in urban areas in the more developed regions (United Nations 1992, 1993 and 1994).

2.2 Mega-cities ⁴

It is estimated that by the end of the century there will be 17 cities with 10 million or more inhabitants. This number will increase to 26 by 2010, of which 21 will be in developing countries. Asia will be home to 14 of these, Latin America to 5 and Africa to 2 cities. The number of cities with 5 to 10 million inhabitants in the world grew from 18 in 1970 to 22 in 1990. Projections for 2010 anticipate 33 such cities. If the

⁴ See Appendix for a brief review of the Mega-city project of the United Nations University, which is why mega-cities will not be discussed extensively in this paper.

definition of the United Nations University of cities having 8 million or more inhabitants is applied, by the year 2000 there should be 28 so called mega-cities (United Nations 1993 and 1994; Fuchs *et al.* 1994).

TABLE 5
NUMBER OF URBAN AGGLOMERATIONS
WITH POPULATION OF FIVE MILLION OR MORE

Region	10 million or more			5-10 million			Total		
	1970	1990	2010	1970	1990	2010	1970	1990	2010
World total	3	13	26	18	22	33	21	35	59
Less developed regions	1	9	21	10	14	26	11	23	47
Africa	0	0	2	1	2	6	1	2	8
Asia (excluding Japan)	1	5	14	5	11	17	6	16	31
Latin America	0	4	5	4	1	3	4	5	8
More developed regions	2	4	5	8	8	7	10	12	12
Europe	0	0	0	4	5	5	4	5	5
Japan	1	2	2	1	0	0	2	2	2
Northern America	1	2	2	2	1	1	3	3	3
Russian Federation	0	0	1	1	2	1	1	2	2

Source: United Nations Department for Economic and Social Information and Policy Analysis Population Division

Between 1950 and 1990 urban agglomerations of more than 5 million inhabitants continued to grow in less developed regions, while a levelling off, or slowing down, of such growth was apparent in the more developed regions. For cities in the more developed regions, many urban agglomerations have virtually stopped growing, with annual growth averaging mostly 1 per cent or less, while total population growth has been 0.4 per cent on average. That is, the increase in urban population is also due to migration. In contrast, in the less developed regions, several urban agglomerations are growing at the rate of three per cent or more, and the number of cities with 10 million or more inhabitants is increasing rapidly. This is while population growth in less developed regions has averaged 1.9 per cent, implying that migration accounts for well over 1 per cent of urban growth on the average. By 2010 an estimated 26 urban agglomerations will have 10 million or more inhabitants, of which 21 will be in less developed regions. Of these, Asia will be home to fourteen, Latin America to five and Africa to two mega-cities (United Nations 1993 and 1994; Fuchs *et al.* 1994).

By the year 2000, the list of 20 largest urban agglomerations will include only three cities in the more developed regions, while more Asian cities are expected to appear on the list with each decade. In 1990, Asia was home to four of the ten largest urban agglomerations: Tokyo, Shanghai, Bombay and Seoul. According to projections, Beijing, Jakarta and Dhaka will join the list by 2010. The first African city, Lagos (Nigeria) is expected to enter the list of the ten largest urban agglomerations by the year

2000. European cities are not represented at all. No city in Europe has achieved a population of 10 million or more, and none is projected to do so by 2010. In 1990, the world's ten largest cities in descending order were Tokyo (Japan), New York (USA), Shanghai (China), Bombay (India), Seoul (Republic of Korea), São Paulo (Brazil), Mexico City, Buenos Aires (Argentina), Rio de Janeiro (Brazil), and Los Angeles (USA). Their populations ranged from 25 to 10.9 million. Over the decades this list has changed and will change by the year 2000 to include Beijing (China), Lagos and Jakarta (Indonesia), replacing Buenos Aires, Seoul and Rio de Janeiro. Dhaka (Bangladesh) will replace Los Angeles by the year 2010. By then the population of the top ten cities will range from Tokyo's 28.9 million to Jakarta's 17.2 million (United Nations 1993 and 1994; Fuchs *et al.* 1994).

One should keep in mind, however, that only a small proportion of the population in Southern countries live in mega-cities. In 1990, the proportion of the population living in cities of 10 million or more inhabitants in Africa, Asia (excluding Japan), and Latin America was less than 3 per cent (WHO 1992).

III THE CHANGING ENGINES OF URBAN GROWTH

3.1 Causes of urbanization

Historically, people have clustered together in locations that have been favourable for making a living – whether by farming fertile river valleys or by fishing or trading from a natural port. The location of a city and its growth is determined by the economic, social and political history of the region. Urban structure of a country is shaped by its history, topography, natural resources and climate among others. But economic factors are probably the most important for explaining the location, size and growth of urban areas. Practically speaking, the causes of urbanization are effectively causes of the migratory flood of country people into the cities. Migrations have been estimated to account for 40 to 50 per cent of the increase in the population of Third World cities (Day, Dasgupta, Datta and Nugent 1987; UNCHS 1994a; and Bairoch 1988; World Urbanization Prospects 1993).

At present, there are four major and some minor causes for urbanization. The most important push factor is caused by two factors, which can be quite independent, i.e., agricultural productivity and population density in rural areas. The density of population in rural areas reflects demographic expansion resulting from the introduction of medical technology and the consequent reduction in mortality rates. Changes in the agricultural system have allowed higher production levels with fewer workers, which cannot help but create a surplus of rural workers. Actually, some of the capital required for modernization may be remittances sent home by family members with jobs in the city. Urbanization policies can rarely hinder the movement of people to cities especially when they are displaced workers who can no longer make a living in rural areas. The transfer of modern technology from the present more developed regions means that radical changes in methods of farming can be introduced almost overnight. However, the depopulation of rural areas can also be seen as a sign of economic modernization and as a positive development, as farms are mechanized and become more efficient. Migrants mainly come from the bottom and top of rural income distribution. While the landless poor are pushed out, landowners use their surpluses to move to towns and later to cities (Bairoch 1988; Todaro 1983; World Bank 1991; and World Urbanization Prospects 1993, United Nations).

The second cause and the strongest pull factor is the availability of more jobs and higher incomes in urban areas. Migrants will continue to come to cities where there are jobs, despite living conditions in urban areas. However, Hoselitz argued in the late 1950s that there is a fundamental difference in urbanization in nineteenth century developing Europe and developing countries today. In the nineteenth century industrializing Europe, urban employment expanded. Rising average productivity and incomes drew workers off the land with simultaneous increases in rural productivity. Workers were 'pulled' into urban areas. Cities thus played the role of 'engines of

economic development'. In his view, the term over-, or hyperurbanization can be used for contemporary developing countries. In contemporary developing countries, in contrast, push factors appear to be more important in driving people to cities. In cities, capital intensity of modern manufacturing has limited the increase in employment to well below the supply of labour, forcing the migrants into unemployment.

In 1962, Hoselitz claimed that cities were no longer engines of growth, but had become welfare centres for the rural poor where the mass can use their concentrated political leverage to extract further benefits at the expense of the countryside and the growth of urban productivity. In other words, urbanization accelerates the concentration of political power in the hands of the urban population, which has ever more political leverage which it may use to extract benefits and distort the terms of trade away from productive and economically sustainable levels. For instance, although Sub-Saharan Africa is still mainly rural, its urban population has been relatively educated and in influential civil servant positions, which has led to political pressure to postpone reforms that would shift prices in favour of agricultural producers. In general, however, cities do appear to continue to function as growth centres, however, although there may be significant distortions preventing the full employment of their productive potential. It is possible also that rural areas are the boom areas in the future (Harris 1992; Bairoch 1988).

A third major push and pull factor appears to be education. Empirical evidence in rural-urban migration suggests that the educated and skilled constitute the longest-distance migrants because they are in great demand and are more knowledgeable of what to expect in their new abode. However, rural emigration can also be seen as a consequence of the failure of education to adapt to economic conditions and the needs required and in demand. The link between the level of education and the propensity to emigrate, particularly to the city, has emerged in most studies investigating the causes of migration in the Third World, although this factor is not unique to developing countries (Bairoch 1988; UNCHS 1994a).

A fourth major factor has been natural increase resulting from population growth. Urbanization generally contributes to the lowering of population fertility rates and average family size. Although mortality rates are historically higher in urban areas, an essential difference between urbanization in the Third World and that of the developed world has been the rapidity with which mortality rates have fallen, and the resulting natural increase in population growth. This is mainly due to the greater concentration of medical health facilities, vaccinations and improved water supply in urban areas which have reduced mortality rates to below those of rural areas also in developing countries (UNCHS 1994b; Bairoch 1988).

A fifth factor was the process of decolonization, which accelerated urbanization in five significant ways. Firstly, decolonization was accompanied practically everywhere by an excessive growth in the ranks of the civil service. Secondly, industrial policies, especially in the area of import substitution, brought about a more rapid development of urban industrial employment than in the past. Thirdly, in nearly every case in which colonial authorities restricted migration to urban areas, these measures were either

cancelled or loosened since independence. In addition, the partition of some colonial empires furthered urbanization in some regions by creating new political or administrative capitals. Finally, political disturbances led to movements of refugees.

Many of these factors are no longer present in developing countries, such as the necessity to build a national government after independence, the removal of colonial controls on population movements to cities, and large initial investments in urban infrastructure. Today, urban change in the South is mainly due to shifts in employment and education bases. Especially in weaker economies, population movements are essentially towards areas where employment and education opportunities are concentrated, or where survival is more certain. The pace of urbanization has slowed down especially in countries where the economy has stagnated, unless cities provide refuge for people fleeing from wars or natural disasters, for instance. The slower growth of several large cities in developing countries in recent decades seems to owe relatively little to explicit government policies to slow down growth, and rather more to the increasing proportion of private sector investors choosing to invest outside the central city, though still within easy reach of it (WHO 1992; Bairoch 1988; Ades and Glaeser 1994; and Fuchs *et al.* 1994).

Global economic forces have been influential especially in the growth of large cities. The globalization of the world economy causes shifts in demand. Together with technological innovation, they cause changes in commodity prices and terms of trade, which in turn modify comparative advantages and result in relocations of industry. Especially in Latin American and African cities, regional and national problems of inflation, and dependence on primary commodities have caused massive rural-urban migrations, rapid demographic, but sluggish economic growth, and an inability to finance the necessary urban infrastructure. Cities of East Asia and South-East Asia, on the other hand, are experiencing the most rapid economic growth and are increasingly brought together by international trade and inter-industrial linkages. Cities experiencing average growth range from US and European cities, characterized by deindustrialization and employment shifts to the service sector, to the more traditional, domestically oriented cities of the Middle-East and South Asia that are less affected by current global adjustments. Dominant world cities still found largely in developed countries, are predominant centres of technological innovation and diffusion, management and finance, and serve as focal points of a network of other world cities (Fuchs *et al.* 1994).

Other, noneconomic explanations should also be explored, such as a country's geographic location and the historical and political circumstances that have affected the concentration and dispersal of population. Some internal migration arises from factors such as rural violence, drought, and the desire to break away from traditional role requirements. Diverse social constraints inherent in traditional ways of rural life have also motivated migration into cities. Tribalism, in particular, puts limits on rural-rural migration and consequently increases migration to cities. Another stimulation of migration has been transportation and communication links, which have broken down geographical and cultural isolations. In addition, migration may be motivated by the simple desire to be modern. Most researchers agree, however, that the economic motive dominates (Bairoch 1988; Todaro 1983; World Bank 1991).

3.2 Urban primacy

3.2.1 Causes of urban primacy

There is a wide variety of patterns and levels of urban growth and primacy for which no single model of the urbanization process can offer a consistent explanation.⁵ Low levels of development and urbanization do not appear to increase the occurrence of primacy. Of the less developed regions, in Africa and Asia primacy occurs in countries with low, moderate or even high levels of urbanization. In other cases, particularly China and India, even where urbanization is low, the urban structure is not dominated by a single primate city, at least not at the national level. Latin American countries have the highest levels of urbanization of all the less developed regions, and primate cities are a common feature of the urban structure. In the more developed regions, population concentration in primate cities occurs in some countries, but not in others. In Northern America, high urbanization coincides often with low or moderate population concentration (United Nations 1992).⁶

In the early stages of development when a country is predominantly rural and has a low level of urbanization, it may be economically more efficient to concentrate investments in infrastructure and manufacturing facilities in one location, where also government and administrative services, industrial, commercial and financial activities, and transport and communication networks are established, and where they expand. In general, the poorer the country is, the more important cities are for its economic growth (United Nations 1993; Harris 1994). Primate cities in newly industrializing countries are the 'engines' that drive the development process for countries in the incipient stages of modernization. It may be far more efficient to build roads, port facilities, communications networks and other infrastructure in a single place. Without a focal point for manufacturing and commerce, a nation could not concentrate enough resources and investment capital to embark on the development process (United Nations 1993).

According to Ades and Glaeser (1994), urban concentration increases with high tariffs, high costs of internal trade, and low levels of international trade. Protectionism creates large central cities, while urban centralization falls with the development of internal transportation infrastructure (Ades *et al.* 1994; Fuchs *et al.* 1994).

Primate cities became primate in demographic terms only because they were already primate in economic and political terms (Ades *et al.* 1994; Fuchs *et al.* 1994).

Politics appear to be an important determinant of urban primacy. Dictatorships have central cities that are, on average, 50 per cent larger than their democratic counterparts, although political instability increases central city size, and instability is

⁵ Urban primacy refers to countries in which growth is concentrated in a single urban agglomeration (Harris 1992).

⁶ According to Martti Lujanen (Finnish Ministry of the Environment), as emphasized by Barbara Ward in the 1970s, primacy is not an inevitable consequence, but most commonly caused by the fact that the country used to be bigger in the past, traditions, especially administrative culture favoured centralization, or it was the explicit purpose of the decision-makers.

far more important in democracies than dictatorships. Ades and Glaeser (1994) found the predominant causality to be from political factors to urban concentration, not from concentration to political change. Previously it has been found by Wheaton and Shishid (1981) and Rosen and Resnick (1980) that concentration is first increasing and then decreasing in per capita GNP. Large urban markets facilitate industrialization because they lower the breakeven point for large fixed cost investments and lower transportation costs of inputs and end products.

While political instability hurts growth, the effect is weak. It is also difficult to determine whether democracies or dictatorships are more preferable in terms of growth. Although there is a link between political weakness and overcentralization in a single city, later political developments appear to be that primacy weakly creates instability and rioting (Glaeser 1994).

Using data on Western European cities from 1000 to 1800, De Long and Shleifer demonstrated in 1993 that urban growth (not urban concentration) is the product of non-absolutist regimes that respect property rights.

3.2.2 *Consequences of urban primacy*

There is some indication, although little evidence that national economies with primate cities grew less between 1970 and 1985. Overcentralization, a combination of primacy and hyperurbanization appears to have negative effects on intellectual spillovers and creates rent-seeking, as opposed to entrepreneurial urban environments. That is, the occurrence of hyperurbanization is possible, and it is more likely in primate cities, although these concepts appear at first sight rather old-fashioned. Primacy provides more possibilities for monopolistic competition, rent-seeking and increases in incremental values, since activities are concentrated in a particular location, and territorial specialization may eliminate competition in that area.

The human capital levels of the inhabitants of a city are much more significant for long-term success than government spending on welfare, police or even schools. It is difficult and rare to recover from low levels of human capital. This suggests that urban primacy may lead to the stagnation of rural areas. Policies to spread human capital may be needed to spread growth across a nation and it might therefore be worthwhile to create incentives for highest human capital workers to move within the country, especially in many developing countries (Glaeser 1994:20).

The growth of a primate city also increases regional inequality. Excluding publicly funded investment, the costs of locating a business outside the capital city will act as a barrier to growth in other places. The negative factors associated with very large cities, such as pollution, congestion, noise, poverty and crime, must become serious indeed before the economic advantages of an established urban centre can be ignored. Policies and incentives favouring one city over another, or of encouraging growth in smaller urban places rather than larger ones have been tried in many places, with varying results and often with unintended consequences (United Nations 1993).

In Latin America, growth in giant metropolises still far overshadows that in the secondary cities in absolute terms. Even before 1900, the region's cities were seen as parasitic agglomerations of nonproductive consumers, and still today, most of the largest cities, especially national capitals, are not industrial centres (Hardoy and Morse 1992).

The cities and the surrounding areas in Asia that have been most successful in becoming major centres of organization and control for world production and markets, have experienced the most rapid and sustained economic growth. This, in turn, has accommodated rapid population growth. The urban future of many cities will be determined by their ability to attract multinational companies due to their significant share in world trade, services and production. Rapid growth in multinational investment, however, can be inflationary most notably for land prices, which in turn, may greatly increase housing problems. Although the globalization of economies is considered as facilitating the operations of multinational enterprises, the era of multinational companies may in contrast be coming to an end exactly because of the globalization of the economy. They may not be flexible enough to survive in the global economy (WHO 1992).

A single urban agglomeration may drain the wealth of the whole country and make the benefits of modernization, such as health care, education, transportation and social services, available only to those who live in or near the largest city. Rural areas may actually subsidize urban residents since the concentration of marketing in urban areas raises competition and thus tends to lower the prices of agricultural products, to the point of increasing food imports. Risks of urban primacy are to a large extent similar to those arising from urbanization in general. On the other hand, agriculture is often subsidized and urban growth does not necessarily take place at the cost of rural development, but can be complementary (United Nations 1993).

IV ECONOMIC AND URBAN GROWTH

4.1 Rural-urban migration in theory

Migration used to be the main cause of urbanization induced by economic growth in urban areas. In the 1960s, Michael Todaro formulated a path-breaking model of the urban labour market in developing countries.⁷ A variant of it, the Harris-Todaro model (1970) has had the most influence on literature on rural-urban migration.⁸ According to them, expectations of higher urban wages caused migration into cities. Government minimum pay legislation and/or trade union controls sustained urban wages at higher levels than the opportunity cost of labour. As a consequence, employers attempted to substitute capital for labour and thereby limited the growth of employment. Meanwhile migration from rural areas continued in the hope of eventually finding waged employment. While the migrants waited, they were unemployed or underemployed in informal sector activities where the marginal productivity of labour was low or close to zero (Harris 1992).

Later, over- or hyperurbanization became to be regarded only as a by-product of mistaken industrialization strategies based upon import substitution. The neoclassical critique focused on interest rate subsidies for investment, in manufacturing, the provision of other incentives and subsidized input prices for manufacturing, along with the protectionist barriers against competition from imports, and the holding down of prices paid for agricultural output. Import substitution policy changed the terms of trade in favour of the urban sector and thus the rates of return between the urban and rural sectors. It overpriced urban and underpriced rural labour. It also led to high capital intensity in industry and thus a poor rate of growth of manufacturing employment. 'In sum the expression of the comparative advantage of the developing economy – abundant supplies of relatively cheap labour – was entirely frustrated' (Harris 1992:xv).

In the late seventies, the continuing crisis in Sub-Saharan Africa incited the World Bank to develop its programme lending to take into account both the critique of industrialization strategies based upon import substitution and the arguments of over-urbanization or hyperurbanization. 'The restoration of Sub-Saharan Africa's capacity to export primary commodities required an end to the diversion of resources from rural to urban sectors, and this, it was expected, would eliminate most of the wage gap between the two, leading either to an end of net urban-rural migration or possibly reverse migration from the cities to the countryside' (Harris 1992:xvi).

⁷ A model of labour migration and urban unemployment in less developed countries. *American Economic Review*. 59(1) 1969:138-48.

⁸ John R. Harris and Michael P. Todaro. 1970. Migration, Unemployment and Development: A Two-Sector Analysis. *American Economic Review*. 60, (1), March:126-42.

The Todaro model has provided a fundamental contribution to the literature on migration and economic development, and it has been modified and extended by a number of authors. However, although the model is able to incorporate and explain all observed patterns of migratory behavior, its generality reduces its usefulness in providing a necessary understanding of the real factors and forces involved in a given situation. For instance, Todaro-type models overemphasize monetary rewards, exclude social relationships, and ignore the informal sector.

Adding to the causes of urbanization, empirical evidence of rural-urban migration shows that the probability of rural-urban migration increases

- i) the shorter the distance from the nearest large urban centre;
- ii) with income differentials;
- iii) the bigger the rural centre;
- iv) with the wealth of the household;
- v) with the number of friends and relatives already living in the urban area;
- vi) with the more formal education the potential migrant has; and
- vii) for those under 30, unmarried, and female in Latin America or male in Africa.

Migrants generally have a firm belief that they have improved their economic well-being through migration, or will improve after a time (Colman, Nixson 1994).

4.2 Spatial structure and economic growth

4.2.1 Urban economics

Urban and regional economics have provided theoretical explanations and models of urban development and growth. Central place theory has been seen as a plausible explanation of the urban hierarchy in predominantly agricultural areas, but not in industrial economies. Other theories include the theory of urban land costs and land use which is incorporated into economic theories of city size, the theory of residential location in a monocentric city, and the trade-off theory of location (Cheshire and Evans 1991).

Urban problems occur when the city is not in a long-run equilibrium. These problems may become evident only in parts of the city: Peripheral settlements may suffer high unemployment rates which are not dispersed over the rest of the urban area because of their relative inaccessibility. Decentralization of industry does not necessarily precede the decentralization of the population. Residents have been found to move out of centres ahead of jobs. Even then, changes in industrial structure could still cause local unemployment problems (Cheshire and Evans 1991).

4.2.2 Causes of economic growth

A consensus has been reached on three country characteristics related to growth. They are: '(1) technology adoption and innovation, (2) high human capital and (3) stable legal and political institutions, that protect some degree of property rights' (Glaeser 1994:8).

While the optimal urban structure has not yet been discovered, it is apparent that spatial structure and economic growth are connected. Urban agglomerations provide a cradle for the development of new ideas and technologies. At the firm level, location defines the availability of factors of production, competition, and exposure to ideas. Local competition promotes technical progress, and urbanization enhances the accumulation of human capital at the individual level (Glaeser 1994).

4.2.2.1 Urbanization externalities

Latest developments in growth theory have been tested with data on cities by Glaeser *et al.* (1991). Already Jacobs (1969) and Bairoch (1988) argued that most innovations are made in cities. Jacobs (1969, 1984) claims that interaction between people in cities greatly facilitates technological advance. Indeed it appears that urbanization externalities play an important role in city growth. Firms locate in a city because local demand is high there, and so they can sell some of their output without incurring transport costs. This is most important for high fixed cost industries. Henderson (1986) refers to these effects as 'urbanization externalities'. Models imply that when an industry grows, it raises local payrolls and therefore local demand, and so helps the growth of other possibly unrelated industries in that city which adjust to higher demand. As a result, growth rates of different industries in a city are positively correlated. This argument is most compelling for local services, which probably grow when city exports grow.

At the city-industry level, specialization damages, while competition and city diversity support employment growth. Therefore intra-industry knowledge spillovers are less important for growth than spillovers across industries, particularly in the case of fairly mature cities. The growth of cities is one manifestation of the phenomenon of cross-fertilization of ideas across industries, which speeds up economic growth. Open societies, with substantial labour mobility across industries should therefore exhibit greater spread of ideas and growth. This would argue in favour of promoting immigration and migration (Glaeser *et al.* 1991).

The argument against urbanization externalities is crowding. When an industry in a city grows, it raises wages and rents and so makes it more expensive for other industries to expand in that city. However, empirical evidence at least on US cities indicated very strongly that small industries grow when large industries do and consistently pointed in favour of aggregate demand spillovers and against crowding. On the other hand, Henderson presented empirical evidence (1986) suggesting that urbanization externalities are not important for productivity (Glaeser *et al.* 1991).

Furthermore, Glaeser *et al.* (1991) conclude that externalities are not particularly important, and that standard neoclassical forces drive most of city and industry growth. For example, employment and wages grow slower where they are already high. Competition for scarce space and labour may play as large or even larger a role in the growth of cities as do externalities. In focusing on increasing returns and externalities, it is important to remember that they are often not strong enough to overcome the more conventional competitive forces. Glaeser *et al.* (1991) found that local competition and urban variety, but not regional specialization encourage employment growth in industries. However, these conclusions were based on data on particularly mature US cities during a period of time when traditional manufacturing industries fared poorly because of import competition.

4.2.2.2 Information spillovers

Cities play a role in promoting economic growth by facilitating the spread of knowledge on the firm and individual level. Urban density facilitates access to information on the needs of consumers and provides role models for development. Urban proximity facilitates the flow of information of innovations from one agent to another, of consumer needs and preferences, the flow of inputs, and the flow of ideas. Cities aid the spread of ideas, which is central to economic growth. 'Spatial proximity facilitates the flow of ideas and this point is the first crucial ingredient in thinking about what role cities will play in the new global economy.' (Glaeser 1994:12).

4.2.2.3 Human capital

Human capital has clearly contributed to economic growth. 'The correlation between secondary school enrolment rates and growth rates across countries is perhaps the most robust result of cross-national growth regressions.' There is slight evidence that female education has a more profound impact on growth than male education (Glaeser 1994:8).

The range and density of human capital in cities may directly contribute to the generation of more human capital in cities. Urban areas may also promote the accumulation of skills and human capital because they increase the extent of the market and create a greater opportunity for specialization and raise the benefits of being skilled. Cities are also better able to match the supply and demand of labour and employ human capital more effectively. Due to the wide variety of possibilities, firm-specific shocks are more easily absorbed, since workers, for instance, can easily move to other companies. Competition on urban labour markets decreases the bargaining power of both firms and trade unions, and facilitates investment especially in human capital. Causality works both ways: While cities raise the accumulation of human capital, human capital levels also promote the growth rate of urban agglomerations even over a century (Glaeser 1994).

Entrepreneurial activities in contrast to rent-seeking ones and incentives for the most able in society can be especially important and beneficial to growth. The urban

role in the development of human capital should be a central part of government policy towards cities and economic growth (Glaeser 1994:4).

4.2.2.4 Competition

Another factor that contributes to economic growth is competition within an industry as opposed to local monopolies. Explanations to the importance of competition are that competition induces agents to experiment and to take risks, and consequently contributes to innovation. Small firms may take risks to innovate more than large firms with large fixed costs investments and more to lose from failure. In addition to the number of innovating firms increasing the probability of technological advancement, small firms may be more flexible to change their methods of production once superior ways have been found. There is evidence on the localization of intellectual spillovers. Although idea-sharing may induce less investment in new ideas, in a competitive environment the positive effect of intellectual density can overwhelm the negative effect. Competition also plays a role in creating supply networks that may facilitate the creation of new firms. In oligopolistic markets, firms are more likely to integrate vertically and hinder the provision of inputs needed to start-up new companies to prevent competition. 'Industries in diverse cities grow faster than industries in cities that have concentrated in a few industries. It is the mixing of different occupations and industries which turn cities into engines of technological progress' (Glaeser 1994:15). Intellectual transmissions across industries lower investment in innovations less than intellectual transmissions within a single industry. Combinations of previous approaches have also produced innovative ways to do things. In addition to different industries, access to international pools of ideas may contribute to urban diversity (Glaeser 1994).

4.2.3 *Policy recommendations*

Results are not strong enough to validate a particular urban policy to best enhance economic growth. The causality linkages from cities to growth remain somewhat obscure, and only policy suggestions to improve the urban climate can be given. One policy recommendation would be the elimination of spatial distortions. Another one is that local governments should be independent. In addition to competition, information and incentives, decentralization of governments make them more dynamic in trying to attract new taxpayers to their area. Policies to spread human capital are needed if the fruits of growth are to be enjoyed across the nation. Policy should create incentives for highest human capital workers to move within the country, especially in many developing countries (Glaeser 1994:20).

V THREATS AND OPPORTUNITIES OF URBANIZATION

5.1 Economic consequences of urbanization

In the late 1980s, it was realized that the majority of people in most developing countries would come to live in cities and towns over the following two or three decades. It was recognized that the most dynamic sources of economic development and national savings lie in cities. Cities function as growth, service, trade and production centres, and are a locus of political and economic power, in which new forms of economic activity and types of economic organization evolve. Urban areas constitute a major link with the outside world due to their better transportation and communication connections, and are points of diffusion of social change following from new ideas embodied in national policies and new leaders. Cities constitute a human resource base attracting especially educated and skilled persons, although the absence of these skilled and educated people may also be an important factor dampening the prospects for village growth and development. Investment in cities is attractive due to potential economies of scale and agglomeration,⁹ their infrastructure and linkages with other countries and rural areas, and the availability of financing (Fuchs *et al.* 1994; Harris 1992; UNCHS 1994a).

Historically, urbanization has been found to be positively related to economic development in developed countries. Worldwide evidence demonstrates that a close positive correlation exists between GNP per capita and the degree of urbanization. An estimated 60 per cent of the value of output of developing countries was generated in urban areas by about a third of the total population.¹⁰ Large cities are viewed as engines of growth for their countries, driving the private sector by providing agglomeration economies. Cities are considered to play a catalytic role in the national economic growth and development of less developed countries. In Latin America and Asia about 80 per cent of future growth is expected to originate from urban economies. Although urbanization has traditionally been linked with industrialization, even in less developed countries in which agriculture predominates, the exchange of commodities in cities supports both urbanization and rural development. Urban productivity is thus crucial to national development and to improving conditions of the poor. In interpreting available statistics, however, one should keep in mind that urbanization brings a larger share of

⁹ Agglomeration economies take several forms including the availability of infrastructure for modern undertakings (electricity, water, sewage, telecommunications, airports, etc.); the availability of specialized business services, such as financial offices, legal offices, banks, trade associations, consulting services, laboratories, professional institutions and so on; the availability of large pools of skilled labour and harder competition among firms lowering costs and improving quality and service. (Population, Urbanization and Quality of Life, UNCHS 1994).

¹⁰ One should keep in mind, however, that urbanization may also bring activities within the monetary economy, thus raising GDP without a real increase in economic activity.

economic activity into the formal monetary economy and therefore statistics show growth in production, although in reality there may have merely been a shift from other sectors of production, which could have been more beneficial for the economy (Hoselitz 1969; Fuchs *et al.* 1994; Harris 1992; UNCHS 1994; World Bank 1991).

5.1.1 Urban unemployment

However, as argued by Hoselitz, rapid population growth in less developed countries has not been accompanied by industrial development as in developed countries at similar stages. Urbanization in the Third World has too often taken place without economic development, industrialization or an increase in agricultural productivity. This has led to the inevitable result of a dramatic shortfall in urban employment. Other consequences of urbanization have been the growth of the service sector, growth of the informal sector, growth of slums and squatter settlements, varying effects on productivity and manufacturing, an increase in per capita imports, an increase in the food deficit, and increased demands on infrastructure. The majority of the poor would become urban in the medium term. These developments are discussed below.

5.1.2 Growth of the service sector

Lack of employment in manufacturing has brought about what has sometimes been argued to have led to excessive growth in the service sector (or tertiary sector). This excessive growth has been especially pronounced in the commercial sector and administration. Adverse effects of the expansion of services may depend to some extent on the tradability of these services. Services produced in developed countries have become increasingly exportable.

The extent of urbanization varies among industries. While manufacturing is more urbanized than most industries, it is less urbanized than many service industries. Within manufacturing, industries that process raw materials are the least urbanized, whereas those that process materials previously processed are more urbanized. Since World War II, there has been a shift in manufacturing employment toward highly urbanized industries, but a decrease in urban location in most manufacturing industries in the United States (Mills and Hamilton 1994).

5.1.3 Expansion of the informal sector

Urbanization has also led to the growth of the informal sector. Sethuraman (1981) found that in the most common situation, the informal sector accounts for about 40-50 per cent of overall economic activity in all cities of some size. In Pakistan and Peru, the informal sector seems to account for over 60 per cent of all economic activity. Some researchers estimate the share of the informal sector rises up to 70 per cent of economic activity. In 1992 an estimated 51 per cent of Filipino workers were employed

in the informal economy.¹¹ In Thailand 50 per cent, in Morocco 75 per cent of the people, and in Bangladesh 70 per cent of the urban work force worked in the informal sector. In Peru 47 per cent of construction and 95 per cent of public transportation in the capital were carried out through the informal sector. These informal workers from Filipino women to Peruvian men were often employed full-time in the formal sector and yet were forced to find additional means of income to survive. As a consequence of the middle-class becoming poorer, they have moved into informal sector activities pushing the poor out of their formerly held activities and rendering them ever poorer still. Suggested reasons for this are slow overall economic growth, inefficiency of manufacturing sectors and their inability to compete in world markets, the fact that governments promote capital- rather than labour intensive industries, and the inability of financial systems to provide credit to small enterprises. Entangling and complex regulations imposed by governments also inhibit formal sector enterprises from achieving their full potential. As a rule, the informal sector gains in importance in larger cities and in cities experiencing particularly rapid growth in population (*The Urban Age*, Winter 1993).

Although the urban poor are often entrepreneurial people and the informal sector provides minimum subsistence, there are several factors that inhibit the full employment of these opportunities. The poor lack access to capital, although case studies from several Asian countries reveal that the poor, especially poor women, are good credit risks and that they will save given the opportunity. Microenterprises and the informal sector can be among the most dynamic and healthy sectors in many developing countries just because of their unregulated environment. Reforms facilitating the entry of informal sector operators into the formal sector could prove to be efficiency enhancing for the whole economy. Operating outside the legal systems often entails high costs in bribes, higher purchase prices for capital equipment, disadvantages vis-à-vis large-scale companies, restrictions on access to markets, and insecurity. However, the solution is not always to abolish regulations, but that of creating and enforcing the right regulations. There is a higher success rate for enticing those in the informal economy to become formal when regulations are devolved to the local level. Governments, communities and entrepreneurs may need to work together to encourage the creation and enforcement of appropriate regulations, innovative credit mechanisms, and grass-roots community development (*The Urban Age*, Winter 1993).

Although the informal sector already accounts for a large share of the economy in developing countries, rapid urbanization may raise this even further. The lack of reliable data has mostly been the major shortcoming preventing empirical investigation. When the informal sector accounts for an estimated 40 per cent or more of the economy, and sometimes covers some sectors completely, it is clear that official figures and ratios displaying the state of the economy give a distorted picture of reality, and it is questionable to what extent policy conclusions can be drawn. If the informal sector accounts for even 70 per cent of the economy, it is clear that data inadequacies are a

¹¹ Generally, the informal labour sector refers to a relatively autonomous sector with 'unprotected' jobs outside the formal sector which is guided by such labour legislative measures as minimum wages, health, safety and other benefits accruing to workers.

serious shortcoming. Without reliable figures on the informal sector, it is difficult to find a reliable basis to conduct rigorous analysis of the economy and implement consistent policy measures to cure economic ills.

The expansion of the informal sector should also be considered as a positive phenomenon, since it may prevent social and economic problems from exploding, and therefore should probably not be hindered, only directed and guided. Population explosion in Third World cities and countries makes it impossible to provide formal employment and housing for all. The functioning of the informal sector can be central to the sustainable growth of cities, and therefore countries. Expansion of informal activities into tradable sectors and exports may save the country from a debt trap and provide an opportunity for sustainable growth. The Habitat II theme of enabling shelter for all therefore requires measures to support the urban poor to employ themselves even if in the informal sector.

They need to be able to enter the tradable goods and services sector. The economic success of South-East Asian countries demonstrates that opportunities lie in the informal production of exports. One of the most important comparative advantages developing countries and especially the poor of the developing countries possess, is precisely the absence of effective control and regulation despite centralized policies. This however, is considered undesirable by many developed countries. Supervision, regulation, taxing etc. are excluded. Piracy, disrespect of property rights, illegal copying and use of brand names, etc. are common place and fields in which strong threats of retaliation have been heard. Also labour union codes and environmental regulations, which are seen by some developing countries merely as protectionist measures by the developed countries to prevent access to their markets, are mostly ignored by the informal sector.

For urban development to be manageable it is necessary to find ways of promoting the positive aspects of the informal sector, while minimizing illegal and unsafe activities. Not only is international consensus required on the restrictions and rules, but also on the means of enforcing them and ensuring their implementation.

The concept of the informal sector is highly misleading. As such it covers all statistically unrecorded activities. As far as well-being in cities is concerned, the real issue may be how to effectively deal with poverty and the abuse of collective goods.

5.1.4 Growth of slums and spontaneous settlements

Housing has not been able to keep in pace with urban population growth. As a consequence, squatter settlements have emerged and appear to be quite significant. The average proportion of the population living in spontaneous settlements is around 44 per cent and this is exceeded in many cities. Practically no large city in the Third World has been able to provide housing for the mass of migrants who have virtually no economic resources (Bairoch 1988; UNCHS 1994a).

5.1.5 *Consequences on productivity*

By concentrating population, the city provides a market promoting the division of labour, as well as the formation of manufacturing concerns of a size approaching an optimum. Since investment in manufacturing plays a leading role in economic development, cities which provide the best opportunities and facilities for this, become centres for economic growth. Empirical evidence has also shown that the growth elasticity of manufacturing is greater the lower a country's per capita income. Classical economic wisdom holds that the growth of manufacturing generally precedes overall growth of productivity and the economy. The expansion of manufacturing industry increases the pace of technical change and helps raise productivity in sectors other than agriculture (Singh [1989] in UNCHS 1994a).

As mentioned, cities of the Third World have been less conducive to economic development than those of the West during early phases of development. Rapid urbanization without economic development may have led to overurbanization, which in turn may have acted as a powerful brake on subsequent development, thereby creating a further vicious circle of underdevelopment. The key could lie in agriculture since there appears to be a strong association between agricultural and overall economic growth. However, agricultural productivity in turn depends on the productivity of cities (Bairoch 1988).

5.1.6 *Increase in per capita imports*

Urban structure also influences the level of per capita imports appreciably. The increase in the propensity to import imputable to urbanization affects not only the importation of manufactured consumer goods and automobiles, but of food products as well. In the Third World, it has encouraged the importation of manufactured goods and even agricultural products. On the whole, the same consequences result from the monetarization of the economy which urbanism favours, and which contributed to economic development in the Western world.

Over larger regions and the longer term, demographic pressure and urban demand have not been enough to bring about a marked rise in agricultural productivity. Hyperurbanization¹² appears to have a detrimental effect on subsistence agriculture. As a consequence rapid urban growth has led to a food deficit in the Third World (Bairoch 1988).

5.1.7 *Deterioration of urban infrastructure*

It has been argued that higher productivity in cities should not only be seen as a result of industrialization and agglomeration economies, but of better infrastructure and

¹² Hyperurbanization, urban hypertrophy or overurbanization refers to levels of urbanisation in the Third World which have perceptibly surpassed those of traditional societies in the past at similar stages of economic development. That is, the balance between economic growth and population growth has been surpassed to the detriment of the former, leading to a situation in which excessive population growth has turned into an effective brake on urban productivity growth (Bairoch 1988).

more skilled labour as well. Higher productivity may have been achieved at least partially at the expense of smaller cities, towns and rural areas. Higher productivity may also be a result of various subsidies that need to be evaluated in the context of pricing policy of infrastructure and industrial policies. Cities and towns support macroeconomic performance as strategic locations for transportation, communications and trade with the availability of purified water. However, negative externalities have become so severe in developing countries that there may be limits to the benefits of agglomeration (World Bank 1991).

Overall economic growth can be hampered by the lack of investment in infrastructure. Inadequacies result in serious constraints on environmentally sustainable economic growth and on poverty reduction. The lack of infrastructure will cause congestion and increase time used in the transportation of goods and people. When infrastructure does not provide services efficiently, economic renewal can be postponed or even halted. Inadequate maintenance is costly. In Sub-Saharan Africa, for instance, the World Bank estimates that the backlog of neglected maintenance for roads alone exceeds 5 billion dollars, more than seven times the annual spending needed to keep the roads in good shape. In developed countries the issue may be quite different, however. A recent study (Holtz-Eakin and Schwartz 1994) of its impact on US productivity growth between 1971 and 1986 found that the productivity boost was negligible. A 10 per cent increase in investment in infrastructure would have boosted *total* productivity growth by only about 1 per cent. Thus the effect on *average* productivity growth would have been quite small (*The Urban Age*, Spring 1993).

Population growth and urbanization are increasing the demand for infrastructure services such as transport, power, water, sanitation, telecommunications and irrigation. Even in capital-abundant economies of East Asia, policies of fiscal restraint have prevented infrastructure investments from keeping in pace with economic growth, population growth and the demand for such services. This is because rapid growth coupled with massive inflows has made it necessary to reduce domestic absorption to prevent the overheating of the economy. Lack of public investment in infrastructure and related services may have already become serious obstacles to economic growth and the efficiency of private investment (Schadler *et al.* 1993).

Adequate infrastructure reduces the costs of production, improving profitability, levels of output and employment particularly in small-scale businesses. A capital stock investment to improve available infrastructure for commercial and industrial purposes will have the effect of shifting the production possibilities frontier of the economy outward. Infrastructure investments tend to improve the productivity of actors, save their time and financial resources, improve general health provided that the investments result in greater efficiency and lower prices, lower than those of substitutes, and complement other components of the infrastructure. New commercial and industrial areas must provide adequate roads, electricity, communication and water supply for economic growth to occur (Schwartz and Johnson 1992).

Taken together, a complex set of services associated with the use of infrastructure (measured in terms of value added) account for roughly 7 to 11 per cent of

GDP, with transport being the largest sector absorbing commonly 5 to 8 per cent of total paid employment. Developing countries invest 200 billion USD a year in new infrastructure, i.e., on the average 4 per cent of their GDP, (while it ranges from 2 to 8 per cent of GDP), 20 per cent of their total investment and 40 to 60 per cent of public investment. Even these shares understate its social and economic importance, its strong links to growth, poverty reduction, and environmental sustainability. Input-output tables show that in the economies of Japan and the United States, for example, telecommunications, electricity, and water are used in the production process of nearly every sector, and transport is an input for every commodity (World Bank 1994).

Although there exists a clear connection between economic growth and infrastructure investments, the causalities of linkages are not obvious and are still open to debate. 'Infrastructure capacity grows with economic output – a 1 per cent increase in the stock of infrastructure is associated with a 1 per cent increase in gross domestic product (GDP) across all countries' (World Bank 1994:2). This is rather a reflection of the fact that as a country's income grows, it invests more in infrastructure. Per capita provision of infrastructure has increased in all regions; the greatest improvements have been in East Asia and the smallest in Sub-Saharan Africa, reflecting the strong association between economic growth and infrastructure. Good infrastructure raises productivity and lowers production costs, but it has to expand fast enough to accommodate growth. As countries develop, infrastructure must adapt to support changing patterns of development, as the shares of power, roads, and telecommunications in the total stock of infrastructure increase relative to those of such basic services as water and irrigation. Certain types of infrastructure are distinctly strongly associated with per capita GDP. These include telecommunications (in particular), power, paved roads, and access to uncontaminated water. Despite its virtues, infrastructure investment cannot overcome an unfruitful climate for economic activity and overall economic policy is important in defining returns and the multiplier effects of such spending (World Bank 1994).

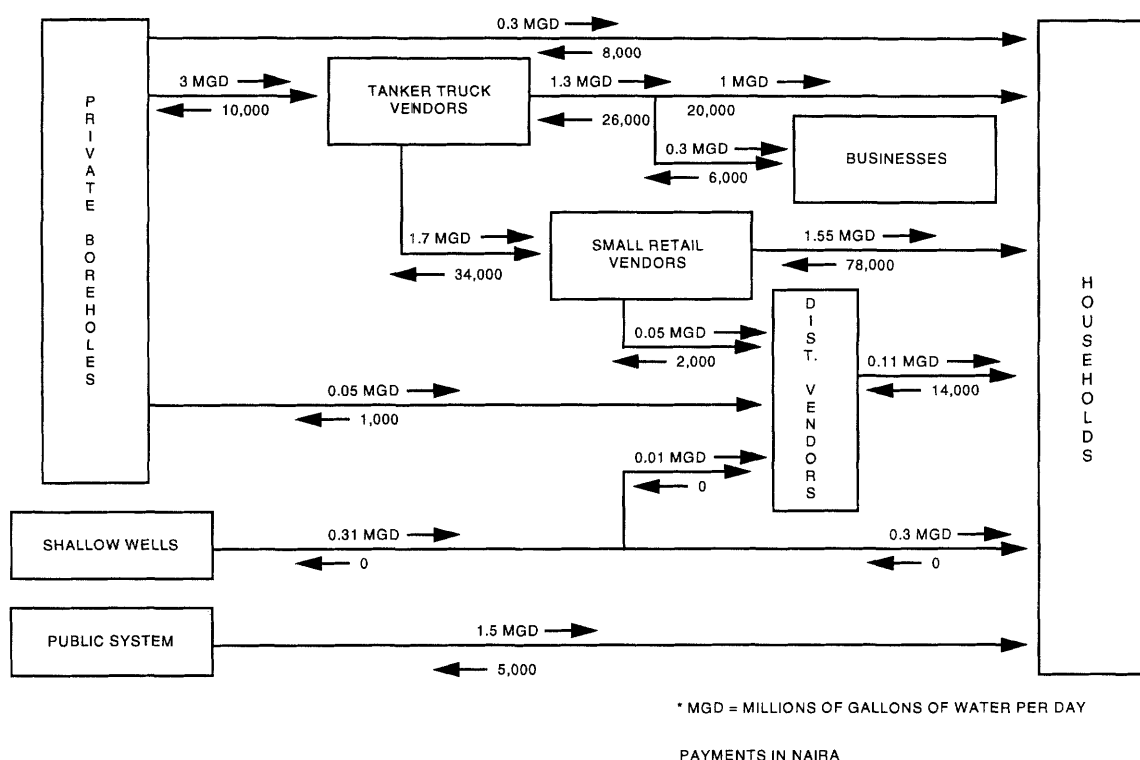
There is growing recognition that the right pricing of infrastructure is essential to the efficient allocation of resources. In the rapidly growing periurban settlements that surround many cities, conventional delivery of formal services is often prevented by legal, topographical, or economic constraints. The poor performance of infrastructure provides strong reasons for doing things differently in more effective, less wasteful ways. Infrastructure investments have often been misallocated with insufficient resources being accorded to maintenance. The delivery of services has been hampered by technical inefficiency and outright waste. And too few investment and delivery decisions have been attentive to meeting the varied demands of different user groups, or to the consequences of the environment. Some rural-urban migration could therefore be forestalled through policies that provide appropriate infrastructure in rural areas and that hinder the degradation of natural resources (World Bank 1994).

5.1.7.1 Water supply

Infrastructure provision for the poor should not be a question of insufficient means, since it is often the rich households and businesses in cities, not the poor, who

pay far less for the publicly provided infrastructure and services they use than the real cost of their provision. For instance, as is apparent from the figure below on money and water transactions in Onitsha, Nigeria, private boreholders provide twice as much water (3.35 million gallons per day) as public systems (1.5 million gallons per day). However, while the public sector charges 5000 nairas for this, businesses and households pay 26 000 nairas for 1.3 millions of gallons to tanker truck vendors, or more when small retail vendors act as mediators. Improved cost recovery for the provision of infrastructure services might broaden their scope and quality and improve services and render them available to poorer segments of consumers. Subsidies seem to favour the rich and well-off even when targeted to the poor (UNCHS; World Bank; WHO 1992).

FIGURE 4
MONEY AND WATER TRANSACTIONS IN ONITSHA, NIGERIA
(PER DAY) – DRY SEASON



Source: World Bank, UNCHS (UMP).

There are four sources of direct economic gains from investments in water supply at the firm, market, and national levels: increased efficiency and production of the water supply itself; increased production of all goods and services; increased private investment triggered by a public investment in water supply; and increased job creation and employment. Investments in water and sanitation will lead to lower input costs, contributing to expanded production and employment, reduced prices and investment of savings in other economic activities. It may encourage the expansion of existing industries and the emergence of new ones. Economies of scale and density, and technical efficiency improvements are mechanisms to lower production costs of water and sanitation services. Water supply investment is likely to bring the greatest return

where small distribution systems can be expanded, without exceeding current production capacity, to cover a broader geographic area serving existing and potential commercial and industrial users in urban and periurban centres. Smaller systems are likely to achieve economies of scale when the distribution network expands. Water supply and sanitation systems can most easily realize economies of density in urban and periurban centres. Technically inefficient systems are the best candidates for investments to increase the quality and quantity of water. Key factors in the investment decision are the volume of water used in production by existing firms, the likelihood of high-volume users locating in the area, the current price and quality of alternative supplies, and the size and location of the market for additional goods to be produced.

Water is also a basic need, the purity of which is a prerequisite of good health. More on health in section 5.3.2 (*WASH Technical Report No. 82, 1992*).

5.1.8 Is there an optimum for a city?

It is debatable whether there is an optimal size to a city in terms of population. An optimum can be based upon a large number of criteria. Empirical researches have demonstrated that the average values of productivity, factor prices, and rents change with city size. The optimal size of a city can be defined only for a definite time and location. For instance, one can optimize the global economic efficiency of a city, the efficiency of an individual industry, from the standpoint of an individual firm, resident, or group of citizens (Begovic 1991).

On the other hand, it seems that utility may no longer increase with the growth of the city. Although economic growth may be high, it may not necessarily be optimal, or reach its full potential. The inadequate and often inexistent pricing of externalities may lead to suboptimal development in terms of aggregate utility. Even when the situation is not beneficial to any party, lack of agreement on the financing of the necessary measures may prevent them from being taken. Especially in developing countries, administrative and political shortages may render it impossible to tax beneficiaries and provide cost recovery. Political power may also be in hands of elites, not representing the inhabitants of the urban agglomerations despite their voting power. In some countries, utility of the inhabitant is undervalued relative to economic figures. When the growth of the city may provide basic subsistence to an increasing number of people, environmental considerations may not receive much weight.

There are three schools of analysis for the determination of the optimal size of an agglomeration. The above-mentioned aspects resemble those of the economic efficiency school of analysis. The biological school bases its analysis on the fertility behavior of animals in crowded environments. That is, fertility declines with the density of population until reproduction is totally halted. According to the quality of life school, utility cannot increase after inhabitants have lost control of their environment. In general, the so called mega-cities are regarded as undesirable options from the point of human well-being. But again, on the other hand, agglomerations may be environmentally friendly in providing efficient and less wasteful patterns of infrastructural provision and industrial production.

5.2 Welfare effects of urbanization

Urban policies affect relative prices. If urbanization is subsidized, there may be excess migration. Conversely, if there are positive externalities, there may be too little subsidization. Collective consumption is better provided in urban areas, while infrastructure may be deficient. Although poverty is widespread in cities, people are still better off than in rural conditions and migration can be seen as a rational process whereby migrants wish to improve their standard of living. The level of welfare and utility may vary greatly regardless of housing conditions (Gilbert and Gugler 1992).

5.2.1 *The effects of urbanization on the distribution of income and the urbanization of poverty*

At the household or individual level, the net effect of urbanization is an increase in average real income, since urban areas offer better opportunities of income generation. However, the distribution of income and welfare has not been smooth and we are experiencing an urbanization of poverty. Demographic growth, ineffective policies and imperfect labour markets have led to growing numbers of poor urban households throughout the developing world. Due to the existence of the informal sector, open unemployment affects educated workers more than the uneducated. Rampant segmentation and imperfections in the urban labour markets have resulted in large wage differentials within individual cities. Overall unemployment rates fluctuate with economic fluctuations. However, the variability of measuring and estimating the contribution of the informal sector tends to conceal the existence of 'disguised unemployment' in many cities in the developing world (UNCHS 1994a).

Today, about 20 per cent of the world's population, i.e., 1.4 billion people live in absolute poverty, without adequate food, clothing, and shelter. Of these, 1.3 billion live in developing countries, mostly in rural areas. This situation is changing rapidly. The trend is clear: Not only are we living in an increasingly urbanized world, we are also experiencing an urbanization of poverty. In 1988 some 330 million urban residents – about 25 per cent of total urban population lived in poverty. The poorest households were most frequently single-headed households (UNCHS 1994a and 1994b).

During the 1980s, average incomes were reported to have fallen by 10 per cent in most of Latin America and by over 20 per cent in Sub-Saharan Africa, while in many urban areas, real minimum wages declined by as much as 50 per cent. The persistent economic crisis is forcing governments to cut social expenditure, resulting often in a decline in already inadequate levels of investment in water, sanitation, garbage collection, and health care. Often the urban poor have become true noncitizens in the sense that the legal system functions only against them (WHO 1994).

International migration threatens to spread problems of poverty to better off countries and regions. In the past decades the poor were mainly rural and had the option of moving to towns and cities in search of a better living. Today, urban population growth occurs increasingly as a result of natural increase. The urban poor may only have a slight hope of smuggling themselves to a richer country. Those who succeed, are only

a fraction of the urban poor, but even then they pose a problem to their host countries. The poorest of the poor are limited to seek refuge and improved living conditions in their nearby region, while it is mostly the rich of the poor countries that constitute migration to remote countries.

5.2.2 Consequences of urbanization on health

According to the WHO definition, health includes physical, psychological, and social aspects. These various components of better health form the basis for social and economic development. Yet, in 1990, at least 600 million people in urban areas of developing countries were living under life- and health-threatening conditions. Despite great variation, hardly any large city has been able to avoid unhealthy environmental conditions. The urban environment is already destroying lives, health, and social values, contributing to illnesses, accidents, and crime. The conditions are worst for poor people. Indeed, the crisis in the urban environment is producing more immediate consequences on health than current changes in the natural environment, such as global climatic change, the loss of rain forests, pollution of seas, lakes, and rivers, acid rain, and the loss of plant and animal species.

Urban growth has outstripped the capacity of municipal governments to deal with solid waste collection and disposal, and with air pollution from road traffic, industrial activities, and other sources. Thus, people are exposed to outdoor and indoor air pollution associated with biomass fuels from heating and cooking. In addition, water supplies are polluted and/or inadequate, there is excessive noise exposure, housing is unsafe, all contributing to a health-damaging social environment in which insecurity, fear and violence are commonplace.

Air pollution is associated with excess morbidity and mortality from asthma and bronchitis; water pollution with hepatitis, diarrhoeal diseases, and other conditions; overcrowding and inadequate housing with respiratory diseases, tuberculosis, meningitis, accidents, etc. New resistant forms of tuberculosis have spread in the slums of North America and South East Asia recently, reflecting overcrowded and poorly ventilated living conditions. Poor environmental conditions in residential areas (including inadequate security of tenure, noise and heavy traffic) are perceived to contribute to stress, mental problems, violence, anti-social behavior, drug and alcohol abuse (WHO 1992).

5.2.3 Urban mental stress and crime

No consistent results have been found, however, that would prove urban life to be more stressful than rural life. Violent crime in Third World countries does not appear to be more prevalent in urban than in rural areas. In contrast to violent crime, property crime as well as victimless crime universally appear to be more common in urban than in rural areas. Despite the remoteness of law enforcement authorities in rural areas, social control has been found to be possibly stronger than externally imposed rules. Urban crime is registered more frequently and therefore statistics may give a false picture on the occurrence of crime in rural areas (Gilbert and Gugler 1992).

The occurrence of crime is often blamed on street children. Street children have been categorized into three groups, with the most criminal ones having been found to be those that have a home to sleep in, but no one to look after them during the day. Their relatively secure position compared with completely homeless children gives them better possibilities to be engaged in more violent and 'bigger' criminal activities in a more organized manner.

The slowdown of the urbanization process in the more developed regions, with clear signs of counter-urbanization in the United States and Western Europe is probably at least partly due to the rise of crime and insecurity in large cities. As has been the case in several US cities, the outflow of middle-class taxpayers has left the cities in virtual bankruptcy. Companies have left to avoid taxes and high land costs that have raised prices of upkeeping offices in precious downtown areas.

VI POLICIES GUIDING URBANIZATION

6.1 Economic policies and instruments guiding urbanization

Urbanization appears to be an inevitable process.¹³ Solutions to the problems of cities depend heavily on their effective management. The most common needs faced by cities are improving their financial structure and management, urban information systems, strengthening the role of the urban informal sector, and institutional capacities, including the role of municipal governments (Fuchs *et al.* 1994; World Bank 1991).

In market or mixed economies, governments have leverage on which cities or regions have rapidly expanding economies, for instance through public investment projects in infrastructure and services. More influential factors on urban change can be governments' macro-economic policies, tax systems, interventions in setting prices for certain goods and services, and the distribution of power and resources between national, regional, and local governments (WHO 1992).

Among the international funding agencies, the World Bank has probably the most articulated urbanization policy. According to Harris (1992), the World Bank emphasized in 1991 that the key issue in national and local management of cities was enhancing productivity. Two further priorities were named – ameliorating poverty and protecting and improving the environment. The emphasis was shifted on policy, politics and participation and on substantial expansion. Issues in improving urban productivity in the new urban agenda included: strengthening the management of urban infrastructure; improving the regulatory framework to increase market efficiency and private sector participation; improving the financial and technical capacity of municipal institutions; and improving financial services for urban development. The UNDP complemented this new orthodoxy with a strategy paper emphasizing a new style of aid and responding to governments in terms of their priorities rather than in those preferred by the donor. The document stressed social and human aspects of economic development (World Bank 1991; Harris 1992).

6.2 The role of government and regulation

The economic model of the 1960s and 1970s emphasized in many countries a leading role of the public sector in urban policy, relying on government finances and the technical capacity of public agencies. This has been accentuated by the centralization of

¹³ Only China with its policy of industrialization without urbanization has been able to control urban growth at least until recently. This is mainly due to three interrelated institutional arrangements: The central planning system, the commune system in agriculture (which tied people to the land), and the household registration system, (which determined the distribution of food ration coupons).

political power and a decline in local government institutions. Control of public investment, even in large countries such as India and Indonesia, was highly centralized. Urban planning tended to mirror state economic planning, with an attempt to expand public control over most urban activity. Policies paid little attention to the responsibility of local institutions. Even operation and maintenance of infrastructure and the establishment of incentives for private economic activities often remained centralized. This led to excessive regulation of private activities and large transaction costs for private agents when dealing with the public sector. In recent years, the role of markets has been emphasized, while the role of government has been seen not so much as a direct provider of different goods, but as an agent which enables people and enterprises to carry out their roles (World Bank 1991).

Government tax and expenditure policies affect relative prices of infrastructure and collective goods. As described in section 5.1, there might be over- or underprovision, which may lead to a suboptimal size of urban centres, and subsidization can cause hyperurbanization.

6.2.1 Land markets and policies

Intervention by governments in land markets may be essential if supply constraints are to be removed, but misdirected intervention has often deteriorated rather than improved the situation. The record of government regulation in most land markets has been a depressing one. Despite some innovation, the scale of unmet needs in Third-World urban land markets remains huge (UN Commission on Human Settlements 1995).

Urban land problems usually arise because of the need to adjust land use to new economic circumstances. There are three explanations for why land may not be supplied for the use offering the highest current rent: uncertainty about the future, the owner-occupiers treatment of land as a consumption good, and a belief that an alternative use will yield a higher rent in the near future. Any current use of a site requires a long-term capital commitment in terms of buildings. What may be optimal at one point of time will become non-optimal as conditions change. Most land is not used in ways which would yield the current highest rent because of the buildings and infrastructure which it has inherited from the past. Consequently there is a case for public intervention to clear slum housing sometimes (Cheshire and Evans 1991).

Under current institutional arrangements, there is a role for projects that involve the purchase of 'illegally occupied' land with transfer of ownership to squatters. Provided that squatters have secure tenure, one can then expect a spontaneous increase in housing structure with only infrastructural elements having to be added. The process will generate a greater gain per dollar invested than would more direct forms of housing provision, owing to the underlying inefficiencies associated with the squatting phenomenon. These opportunities arise in situations where landowners do not collect rent from squatters for use of the land. Costly evictions are sometimes used without subsequent development of the land, which in many cases is resettled by squatters (Hoy and Jimenez 1991).

Information also contributes to consistent human settlements development. Reliable information on the ownership of and encumbrances on the properties is a *sine qua non*. Therefore, land and real property registration is a key issue. These kinds of registers can be used for various administrative purposes, such as the collection of property taxes and service charges. In many ECE countries, the trend has been toward increasingly comprehensive land registers where geographical information can be integrated into different information systems serving the authorities (UN/ECE 1994).

6.2.2 Policies to combat hyperurbanization

'Government urban policy should exist to make private decisions the correct social decisions'. For this purpose, spatial distortions need to be eliminated. 'before cities can serve as engines of growth they must not have been destroyed by uncorrected externalities or mistaken government policies'. For instance, congestion and pollution are externalities that cause distortions. Positive externalities that should be encouraged originate from high levels of human capital and from the accumulation of knowledge. There also seem to be local externalities on growth (Glaeser 1994:23).

For instance in US inner cities, spatial distortions have caused the decline of cities. While welfare programmes may be necessary to reduce crime in city centres to prevent the departure of high income taxpayers, and to improve circumstances for building human capital necessary for the long-term survival of the city, welfare payments may also have attracted more poor migrants to the city. Efforts to finance the welfare programmes have driven the educated high income people away, causing the opposite of the intended effect. To avoid this sequence of developments, 'governments must focus on the basic microeconomics of urban policy before they can hope to reap the rich benefits of knowledge driven growth' (Glaeser 1994:24).

The price of distortions may be that central cities become too large, and often too dependent on the government. This overcrowding, and this concentration on government-related activities, acts not only to reduce welfare at a point in time, but also crowds out the innovative processes that lead to growth (Glaeser 1994:24).

Actually the problem of the above type possibility of hyperurbanization has analogies to current global developments. As a consequence of global deregulation and liberalization, government policies to guide developments through regulations and taxes have lost much of their force. They may merely direct flows into other countries, like they direct migrants and taxpayers to other cities or suburban areas. To succeed in the increasingly intense competition prevailing on world markets, local and national governments may have to sacrifice underpriced goods such as the environment for short-term gains at the cost of long-term utility. That is, in the attempt to attract companies and create economic activity, the government may be willing to subsidize energy or pollutive practices. While the companies rarely pay much taxes, they pay salaries to their workers, who pay income and consumption taxes. The presence of competition

forces governments to find a delicate balance in promoting high human capital generation, while minimizing taxes and adverse developments in living environments.

6.2.3 *The problem of land ownership and housing in economies in transition*

Economies in transition face an important and complex problem in the attempt to re-establish property rights. Some governments have promised to return all property to their owners prior to nationalization. Practical problems experienced in redistribution have slowed down and hindered the process to the point which suppresses the effectiveness of all housing policy.

In addition to liberalization and deregulation, privatization is sweeping the globe. According to the World Bank, in the past decade more than 16,000 large-scale enterprises have been privatized worldwide. In 1992 alone, 50 countries sold assets worth of 70 billion USD. In its strictest sense, privatization is the selling of state assets to the private sector. Yet it can also refer to a wide range of public-private partnerships. Economists point to the ability to reduce financial burdens on strained government budgets, its capacity to improve the efficiency of services, and its potential for attracting investments to capital-starved countries (*The Urban Age* 1994).

6.2.4 *Corruption*

It has been fashionable in some academic circles in the last 30 years to consider corruption as a market mechanism which liberates the economy from excessive regulation and bureaucracy. Although this view has its virtues as a critique of bureaucracy, it ignores the considerable efficiency losses, not to speak of its demoralizing effects and distortions in income distribution it produces, (including the abuses of development aid). Efficiency losses include favouritism showed to unqualified civil servants and procurers, high market entrance costs, loss of tax and tariff income, and neglect of environmental protection and work-place security rules and instructions (Tirole 1994).

Corruption is a common problem in economic development. It affects all sectors of society: law enforcement, tax and tariff collection, public procurements, housing subsidies, police activities, banking methods, construction permits, etc. In many countries corruption has established itself as an integrated part of the system. There are generally accepted fees for public services rendered and for the acquisition of civil servant positions. It is surprising how corruptive practices vary from country and from time period to another. Corruption was common practice in England and several other European countries still 200 years ago. Today, despite the latest scandals in Japan and France, corruption is no longer practiced widely in developed countries, while most developing countries continue to suffer from corruption (Tirole 1994).

Although some social factors such as family coherence and tight clan ties influence the occurrence of corruption, it would be wrong to dismiss the phenomenon by associating it with certain cultures and local characteristics. Rather, it is more important to understand the historical and institutional causes and factors, which cause

some societies to be more corrupt than others. Historical factors appear to be particularly relevant. A society where corruption is widely practised today, is likely to be corrupt also tomorrow. Campaigns to combat corruption may be successful if they lead to the apprehension of high officials. Low civil servant salaries are another reason for corruption. In countries where corruption entails considerable efficiency losses, it may be a reason preventing the country from escaping from its vicious circle of poverty. External credit limits imposed due to market imperfections prevent the country from borrowing on the international capital market to finance salaries generous enough to remove the incentive of accepting or demanding for bribes (Tirole 1994).

Regulation often leads to opportunities for corruption, and in consequence, liberalization or deregulation may eliminate some corruptive practices overnight, as the case was for instance in Bolivia in 1986. SAPs (structural adjustment programmes) perform a beneficial role in this respect. Despite the apparent advantages of liberalization and deregulation, the question is not whether the state should intervene or not, but how it should intervene. Although privatization and competition appear to reduce the frequency of corrupt practices, it could prove useful to be aware of the specific benefits and their magnitude in various circumstances, especially since certain functions, such as public services, housing, town planning, education and income distribution, will probably always remain public or regulated under all circumstances (Sachs 1991; Tirole 1994).

6.3 The effects of structural adjustment programmes

6.3.1 Economic effects

The economic effects of structural adjustment programmes vary and positive effects take time to manifest themselves. The social consequences appear to be a general shift in favour of the rural population, while the urban population has suffered from increased unemployment, stagnant incomes and escalating prices. In particular the following adjustments have occurred:

- i) To correct relative prices, reduce distortions, and encourage agricultural production, rural-urban terms of trade have shifted in favour of the rural sector;
- ii) To reduce the cost to the government budget, subsidies for urban consumption have been reduced, particularly for food, water, shelter, transport, and energy;
- iii) The relative prices of urban tradable goods (e.g., manufacturing exports) and nontradables (e.g., housing and infrastructure) have changed to the detriment of the latter, making crucial requirements more costly and more difficult to finance;
- iv) With the shift of urban investment toward tradable goods, the demand for labour has shifted within the urban labour market; and

- v) To mobilize additional resources for investment, urban taxation has been increased (World Bank 1991; Berghäll and Aubynn 1993; UNIDO 1985; Mulumba 1992:34).

A key issue in structural adjustment is the expansion of the traded goods sector.¹⁴ This requires that relative prices for such goods and foreign exchange, reflect their real source cost. If resources are not fully and efficiently employed (as is the case with labour in most, if not all, developing countries), there may be scope for expanding the traded-goods sector without necessarily contracting non-traded sectors such as housing (UN Commission on Human Settlements 1992).

The liberalization of trade directs resources to export-oriented industries away from import-substituting ones. Export-oriented industries tend to locate close to the source of inputs, which in the case of developing countries are usually raw materials and agricultural products, and thus have a welcome decentralizing effect. In Latin America for instance, trade liberalization has already led to a reorientation of urban growth pressures away from the greatest metropolitan cities (Berghäll and Aubynn 1993; WHO 1992).

6.3.2 *The case for a change in growth strategy*

In general, higher wages and incomes offered in urban areas reflect the higher productivity of labour supported by economies of scale and agglomeration. However, some of the productivity reflects the 'urban bias' of 1960s and 1970s when many governments concentrated their development efforts in the form of infrastructure and other investments and consumption subsidies in large cities. Adjustment policies of the 1980s corrected relative prices in some countries and shifted the terms of trade toward the rural sector. This shift had some negative consequences for the urban population, which made it politically dangerous (World Bank 1991).

Although there seemed to be a case for a shift away from import substitution and towards export promotion, it was based on rather debatable assumptions and insufficient empirical foundations. Migration may not be a result of expected higher incomes in urban areas, but rather the result of either absolute deprivation in the village, or of family strategies to diversify income sources and risk. Data inadequacies make it almost impossible to prove a direct correlation between unemployment and migration. Urban real wages have rarely been fixed by governments or trade unions, and have been declining almost continuously since 1970 in Sub-Saharan Africa. It appears in general, that pull factors and natural increases are the main causes of urbanization, and informal activities are often more profitable than formal ones.

It appears in general, that it is not the rural poor who migrate to cities, and the contribution of migration to urban population growth is, in many countries, relatively small. Rural incomes are not uniformly below urban in comparable

¹⁴ That is, exportable goods and goods which substitute for imports. Services have traditionally been regarded as nontradables, although trade in them is increasingly important.

occupations (although in aggregate they are). Formal sector incomes and conditions are not systematically better than informal ones, nor do the self-employed necessarily earn less than the employed; migrants are not overrepresented in informal sector activities. While the content of urban economic activity has changed radically (particularly as it affects urban productivity), it remains true that a growing and changing composition of urban output selects a particular level and type of migrant; migrants are not expelled from impoverished agriculture (Harris 1992:xvii).

6.3.3 Social consequences of adjustment

According to Bourguignon and Morrison, employment trends in adjusting countries differ in urban and rural areas. In the latter, the situation does not generally deteriorate, because adjustment is to some extent favourable to agriculture as a result of devaluations and trade liberalization which remove the common bias in pricing policies favouring consumers over producers. In urban areas, stabilization policies to combat inflation may have very negative implications for both employment and incomes. Since cuts in public expenditure reduce especially investment, the drop in employment is particularly drastic in both rural and urban construction. Formal sector unemployment and lack of demand reduce incomes in the informal sector also (Bourguignon and Morrison 1992; Alangir 1992).

Effects on poverty have varied. In Asia a positive impact can be discerned, although these developments were largely caused by factors exogenous to adjustment. In Africa the urban population generally suffered, while in Latin America both urban and rural population generally experienced a worsening of their living standards. Usually the poorest were not the hardest hit, but the poor and lower middle class who ran the risk of becoming pauperized. The critical factor appeared to be the extent of unemployment and real wage development especially in the informal sector. The social consequences of adjustment are also a result of political processes, and considerations of equity carry less weight in the balance of forces (Bourguignon and Morrison 1992).

6.3.4 Consequences on urban housing and construction

Typically structural adjustment focuses more on overall targets for reducing domestic absorption (including government expenditure) and less on how it is to be reduced. Governments may choose to cut elsewhere, but housing will often bear a large portion of the costs of adjustment. Cuts in public expenditure induced by structural adjustment programmes have caused drastic drops in rural and urban construction. Some countries have undertaken concerted policies to use the housing sector to cushion the effects of economic adjustments. In others, a comprehensive and coordinated attempt to examine ways of using the housing sector to address macroeconomic objectives could be helpful. This is nowhere more true than in economies in transition, where in general both legal and regulatory structures and a history of underinvestment in housing have depressed personal savings incentives, decreased labour mobility, raised commuting costs, and distorted both wages and consumption. In such countries, reform of the housing sector is a key to increasing the performance of both the tradable and the

nontradable sectors of the economy. As emphasized in the introduction, sustainable improvements in shelter conditions cannot be achieved in a declining economic environment. In principle SAPs are supposed to reverse these developments although they are sometimes accused of achieving the contrary (World Bank 1993).

A devaluation of the exchange rate, often included in the adjustment package, raises the prices of imported inputs in housing construction. Price rises in imports push up the prices of domestic substitutes also unless supply is very elastic. Simultaneously, however, a devaluation shifts relative prices in favour of local production, which should eventually save foreign exchange reserves (Berghäll and Aubynn 1993; WHO 1992).

Structural adjustment programmes especially in high inflation countries aim at limiting the growth of credit with obvious consequences for housing finance. Heavily subsidized housing finance has contributed to increasing general interest rates, fuelling inflation, and increasing budget deficits. Some housing finance programmes are consistent with structural adjustment programmes (those that improve financial intermediation), while others are not (simple housing allowances). In general, projects that improve the efficiency of input markets (in land, finance, materials, skills and labour) and move towards appropriate regulatory frameworks, are consistent with structural adjustment (UN Commission on Human Settlements 1992).

Similarly, as has been mentioned, the urban population is a significant political interest group that has the political weight to extract favourable terms of trade vis-à-vis the rural sector and industrial development. The reluctance of governments to correct overvalued exchange rates in the past, is one symptom of this fact. Devaluations and price liberalizations which have increased the cost of living for urban dwellers, have sometimes led to demonstrations and riots threatening to overthrow a government or force the resignation of responsible ministers. Future urbanization may further increase the political power of the urban population. The distribution of resources and both internal and external terms of trade are often more a result of a political power struggle, rather than a reflection of underlying economic productivity and future growth potential. Cities, and countries as a consequence, may fall, and some may already have fallen, in another poverty trap, in which the urban population extracts benefits and favourable subsidies, while the rural sector and other productive sectors, especially producers of tradables suffer, and are unable to compete with imports.

Structural adjustment programmes (SAPs) have corrected some of the urban biases, but they also risk creating new ones. Despite comparative advantages in labour-intensive industries, bottlenecks such as insufficient infrastructure building and maintenance, may seriously jeopardize the employment of relatively abundant endowments in developing economies. Public regulation, budget constraints and import liberalization may make it impossible for infant industries to get on their feet. Although the SAPs are designed to abolish distortions and provide market prices to guide resources into the most productive sectors, they do not remove the distortions prevailing on world markets. Import liberalization therefore forces developing countries to suffer from unfair competition produced by price distortions resulting from especially agricultural subsidies. Furthermore, taxes, tariffs and other import restrictions of richer

countries raise the prices of developing country exports reducing their demand. These may contribute to a new urban bias, especially since agricultural goods account for an important share of developing country production.

6.4 Sustainable urban development

Environmental aspects have grown in importance in an effort to improve citizens' everyday living environment. This is reflected in trends such as the increased attention paid to waste disposal, recycling of household wastes, economizing the use of raw materials and continuously improving the level of wastewater treatment. Contamination of ground water is a special concern in several countries. The environmental problems caused by traffic have also become a critical issue. Citizens' behavior is of central importance and is best influenced by the simultaneous use of information, incentives and disincentives (UN/ECE 1994).¹⁵

The term sustainable development combines the objectives of development and those of controlling the long-term impacts of human activities that exceed the carrying capacity of the environment in coping with them. According to the World Commission on Development and the Environment, also known as the Brundtland Commission, 'we must meet the needs of the present generation without compromising the ability of future generations to meet their own needs.' The Commission further elaborates the definition to include economic and social aspects in addition to the environmental ones. There are numerous other definitions of the concept of sustainable development. More recently a new notion, termed sustainable human development, has been brought up. The UNDP Administrator defines it as follows:

Sustainable human development is development that doesn't merely generate growth, but distributes its benefits equitably; it regenerates the environment rather than destroys it; it empowers people rather than marginalizes them; it enlarges their choices and opportunities and provides for peoples' participation in decisions affecting their lives. Sustainable human development is development that is pro-poor, pro-nature, pro-jobs, and pro-women. It stresses growth, but growth with employment, growth with environment, growth with empowerment, growth with equity.

In this context we are mainly interested in sustainable urban economic and social development, but it is apparent that a definition of such a term would resemble that of sustainable human development (Presentation to the UNDP executive committee, 17 February 1994).

In section 5.3.2, some consequences of the urban environmental problems for the welfare of the present generations were discussed. There is also a growing amount of literature on the environmental impacts of human settlements development. This subject is, however, beyond the scope of this paper. Suffice to say here that the rapidly

¹⁵ Economic Commission for Europe.

increasing pressure on urban areas causes considerable strain, not only on the urban infrastructure and on housing, but also on the urban environment. There is a need to analyse externalities and government policies towards their pricing. If polluters were effectively obliged to pay indemnities on some of the diseconomies they create, large urban agglomerations might prove less attractive. Practical policy has often tackled these problems only superficially. Concerning implementation, the Earth Summit recognized that local authorities and interest groups are best able to take concrete actions on the urban environment involving pollution problems, environmental hazards, and poverty (World Bank 1991; UNCHS 1994).

Although it was previously argued¹⁶ that the lack of infrastructure will cause congestion and increase time used in the transportation of goods and people, problems of pollution and congestion created by traffic cannot be readily resolved by extending the road network. As a recent study prepared jointly by the Organization for Economic Cooperation and Development (OECD) and European Conference of Ministers of Transport (ECMT) puts it: 'Building more and more roads in cities and conurbations has enabled more people to travel by car, but has not reduced peak-period congestion to any noticeable extent. As soon as new road space becomes available in large cities, it is quickly filled. Even city regions with the most extensive road networks have high congestion levels.' (UN/ECE 1994:4)

Urban pollution presents another transboundary problem that is not just an internal matter of the city or country concerned. To be effective, measures to tackle these problems may need to take into account existing local customs and traditions and receive the acceptance and support of local authorities and various actors.

6.5 Financing urban development

In less developed countries, the main sources of recurrent municipal revenue are typically local taxes, local fees and charges, and central transfers. Information on the importance of local government revenue is somewhat conflicting. One source claims that central government transfers constitute about half of local government recurrent revenue, while another states that local governments spend, but mobilize relatively little local resources. Property taxes, the traditional local tax, have generally been less than 25 per cent of local revenue and less than 1 per cent of total government revenue. The pattern of local government taxation differs between countries. It appears in general however, that the poorer the country is, the more dependent its local governments are on federal transfers. In practice, local variations in expenditure have been restrained by central government control (Cheshire and Evans 1991; World Bank 1988).

Decentralizing expenditure responsibility and revenue authority to urban governments in mega-cities is likely to improve infrastructure provision, lead to greater self-reliance, and a strengthening of a country's pluralistic political structure. Greater reliance on their own resources means that urban governments need to look to a reform

¹⁶ Chapter V, under the heading 'deterioration of urban infrastructure.'

of the property tax, taxation, sales taxes and user charges for efficient, equitable, stable, and growing sources of public revenues. Infrastructure in mega-cities offers scope for increased involvement by the private sector in the provision and financing of social and physical infrastructure services. These represent a mutually reinforcing package of measures that need to be pursued across the board in order to avoid endangering macroeconomic stability and imposing an undue burden on the economies of the cities themselves or the rest of the country (Fuchs *et al.* 1994).

In the housing sector, direct government spending averages about two per cent of government budgets in developing countries, a tiny fraction of the resources flowing into the sector. SAPs are often blamed for the cuts in housing spending, although government spending is far less important than government policies that affect housing prices and characteristics by laws, regulations, and other means, which can have vast and pervasive impacts not only on the performance of the sector, but on the performance of the broader economy as well. In financing development in general, aid is not important. Its comparative advantages lie in technical assistance, not capital projects (World Bank 1993).

Fiscal effects of the housing sector are those associated with taxation and subsidization of housing. Housing subsidies that may lead to budget deficits and considerable inflationary pressure have been a particularly prominent feature in centrally planned, or formerly centrally planned economies. In the late 1980s, for instance, housing subsidies comprised 13 per cent of the government budget, some 34 per cent of all government budgetary subsidies. Reduction and restructuring of subsidies could have implications for both social equity and macroeconomic efficiency (World Bank 1993).

Public works departments and their connections in the private sector have a vested interest in not changing the ways of infrastructure investment in urban projects. NGOs have broken this racket with second best solutions that are less efficient but more readily available and employable.

So far this paper has mainly discussed issues regarding urbanization. Henceforth the paper will concentrate on the various aspects of construction and provision of shelter for the expanding urban population. Not only is construction necessary to accommodate newcomers, but it may also prove to be a means of promoting economic activity and growth in order to avoid excessive urbanization and related problems.

VII PAST POLICIES AND SUSTAINABLE SHELTER STRATEGIES

Roughly, a three stage sequence can be identified leading up to the current 'enablement' paradigm of support-based partnerships between the government, the private sector, communities and individual households:

- i) The public works tradition of government built housing and slum clearance programmes identified with the post-independence period of the 1960s in Asia and Africa and the postwar period of the late 1950s and 60s in Latin America;
- ii) The organized (or aided) self-help movement that was strongly promoted in the late 1960s and early 70s, particularly in Latin America and later in different forms in Asia;
- iii) Sites and services projects and slum upgrading programmes that got under way in the 1970s and continued throughout the 1980s in most parts of the developing world (Wakely 1994).

7.1 Public works tradition of government built housing and slum clearance

This mode of production turned out to be expensive and inefficient. Quality standards were often too high considering the target group. A major consequence of this was that many of the housing units originally intended for low-income groups were sold or transferred by their intended beneficiaries to better off households for whom permanent accommodation had a higher priority either in terms of use or as a capital or income earning investment. In the absence of re-sale, transfer or subletting, environmental conditions tended to deteriorate rapidly through neglect. To a large extent this stemmed from the occupants' exclusion from any direct involvement in the design of their dwellings and the perception that they had no responsibility for the maintenance and management of dwellings they occupied and the common open spaces they used (Wakely 1994).

At the same time governments saw as their responsibility to rid cities of unhealthy and unsightly slums and shanty settlements that were springing up rapidly. Slum clearance programmes effectively depleted a large portion of the urban housing stock, without any replacement except for few households in public housing. The final effect tended to be slum relocation further away from centres of employment and education (Wakely 1994; Gilbert and Gugler 1992).¹⁷

¹⁷ Another measure that reduces the supply of housing is rent controls, which decrease the profitability of rental investment and consequently the supply of rental housing in the long run, although they may be effective in protecting especially poor residents in the short term (Gilbert and Gugler 1992).

7.2 Self-help building

The idea of self-help building was that the future inhabitants would build their own houses following the rules and plans given to them. The principal basis was the attempt to reduce building costs by using the beneficiaries to do the building. In addition it was argued that overheads and profits would be avoided by the use of a public works agency to supply building materials. Direct involvement was also assumed to foster commitment and many unskilled migrants would simultaneously learn a productively useful trade (Wakely 1994)

The principal reason for the failure of these projects was their dependence on complex and sophisticated management processes. Costs were not reduced significantly since labour costs never accounted for more than 20 per cent of the overall cost of the project, and the share of unskilled labour was usually a third of this 20 per cent (Wakely 1994)

7.3 Sites and services and squatter upgrading

This approach entailed a division of responsibility whereby governments provided components such as land and basic infrastructure, while households provided for the superstructure of their dwelling. The importance of the informal sector was recognized and the role of housing areas as location for manufacturing and commercial activity became appreciated. It became apparent that given security to land, household savings and surpluses, however small, were invested in its development. The basic ingredients of slum upgrading were the award of legal rights to the land upon which squatters lived and the provision of access to safe water and waste disposal (Wakely 1994).

The most serious failure in sites and services projects was the assumption made of low income households' ability and willingness to pay for housing. Some 12-15 per cent or less of an urban household's income is a likely proportion to be set aside for housing investment in situations where 70-80 per cent is spent on food alone. Many households could not afford to build on the land they were awarded. Although this represented a major departure from centralized approaches and gave decision-making power to beneficiaries, they still had no choice over location, the size of land, or level of services to which they had access. It was not uncommon for public amenities to deteriorate rapidly (Wakely 1994).

7.4 The enabling approach or the global shelter strategy for the year 2000

In the 1980s, the diagnosis of development came to focus on skills, policy and institutions. Governments were now supposed to seek facilitate action by their citizens, private firms or non-governmental organizations, to provide for themselves such services and at such standards as people themselves might choose. The capital project was replaced by the programme of technical assistance

and 'enabling'. This concept of an enabling approach was first enunciated in the UNCHS' Global Strategy for Shelter to the Year 2000 (GSS) adopted by the UN General Assembly in 1988. Stressing the need for governments to make fundamental changes in their approaches to shelter, the Strategy stated that they should concentrate more on the creation of incentives and facilitating measures so as to enable housing and other urban services to be provided by householders themselves, community organizations, NGOs, the private sector and so on, and less on actual implementation. In this way, the full potential of all the actors in shelter production and improvement would be mobilized.

The World Bank defined in 1991 the new orthodoxy on the urban sector to combine both the emphasis on the economically productive role of the cities and the style of assistance relating to governments as facilitators rather than providers in *Urban policy and economic development: an agenda for the 1990s*. The UNDP complemented this initiative with a strategy paper stressing the social and human dimension of economic development called *Cities, people and poverty: urban development cooperation for the 1990s*. It emphasized the need to respond to governments in terms of their priorities in development aid (Harris 1992:xix).

The philosophical foundations behind the enabling approach is closely linked to the capability approach introduced by Amartya Sen. It is concerned with the freedom of choice and the identification of a minimal combination of basic capabilities, the ability to satisfy certain crucially important functionings up to certain minimally adequate levels. This is a departure from the previous basic needs approach,¹⁸ the need of commodities, which were not understood as the means to real ends, i.e., inputs for valuable functionings and capabilities. The theoretical structure behind this so-called 'enabling approach' and its connections to other parts of economic policy, have not always been clear (Sen and Nussbaum, 1993).

There are limits to the enabling approach. For instance housing of the elderly, ill and disabled who cannot help themselves cannot be based on the enabling approach; As Amartya Sen puts it:

...an active exercise of freedom might well be valuable for a person's quality of life and achieved well-being. Obviously, this consideration would be of no direct relevance in the case of babies or mentally disabled, who are not in a position to exercise reasoned freedom of choice. For people who are in a position to choose in a reasoned way and value freedom to choose, it is hard to think that their well-being achievement would never be affected if the freedom to choose were denied. A person's ability to achieve various valuable functionings may be greatly enhanced by public action and policy (Sen and Nussbaum, 1993:44).

The enabling paradigm is inherent in World Bank policy, the Global Shelter Strategy and Habitat II specifically in conjunction with housing and urbanization. As a general development philosophy, it has been incorporated into United Nations

¹⁸ Also referred to in Habitat I recommendations.

Conference on the Environment and Development's Agenda 21, and into the Programme of Action adopted by the International Conference on Population and Development 1994, and draft documents for the World Summit on Social Development 1995.

7.4.1 Public/private partnerships

Partnerships are necessary and efficiency enhancing due to the differing comparative advantages various actors have in enabling shelter strategies. Partnerships can improve the supply of housing and enable different sectors to gain access to skills and resources of each other. Partnerships are also a way of reducing and spreading the risks associated with investment in low-income housing, particularly in relation to finance, construction, marketing and management. Partnerships provide a mechanism for maximizing returns on investment by achieving a better balance of complementary capacities of different sectors. Partnerships may also increase the output of housing by creating economies of scale (UNCHS 1993).

7.4.2 The role of the government in the enabling paradigm

Although the trend, at least in the ECE region is towards increased delegation of decision-making to lower levels, the central government continues to have important 'enabling' tasks. The government is the only agency capable of creating an 'enabling environment' for shelter. It creates the legislative framework for contractual relationships between various parties. It plays a crucial role in protecting its constituents from exploitation; in investing in areas which are insufficiently profitable to induce participation by the commercial private sector and too large and capital intensive for the third sector to handle alone; and in creating the macro-economic and political conditions required for successful action in human settlements (UN/ECE 1994).

The public sector tends to be bureaucratic and hierarchical, occupied with enforcement, collection, and regulation.

Governments have at their disposal seven enabling instruments for housing markets to work. Three demand-side instruments are the development of property rights, mortgage finance and the rationalization of subsidies. Three supply-side instruments are the provision of infrastructure for residential land development, the regulation of land and housing development, and the organization of the building industry. These need to be supported and guided by the development of the institutional framework for managing the housing sector.

In its enabling capacity, the government should intervene only in:

- i) ensuring an adequate supply of land for low-income housing, removing existing impediments in the supply, transfer, and regulation of land for shelter; introduce supporting actions designed to increase the operations of land and housing markets in favour of the majority of low-income households, mainly through improvements in the areas of finance, cost-recovery, shelter

technology, tenure, land acquisition, administration, security, and regional balance; and removing bottlenecks in land supply and finance;

- ii) coordinating the provision of infrastructure and services;
- iii) establishing a sound financial environment to encourage private investment in shelter;
- iv) liberalizing standards to permit the use of a wider range of building materials;
- v) adapting existing institutions, amending legislation, encouraging institutions engaged in public participation;
- vi) introducing appropriate actions designed to minimize the impact of the shelter sector on environmental conditions, maintain basic public health, and minimize the impact of natural hazards on shelter (Building and Social Housing Foundation 1994; World Bank 1993; Spence *et al.* 1993; UNCHS 1993).

In low-income countries, priorities are to develop market-oriented systems of property rights, facilitate housing supply by increasing infrastructure investment, and enhance building industry competition. In highly indebted middle-income countries, priorities are fiscal and financial policy reform, particularly improving housing finance institutions and reducing budgetary transfers to the housing sector, and expanding infrastructure investment. In centrally planned and transition economies, priorities for reform are property rights, housing finance, subsidies, land and building regulations, land development, materials production and distribution, and the residential construction industry. In other middle-income countries, priorities are regulatory reform in land use and building, in facilitating transition to a more responsive system of housing supply, and in the development of mortgage finance (World Bank 1993).

Municipalities have a central task in creating the prerequisites for building, e.g. servicing the land to be developed (UN/ECE 1994).

7.4.3 The role of the commercial private sector

The commercial private sector has normally been unable to provide housing at a profit for a price the poor can afford, (the so-called 'needs-demand gap'). At higher income levels, private enterprises have been the main provider of housing and have a real comparative advantage in doing so. The comparative advantages lie in the production and marketing of land and housing units for those who can afford them, the provision of infrastructure at full cost recovery, the creation of a private housing-finance market via the mobilization of domestic savings, the production of standardized building materials for use in housing construction, and the development of an efficient and competitive private construction industry using industrial methods (UNCHS 1993).

7.4.4 The role of third parties

The third sector refers to organizations of people which have as their objective the promotion of the good of their members (CBOs), and to institutions which support and mediate on behalf of these organizations (NGOs). It includes housing cooperatives,

community organizations, collectives, women's groups and common-interest associations. In developing countries, this sector is the most important and efficient producer of its own housing by producing low-cost shelter tailored to individual requirements and circumstances, in developing certain kinds of infrastructure on a collective basis, in mobilizing people for collective action, and in mediating between people, government and the commercial private sector (UNCHS 1993).

An enabling housing regulatory and institutional environment must guarantee clearly defined, stable, and reasonably broad private ownership and user rights, the ability for private actors to transfer those rights through enforceable agreements, and a predictable, inexpensive, expeditious, publicized, and accessible system for enforcement (World Bank 1993).

Lessons learned from strategy development confirm the results of an earlier evaluation of the enabling approach, which identified four preconditions for success:

- i) Governments must take unambiguous decisions that provide for autonomy at local level;
- ii) Measures to foster local initiative must be accompanied by others to address barriers that stand in the way of these initiatives;
- iii) Governments must accept the demands of poor communities as legitimate, and respond to them;
- iv) Professionals involved in human settlements development must be prepared to re-define their roles (UN Commission on Human Settlements 1995).

Introduced in late 1988, the Strategy gave itself twelve years to achieve the target of facilitating shelter for all. It is currently in its mid-phase of implementation of national plans and strategies before a final evaluation phase. 'The overall picture of putting plans into action is one of spasmodic and limited achievements, with success often confined to one particular sector of the nation's housing market. Problems of land supply and tenure are proving particularly intractable.' Successful improvement of a country's housing condition is seen to be primarily a function of its economic advancement, with the countries of the Pacific rim achieving the greatest improvements in housing condition (Building and Social Housing Foundation 1994).

Innovative approaches which are proving highly successful include locally based schemes in Costa Rica and Nicaragua, regionally based schemes in Indonesia and the Philippines and individual-based schemes in Zimbabwe and Uganda. The Grameen Bank in Bangladesh and a community mortgage scheme in the Philippines have also proved successful. In India and Pakistan, innovative sanitation and water supply projects are proving successful and are being replicated. Apart from these, achievements to date have rarely been due to the action of governments despite the enabling rhetoric, and are more usually a result of social movements of the poor (Building and Social Housing Foundation 1994).

In the ECE countries, the growing number of homeless and population segments living in substandard housing conditions have emphasized the need to diversify housing policy instruments in accordance with the different needs of various population groups (UN/ECE 1994).

VIII HOUSING THE HOMELESS

In the beginning of the 1990s, nearly a third of the population of developing countries remained homeless or without decent shelter. In Third World cities, squatters comprised up to 35 per cent of the inhabitants. With the urban population in the developing world currently rising by 50 million a year, it will reach 2 billion by the end of the century, which will mean that nearly half of these will live in slums and squatter settlements, since in most cities and towns the shelter delivery system and the demand for labour are unable to keep pace with the expansion of urban population. The vast majority of those with incomes below the poverty line are living under inadequate shelter conditions, that is, without adequate privacy, space, security, lighting, ventilation, basic infrastructure, and location with regard to work and basic facilities at a reasonable cost. Most people living under such conditions also face continued un- and underemployment. The fact that an increasing number of middle-income salary earners have to live under inadequate shelter conditions adds to the problem. In developing countries, urbanization has led to massive demands on the construction sector for housing the migrants and for providing offices and production locations for the expanding industry (UNCHS 1994b; Hoy and Jimenez 1991).

8.1 Housing starts – a leading indicator of economic cycles?

While plant building has generally been regarded as productive investing, residential building has sometimes been regarded as a welfare cost or even as outright consumption. Economic problems have reduced the perceived importance of housing investment, a non-tradable good, when priorities have been in expanding production capable of generating foreign exchange for external debt service, although construction in general is a tradable goods sector. In other words, the significance of the human settlements sector is often underrated, although for instance, the development which took place in the ECE countries after the Second World War is clear evidence of its great importance to the entire national economy (UN Commission on Human Settlements 1995; UN/ECE 1994:17).

In developing countries, housing investment comprises from 2 to 8 per cent of GNP and from 10 to 30 per cent of gross capital formation, and provides a flow of services equal to another 5 to 10 per cent of GNP. Housing investment and services combined, constitute between 7 and 18 per cent of GNP. In industrialized countries about half of fixed capital formation takes place in the building construction sector. Construction constituted between 9 and 18 per cent of GDP, while residential building ranged between 3.9 and 7.4 per cent. In Western Europe, housing construction accounts for approximately one-fourth of total fixed capital formation. In general, housing makes up from 20 to over 60 per cent of reproducible wealth. It is also common for the share of

the housing sector to increase with the liberalization of the economy (World Bank 1991 and 1993; Berghäll and Aubynn 1992; ECE 1989).

Household saving and consumption are influenced by real estate values. Official figures often underestimate the real value of housing. Controlled and subsidized rental payments do not reflect the underlying economic value of the rental housing stock. The housing sector also affects inflation, financial depth, labour mobility, the balance of payments, and government budgets through taxes and subsidies. Altogether, housing investment accounts for a substantial proportion of a nation's capital formation, it is an important generator of employment and incomes. Savings and borrowing for housing can strengthen the entire financial system. The housing sector is an important and productive sector, in which policies have repercussions for overall economic performance (World Bank 1991 and 1993; Berghäll 1992; ECE 1989).

Information on the multiplier effects of residential construction is contradictory. Experiences from a number of countries indicate that for every unit of currency spent directly on house construction, an additional unit of currency is added to national income through multiplier effects. According to another source, on the real side of the economy, each dollar invested in the housing sector gives rise to about two dollars of economic activity in other sectors of the economy. Employment in the residential construction industry, which comprises from 1 to 3 per cent of the economically active population in developing countries, is associated with employment in other industries of about twice the number. Through its forward and backward linkages, the housing sector is at least as capable of generating income and employment gains as other types of capital investment (World Bank 1991 and 1993; UN Commission on Human Settlements 1993; UNCHS 1986; Berghäll and Aubynn 1993; UN/ECE 1994; UNCHS 1994).

In addition these linkages often operate with considerably shorter time lags than other investments between the inception of investment and the realization of its final effects, and would consequently appear to be an attractive countercyclical policy measure, and work as an effective stimulator when rapid responses are required. The housing sector can make the biggest difference in the economy through its overall price level and rate of change (by contributing significantly to inflation rates, levels of personal savings, and levels of household wealth), and through price differentials from place to place (which can significantly impede labour mobility and increase unemployment). Housing investment creates demand also through its forward (furniture, household equipment, etc.) and backward linkages. In most developing countries it provides the demand basis for the development of shops, workshops and small scale industries in both rural and urban areas. Even low-income housing investment is estimated to have multiplier effects of 2 and 3 through its backward links in building materials industries and through the demand for other goods and services. Since an estimated 10 to 25 per cent of all dwellings in developing country cities function as work places for their self-employed occupants, improved housing conditions can raise the productivity of economic activities and consequently incomes also (World Bank 1991 and 1993; UN Commission on Human Settlements 1993; UNCHS 1986; Berghäll and Aubynn 1993; UN/ECE 1994; UNCHS 1994).

Regulations governing residential, industrial and commercial building may, however, be very different leading to different responses to policy measures. The effectiveness of housing investment, for instance, depends on the institutional framework and economic situation.¹⁹ In unresponsive housing supply systems, an infusion of a fiscal stimulus to the sector is likely to lead more to higher prices in the sector than to increased output, with the result that housing investment will be highly inefficient, leading to too little physical output produced relative to production costs. Conversely, when the supply system is flexible and the economy is deep in recession, so that few private incentives exist for housing production, policies to stimulate the economy through the housing sector can be effective. Policies that ensure stable and responsive supply systems and foster low and affordable housing prices are needed, rather than those that artificially stimulate housing production to generate income and unemployment (World Bank 1991 and 1993; UN Commission on Human Settlements 1993; UNCHS 1986; Berghäll and Aubynn 1993).

In general, policies with harmful macro-economic effects may be said to be those involving heavy subsidies and direct government production of housing services. Good policies, from the macroeconomic point of view, are those that improve the supply of the key inputs to housing (a skilled labour force, a sound and functioning regulatory framework, and the efficient supply of building materials, land and finance at prices people can afford) and ensure the efficient use of these inputs. The key factor affecting housing supply is the housing sector's regulatory environment, particularly land use and building regulations. As a result of housing policies affecting supply, countries on similar levels of economic development can have quite different outcomes in housing conditions (World Bank 1993; UN Commission on Human Settlements 1992).

At the household level, housing represents the largest investment in a lifetime. A desire for home-ownership is a powerful motivation for people to save. Several West European countries have been able to raise their aggregate savings rate and mobilize capital for investment thanks to housing policies that encourage private saving. As mentioned in section 5.1, the poor also save given the opportunity.

Increased savings and the development of mortgage finance can lead also to further financial deepening, which may have an overall independent contribution to economic growth. Because of the potential importance of housing finance to the financial system, properly structured housing finance policies will be important to the development and stability of the economy.²⁰ (UNCHS 1993; Berghäll and Aubynn 1992; UN/ECE Annual Bulletin of Housing and Building Statistics 1989).

¹⁹ The stimulation of housing investment by budgetary funds may merely crowd out private housing production. In the United States this offset was found to be 85 percent in one study. Naturally the magnitude of the crowding out effect depends the phase of the economic cycle and elasticity of supply (World Bank 1993).

²⁰ According to a study conducted by the IMF, countries with an inflation rate below the median had a national savings rate of about 10 percentage points of GDP above the rate of high-inflation countries over the 1982-88 period, and their growth rates averaged about 3.5 percentage points higher (Berghäll, Aubynn 1993).

Housing can also be an important generator of rental incomes serving both as a supplement to household income and as an incentive to save (UNCHS 1986).

According to the World Bank, housing demand follows highly regular and predictable patterns within and among developing countries, patterns implying that overall economic development leads to considerable improvement in housing conditions. Spending patterns, however, are influenced by several key policies, particularly those affecting security of tenure, property rights, housing subsidies (including rent control), taxes and the availability of mortgage finance (World Bank 1993).

8.2 Informal – formal housing

Formal sector housing has proven to be unaffordable to the poor. In most cases such housing, although officially intended for the poor, is inhabited by middle and high-income households. In the Third World, the majority of housing in both rural and urban areas, is produced by the informal sector, often by individuals who act as both developers and builders of their own houses. The formal sector is unable to address in particular increasing housing needs. The share of housing produced by the formal sector is more significant in Asia and Latin America than in Africa. The share was more in socialist economies, of which for instance in China over 90 per cent of total investment in urban housing between 1950 and 1985 was provided for by the state (Berghäll and Aubynn 1993; Ministry of Urban and Rural Construction and Environmental Protection 1987; UNCHS 1994).

Experiences from several countries indicate that informal sector housing creates about 20 per cent more jobs per unit of expenditure than formal sector housing. Six times as many (although lower standard) dwellings can be built for the same investment. In informal housing,²¹ only a fifth of total construction expenditure may accrue to labour directly engaged on site. Housing costs are only a sixth of the formal sector cost for the same floor space. Despite these advantages, the informal housing sector is neglected or even harassed in favour of a relatively inefficient formal sector (UN Commission on Human Settlements 1992; Berghäll and Aubynn 1992; UNCHS, Sethuraman 1985).

At the same time, the informal sector's non-compliance to health, safety and internationally accepted labour standards is serious. There is, therefore, an urgent need to facilitate the activities of the informal share of the economy, while at the same time actively encouraging adherence to acceptable standards (UNCHS 1994).

Informal housing construction is considerably more labour intensive and has a lower import content and is more cost effective than formal sector construction. It should be clear by now that the formal construction sector cannot provide shelter for all

²¹ That is, basic minimum shelters without private services.

the poor of the developing countries. How then can safety regulations and rules be implemented into informal housing?

Neither can the market mechanism provide housing for all as the growing army of the homeless in developed countries demonstrates. The second Habitat II theme of providing 'Shelter for All' probably requires some mix of regulation, liberalization and government support, which may vary from country to country.

8.3 Employment in housing construction

The construction sector employs skilled, semi-skilled and unskilled labour. In industrialized countries, the share of labour in construction is between three and six per cent. In Finland approximately 8 per cent of the gainfully employed people worked, until recently, in the construction sector and roughly half of them in the housing sector. The highly industrialized nature of housing construction in most developed countries favours capital vs. labour, while in most developing countries, unskilled and semi-skilled labour are employed, and prefabrication of building components is less common. In developing countries, residential construction alone directly employs between 1 and 3 per cent of the labour force, being one of the sectors most readily able to absorb low-skilled urban labour.

Especially low-income informal housing is likely to have a strong impact on employment in terms of per unit of money invested. Low-income housing typically employs labour-intensive technologies and low mechanized construction processes. Even in the formal sector low-income housing developments tend to be more labour-intensive than high-income housing. However, although small firms producing a single unit of housing employ the most labour-intensive forms of housing construction, their costs were 52 per cent above those of medium-sized firms producing at low volume. Medium-sized firms appear to be the most efficient having the lowest share of labour costs, using the fewest workdays per unit, and having the lowest costs for this type of work. They therefore create more jobs and units for a given expenditure than do large firms (Strassmann 1985).

Employment opportunities also vary with the type of public subsidy to housing. For instance, mortgage subsidies to lower-income groups create more employment than subsidies for upper-income groups (UN Commission on Human Settlements 1992).

8.4 Inflationary effects

As skilled labour is more important in high-cost building, and its supply usually scarce, an increase in high-cost house building is likely to be inflationary. Similarly, the relatively inelastic supply of building materials for high-cost housing makes this sector inflationary compared to less costly housing. If housing demand is satisfied from credit rather than resource shifts from other sectors, inflation is likely to be even higher. Poor people have limited, if any, access to credit, and mostly they have to finance shelter out

of savings or forgone consumption in other sectors. Therefore, their activity is likely to be less inflationary than formal construction involving institutional credit and an increase in money supply. In general, the inflationary effects of low-income shelter production are only very modest, while the effects from high-income shelter may be more serious (UN Commission on Human Settlements 1992; Klaassen *et al.* 1987).

8.5 Import content and the effects of structural adjustment programmes on construction

Both rural and urban construction tend to suffer as a consequence of structural adjustment programmes because of cuts in public investment. Public expenditure cuts may lead to lower investment in infrastructure and housing and in lower subsidies. The simultaneous contraction of credit further reduces the resources available for housing and other construction. A devaluation of the exchange rate, coupled with restrictive monetary policies, raises prices of imported building materials and components. The ultimate effects of an adjustment programme depend on the import content of construction.

The housing construction industry has also been seen as a supplier of nontradable goods consuming scarce foreign exchange reserves, although in general, housing is quite a low user of imported materials. On the aggregate, as much as 20 per cent of housing investment in developing countries is devoted to the purchase of imported materials. Furthermore, there is considerable scope for encouraging the substitution of imported materials by local ones in several countries. This will not only reduce the direct import costs, but also reduce the energy needed to produce the materials. In general it can be said that the cheaper the housing units are, the more likely they are to consume few imports (UN Commission on Human Settlements 1992; Klaassen *et al.* 1987).

The effect of liberalization and privatization may improve the efficiency of the construction sector and reduce the effectiveness of cartels. Structural policies may also have unexpected side-effects on the spatial distribution of housing demand. It appears that economic and housing policies need to be harmonized. In particular, better outcomes could be achieved by paying more attention to the following questions:

- i) Which public expenditure cuts should be executed; the specific nature, goal and potential of housing credit and households' propensity to save;
- ii) The import content of the housing sector may be susceptible to policy interventions to spare foreign exchange reserves;
- iii) Local shelter construction mobilizes different resources than export-oriented industries and, therefore, promoting shelter construction industries need not be in conflict with promoting the production of tradables;
- iv) Shelter development can be used to cushion the socially negative impacts of adjustment.

Indeed, housing can play an effective role in combining the macroeconomic goals of structural adjustment and the social goals of poverty reduction and equity (Berghäll and Aubynn 1993; UNIDO 1985; Mulumba 1992).

8.6 Housing finance systems

All housing finance systems have to reconcile three partially-conflicting objectives: affordability to borrowers, viability to lenders, and resource mobilization for the sector as a whole (Renaud 1984). Affordable housing finance systems turn out to be unsustainable, while viable systems tend to exclude the poor (UNCHS 1991:25).

In poor countries, the average share of household income allocated to housing increases with economic growth as also the poorest begin to allocate larger fractions of their income into goods other than food. In general, however, low-income households allocate greater fractions of their income toward housing than better off ones do. In addition to income, the availability of mortgage finance and subsidies strongly influence housing demand (World Bank 1991; Berghäll and Aubynn 1993).

In practice there are many reasons why concentration on improving the incomes of poorer groups is only a partial solution to inadequate housing conditions. First, it is difficult to increase the incomes of these groups to the point where they can meet their own housing and health needs within the private market. This would demand a scale of intervention far beyond the means of governments and outside agencies. Second, even if incomes improve, housing conditions do not necessarily, because increased incomes may merely lead to higher land and rental prices charged by landowners and landlords. A mere increase in incomes will not solve housing problems, but housing supply also needs to increase and become more responsive to demand (WHO 1992; UNCHS 1994b).

Residential mortgage loans as a proportion of the consolidated assets of the financial system have grown from next to nothing to more than 25 per cent for moderate levels of economic development, and up to 40 per cent in industrial countries. In some countries with rapid economic growth and expanding urban populations, mortgage loans are the most rapidly growing portion of the portfolios of commercial banking institutions, contributing importantly to financial sector development. In some countries, financial innovations undertaken with respect to mortgage lending, particularly with respect to indexing provisions, have spread quickly to other parts of the financial system, resulting in increasing financial depth. In other countries (Brazil and the United States for example), poorly performing housing finance institutions have disrupted the broader financial system and have required costly fiscal measures to redress the financial failures of the housing finance system (World Bank 1993).

IX THE CONSTRUCTION SECTOR IN BUILDING CITIES AND ECONOMIES

The construction sector comprises commercial, industrial, infrastructure and residential building. The demand and supply patterns can be quite similar for each of these subsectors, apart from the fact that demand may be less predictable for commercial and industrial building than for housing construction demand.

9.1 Economic importance

In many ECE countries, construction still accounts for over half of all investments. In developing countries it is estimated that building construction and civil works together generally constitute around 50 per cent of aggregate investment. About 40 per cent of international loan funds and a large share of the budget is spent on construction and infrastructure. As pointed out in section 8.1, construction and renovation have a powerful impact on employment because, in addition to providing jobs at building sites, they also create roughly the same number of jobs in the building materials industry, trade and transport. In addition, renovation can have other economic significance if e.g. energy consumption is cut: this lowers heating costs, reduces the requirements for energy imports, and can thereby improve the balance of payments. Human settlements also represent a substantial proportion of national wealth (UN/ECE 1994; UNCHS 1994).

Improving constructive capacities is important in developing countries, first because the contribution of basic infrastructure for economic growth and development can be essential and this infrastructure has to be maintained. Efficiency, timeliness and quality of construction and maintenance work need to be improved in many developing countries. Much of new investment is in small and scattered projects often provided for by the informal sector.

There is a need also to develop more cost-effective housing by using affordable materials and low-cost infrastructure. There is a growing recognition that construction industries can be an important source of employment and jobs (Cf. 8.1).

The construction sector has often been excessively regulated, which has been seen as one reason for the growth of the informal sector. It may also be a reason why the industry is often so cartelized and concentrated, and prices often exceed competitive ones. There may be a need for governments to revitalize competition policy and relevant legislation dealing with it.

9.2 The informal construction sector

The poorer a country is, the larger the share of construction that takes place in the informal sector. As has been pointed out in section 8.1, low-cost housing, and informal sector construction methods are more labour intensive than formal ones. The involvement of small-scale informal construction enterprises in the execution of housing and infrastructure projects should therefore be supported, as they use more unskilled labour, fewer imports and less hard currency than their large-scale, formal sector counterparts. Similar lessons apply to the provision, operation and maintenance of various types of infrastructure and services; the construction of roads, the laying of water pipes, drains and sewers, and solid waste management (UNCHS 1994).

Since the informal construction activities rely heavily on self and family employment, they are out of reach of legal regulation. The cost of regulation may be an essential cause for informal activities to remain informal. Because they largely elude statistical reporting, there is a lot of information on the basis of which meaningful evaluations and plans could be drawn. Despite data inadequacies, various processes have, however, been extensively researched (World Bank 1984).

In developing countries, real interest rates vary amazingly between operators in the formal and informal sectors, as is apparent from the table below:

TABLE 6
REAL INTEREST RATES IN THE INFORMAL AND THE FORMAL SECTORS

Country	Real interest rates in	
	Informal sector	Formal sector
Ethiopia	66	8
Nigeria	192	-2
India	15	-1
Malaysia	58	16
Brazil	38	-7
Chile	52	-16

Source: Spence *et al.* 1993. *Jobs from Housing: Employment, building materials, and enabling strategies for urban development*. Exeter: SRP.

It is apparent that large distortions prevail in these financial markets, or if markets reflect different risks in different sectors, there must be grave institutional problems involved. Exclusion from formal sector financing is clearly extremely costly for borrowers. Examples such as the Grameen Bank show how formal banking for the poor can be profitable and solutions could be found to extend affordable financing sources for them also.

9.3 Building materials

It is widely acknowledged that inadequate access to affordable building materials is one of the principal constraints to the ability of the poor in developing countries to provide adequate housing for themselves. An indicator of the availability of building materials is their price changes over time in relation to the average cost of living. Data from Africa show drastic changes in prices of building materials, outpacing the general inflationary trends in the economy. The studies also reveal huge variations between countries in the prices of individual materials (UNCHS 1992).

The share of developing countries in the world production of building materials was a meagre 16.7 per cent in 1985 and the share of Sub-Saharan Africa actually declined from 1.2 per cent to 1.1 per cent between 1975 and 1985. Shortfalls in the local production of bricks, steel, concrete blocks, tiles, cement and timber, for instance, inevitably push up prices and increase import requirements. The widening gap between needs and domestic production has led to increased import dependence for developing countries. For developing countries as a whole, the total value of imports of building materials increased, in real terms, by 85 per cent between 1975 and 1985, with South Asia increasing its imports more than threefold (UN Commission on Human Settlements 1992).

Common problems associated with the organization of the building materials industry are systematic underproduction of necessary materials, lack of variety, and inefficiencies in production and distribution which result in chronic shortages of building materials for residential and infrastructural construction. These problems are particularly acute in countries with monopolies in building materials production, and in countries where import restrictions and tariff barriers prevent competition in building material markets. Often difficulties in entering the building industry are encountered by small producers who cannot obtain the necessary licenses from the government. In both formal and informal housing construction, bottlenecks in the supply of building materials are likely to worsen inflationary effects (UN Commission on Human Settlements 1992; Klaassen *et al.* 1987).

9.4 Development of the construction industry

Regulatory systems often extend to land assembly and subdivision, and to house construction, leading to long delays in obtaining permits and monopolistic competition. Small developers and contractors may find it hard to assemble the capital necessary to enable the private sector to enter the construction industry. These may require initial infrastructure investments, such as roads into forested areas where lumber can be harvested responsibly, or the construction of gas lines into areas where brick production can be developed (World Bank 1993).

An efficient construction sector is based on competition between private enterprises. In order to create conditions favourable for competition, the role of the developer should usually be kept separate from that of the contractor (UN/ECE 1994).

X FUTURE CHALLENGES

10.1 New global social and economic trends

Significant changes have occurred in both the production system and in broader institutional arrangements surrounding production in recent years. Major global trends include the following:

1. Globalization of the economy. Organizational and technological change, revolutions in transport and telecommunications technology and growth of markets have both been a cause and consequence of globalization, which has emphasized the importance of local differences for investment and growth (Jensen-Butler 1993).

2. The mobility of people, goods and information has grown rapidly in recent decades implying increased competition between localities across national boundaries (Jensen-Butler 1993).

3. Changing patterns of comparative advantage. With the increased mobility of factors of production, traditional patterns of comparative advantage based upon immobile factors, tend to disappear. Gradually the principle of absolute advantage replaces comparative advantage. Competition between localities will increase, local economies will become more volatile and simultaneously a search for new types of comparative advantage develops as the importance of productivity grows (Jensen-Butler 1993).

As factors of production become increasingly mobile, absolute advantage replaces comparative advantage, and the incentives for trade also gradually disappear. As a consequence, we may be heading towards an era of the re-establishment of controls and regulations governing various flows, such as labour, exchange, and capital controls into sovereign states or trade areas. Capital controls may also be re-established due to the evidence that voluntary financial flows in particular to developing countries are often procyclical and increase volatility especially for developing countries. One example of this is the experience of Chile during the Mexican 1994-95 crisis. The continuing global rise in the savings-investment gap raises the price of capital and makes it less available to developing countries, which have limited ability to smooth consumption over economic fluctuations. Even highly creditworthy developing economies might therefore perform better if external capital flows were controlled (Berghäll, P.E., 1991).

4. Knowledge, creativity and technological innovation are closely linked to the concept of information society. A permanent advantage in terms of innovation and

technological change will give a city a permanent productivity advantage (Jensen-Butler 1993).

5. The demand for human capital that has high income-generation capacity will increase in demand, and through the patterns of demand generated, urban multiplier effects can be considerable (Jensen-Butler 1993).

6. Non-material values such as the quality of life, lifestyle, culture, pleasant environments, high quality service and amenities have become important attraction factors for a qualified workforce (Jensen-Butler 1993).

7. The service and the information economy. The service sector now dominates European economies, representing a transition from an industrial to a tertiary economic base. This has had profound effects on patterns of economic activity and the role of cities. One part of this development is industry-related producer service, pointing against the emergence of post-industrial society. Within the tertiary-sector-based urban economy, it also seems that western society is developing into an information production and management society, where the urban component is of central importance. The position of a city in networks of information exchange will be important for urban economic fortunes. These networks also constitute patterns of decision-making power and control (Jensen-Butler 1993).

8. Explosive population growth and urbanization. A reversal of these trends is not feasible because first, much of the existing urban growth is a result of natural increase in existing population, and second, the modernization of the agricultural sector is reducing labour requirements. If people do not migrate to cities, the result is often environmental degradation of rural areas. As a consequence, the number of people living in poverty will increase significantly particularly in urban areas; explosive urban growth will continue to result in an unprecedented demand for infrastructure and services, where deficiencies in provision have already reached critical proportions; and problems of air pollution and traffic congestion will be further exacerbated. World population growth and net increase, the expansion of LDC economies, rural-urban migration will continue to determine urbanization trends over the next few decades (WHO 1992; Building and Social Housing Foundation 1994).

9. Spurred by the information revolution, and despite a decline in metropolitan growth rates, there is continuing urbanization as a social process, involving secularization of society, the loss of primary group relationships, the erosion of kinship and other ties, differentiation of the roles between production and consumption, etc.

10. There is a growing gap between the very rich and the very poor, and an urbanization of poverty. The provision of urban infrastructure, housing, and social services has fallen far behind needs, and the mega-city poor, women especially, have been severely affected.

11. There has been a weakening of metropolitan-wide governments recently with the growth of conservative ideology, economic decline or stagnation, and the growing assertiveness of local units of governments.

12. There is growing pathology of many mega-cities, evident in crimes, often drug related.

13. There are problems associated with changes in demographic structure, which differ in developing and developed countries. The former must cope with ever younger populations resulting from a continuing inflow of migrants and high fertility. There are acute problems such as that of street children. In developed countries, aging populations are often left with inadequate pensions and family support contributing to an army of the homeless (Fuchs *et al.* 1994).

14. The debt crises faced by so many nations change government spending patterns and social orientation with critical implications for urban change. It has forced governments to pursue export-oriented policies simultaneously with a trend towards protectionism in the industrialized world.

15. There is also a decline in the availability of concessional multilateral and bilateral aid, which may inhibit the construction or improvement of infrastructure to support urban development in developing countries (WHO 1992).

16. There is evidence that self-help housing is becoming less accessible to the poor than previously, and therefore more attention needs to be paid to increasing the support of rental housing (Fuchs *et al.* 1994).

17. Economic and social forces are becoming harder for states, rich or poor, to control. Many aspects of sovereignty are now largely mythical.

18. The emergence of cities as a city state will change politics as cities will have a different political agenda from nation states.

19. Cities are becoming service centres. Demographic aging in developed countries will increase demand for labour-intensive services, which will become the key area of growth for LDCs.

20. In transition countries, democratization, privatization, unemployment and poverty are increasing and deepening.

10.2 Areas for further research

10.2.1 *The performance of the urban economy and macro-aggregates,*

These can affect significantly not only economic growth but also macroeconomic stability, including inflation, unemployment, and national savings. According to the World Bank (1991), more specific research could include:

- i) The effects of economic down- and upturns on urbanization? What are the causal relationships between infrastructure investment, economic growth and development? Is it true that income and employment multipliers are not so different for the housing sector and other investment sectors?
- ii) The role of housing finance in macroeconomic stability in the short run, and its potential contribution to savings and resource mobilization in the long run; What are the opportunities (savings mobilization and multiplier effects) and what are the limits of the enabling approach? Can adjustment programmes that reduce housing support programmes actually decrease aggregate savings available in the economy? This is true for schemes that support the types of housing finance mechanisms that encourage people to save for down payments, building materials or other. If the programmes are cut back due to a lack of funds as a consequence of fiscal restraint, could the elimination of a subsidy and contraction of credit for housing finance discourage saving? What measures are needed to provide access to formal sector financing for larger groups of people and companies? and
- iii) Local government finance and its contribution to the fiscal performance of the national government.

10.2.2 *Internal efficiencies of cities and urban productivity*

Research could be conducted on the functioning of urban markets, including land, housing, and labour, focusing particularly on:

- i) The regulatory and institutional constraints;
- ii) The economics of the land market and the economics of land use planning;
- iii) Ways of promoting the domestic production of low cost materials and inputs, their exportation, low cost infrastructures, and the use of high-technology in modern construction, while avoiding excessive regulation. What role can high technology play in addressing the problems of global urbanization?
- iv) Sustainable future strategies are there for construction industries, on the ways to provide affordable infrastructure, how to revitalize the construction sector in the enabling framework, the role of the construction industry in the enabling process, the ways of achieving more efficient and low-cost construction and infrastructure in the new urban environment, and on the potential of the construction sector for being an engine of economic growth (Cheshire and

Evans 1991; World Bank 1984; Commission on Human Settlements 1992); and

- v) The effects of public infrastructure investments (such as urban transport, water supply, electric power and telecommunications) on urban growth patterns, since inconsistencies between new investments and location dynamics will induce inefficiencies and welfare loss.

10.2.3 Urban growth patterns

Various urban growth patterns have differing implications. Research could be conducted on:

- i) The extent primacy a desirable pattern of development for a developing country. Patterns of urban development, other than primacy influence economic efficiency. The factors at work, like trade influences for instance. Could the Dutch string pattern of urbanization, for instance, be optimal for the economy and inhabitants? The effects of export promoting growth strategies other than diverting growth away from primate cities. Does the lack of resources argue for their efficient employment in primacy, or are its benefits counterweighed by the serious deficiencies in and lack of transportation and communication infrastructure in developing countries? Will the benefits of growth not be distributed to other parts of the country?
- ii) The crucial determinants of ideal city size? Is there an ideal size for a city such as determined by infrastructural investments required to accommodate the influx of migrants relative to the taxing ability of the public sector or administrative capacities to cope with urban population growth? Is there some point, after which the city may find it impossible to cope with the increasing number of its population? Is it possible to determine an optimal level on a sustainable long-term basis? What are the viable policy options to reach and sustain such a balance? Are there realistic and effective ways of hindering further urbanization?
- iii) Whether there is hyper- or overurbanization? How closely is the concept similar to crowding? What are the adverse consequences of crowding and their effects on urban productivity? To what extent does hyperurbanization lower economic growth, and how does it do this? What are the driving forces of urbanization and primary strategies to manage it? To what extent does hyperurbanization in the Third World constitute an asset from the point of view of its future economic development? In the case of hyperurbanization, what are the policy options, and which are the most feasible ones? Are there any case examples of hyperurbanization and policy responses to it? Why has urbanization occurred without economic development? Has it been the cause or result of import substitution industrialization policies? Has structural adjustment reversed urbanization trends for example in some Latin American countries? Should the growth of third world cities be slowed? Is it possible and how could it be done? Will developing countries follow the patterns of

development of Latin American mega-cities? Is there a realistic or better alternative for urbanization? Are squatter settlements stages in a transition toward development, or tumours to be removed? and

- iv) The effects of urban investments on residential and employment location nexuses.

10.2.4 The process of urbanization

There is a lack of economic understanding of the functioning of cities. How do cities work economically? Research is needed on different stages in order to optimize the allocation of resources appointed is to tackling the problems of urbanization, fiscal federalism and microeconomic aspects of urban development. What are the decision-making mechanisms related to urbanization?

Are there any objective conditions under which urbanization is taking place, or is it a random process? Are there other push and pull factors than the ones mentioned above, and what are the most relevant changes in these trends? Would improvement in agricultural productivity lead to economic growth in African countries as it preceded economic growth in Asian countries? Would economic growth in Africa lead to explosive urban growth? In which regions has agricultural productivity remained low and how has this affected the surplus of labour and migration into cities?

Cities will determine transformation in coming years. In what ways and extents are population growth and urbanization interdependent phenomena? Low mortality rates in cities have raised growth rates and extended the lag to lower population growth as a consequence of lower fertility rates in cities. Should urbanization be considered exogenous and the real issue to be population growth in general not migration nor agricultural productivity? If pull factors are the main causes of urbanization instead of push factors, hyperurbanization would not be the case.

When does welfare in the city decline below that of rural areas? Would this reverse migration to rural areas? What are the factors at work? Are there limits to urbanization? What are the welfare consequences of urbanization? Is the global situation deteriorating? Why are people moving into cities if it results in deteriorating social well-being? What are the welfare implications of current trends? What can be done to modify current trends if one believes in distorted development?

Globalization and the information revolution have profound impacts on urbanization. In the past, cities were often major ports – will the improved communication links change urbanization patterns? Multinational companies seem to be moving out of large cities, will businesses more generally desert city centres?

10.2.5 The urban poor and the informal sector and the financing of urban investments

More specific research might be necessary on:

- i) Local governments' participation in financial markets;
- ii) Deregulation and private sector participation in the supply of infrastructure services, and
- iii) The complementarity between public and private investments.

Is the informal sector of the economy an economic asset or disguised unemployment? Should informal sector activities be encouraged and legalized? SAPs may be pushing increasingly larger shares of the economy below statistical recording. What is its potential contribution to economic growth? How can the problem of safety regulations and cost-effectiveness be solved? How could its accounting be improved? How can spontaneous housing and the informal sector be dealt with in the development process in order to combat poverty and provide housing for the poor? Should lower construction standards be accepted? What is the optimal division of labour between formal and informal construction activities? What kind of incentives are needed to induce efficiency and competition in the construction industry and to attract formal private sector constructors to low-income housing? Are the current financial arrangements flexible enough so as not to retard the real development efforts, and do they serve all segments of the market? How should such control be enforced? How could the entire informal sector be incorporated in national accounting statistics? Real interest rates prevailing in the informal sector appear to be unsustainably high in some countries. Why is it so, and what could be done about it? To some extent informal activities remain outside the legal framework because of the higher incomes one can obtain there. Poverty may be the real problem, not the informal sector, which is informal because income levels are higher there than in the formal sector. After all, the definition of the informal sector is statistically unrecorded activities.

10.2.6 Policies to respond to the challenges

Research in areas related to the role of government in the urban development process could also be carried out. Sequencing housing-finance reform in Eastern Europe, for instance, will be predicated on the speed of overall macroeconomic reform, but also on the emerging institutional framework (World Bank 1991).

- i) What are the consequences of laissez-faire or some interventionist policies? How have different governments reacted to changes in perceptions of the government's role? What have been the new roles adopted by governments and how successful have they been? Have governments changed their policies? It has been argued that governments use the new market ideology to justify their non-action, what is the role of government policy orientation in this new situation? How efficiently do markets operate and what is the new role for government in this liberalization process? How are austerity and shelter

development policies best combined? Is it an excuse for non-action by governments? What are the policy options for urban-rural linkages? What are the future problems and emerging issues related to the development of human settlements and cities? What are the best solutions and which are the most viable ones considering present and future financial resources and political priorities? What are the best ways of promoting and raising awareness of these solutions at the national level? How should the people of cities be organizing themselves, and how should the government be helping in this?

- ii) SAPs are the main policy aid given to developing countries and the most important external policy influence on urbanization and human settlements development. What is the net effect of SAPs, since for instance neutral budget cuts do not exist, but elimination of the urban bias is beneficial to sustainable growth? What are the impacts of deregulation and liberalization on markets, and what are the best combinations of human settlements policies and SAPs to promote economic growth and shelter for all?
- iii) How are cities managed in the open economy? Will there be a relocation of industry to LDCs? Without decentralization there may be disintegration of society, but on the other hand, centralization may be the force holding a heterogeneous nation together;
- iv) The future role of international organizations in promoting better human settlements policy. The future role of the United Nations be in coordinating international action. Cooperation and synergies to avoid overlapping agendas, repetition and waste of resources. Areas are most in need of coordination in human settlements management and urbanization. The new needs and forms of international cooperation to improve human settlements; possibilities for new multilateral agreements and the role of Habitat II;
- v) Which kind of competition and regulation policies should be pursued in corrupt countries, and what are the connections between ownership and corruption? (Tirole 1994); and
- vi) How should gender equity and the position of socially vulnerable groups as they affect the functioning of the urban economy be considered at the UNU/WIDER and Habitat II Conference? What are the economic and social consequences of the increase in single-headed households for the households themselves and the overall economy? How should gender be taken into account in policy responses to urbanization?

10.3 Summary

By mid-1990, an estimated 2.3 billion, i.e., 43 per cent of world population lived in urban areas. Every day adds 250,000 new inhabitants to the world, of which 170,000 will come to live in cities. At current growth rates half of world population will be living in urban areas by the year 2005.

In general, the rate, magnitude and character of urban concentration has differed significantly across countries. Already three quarters of all inhabitants in developed countries and in Latin America live in urban areas, while a third of the population in Africa and Asia (excluding the Arab countries) is urban.

Historically, urbanization has been found to be positively related to economic development in developed countries. An estimated 60 per cent of the value of output of developing countries is generated in urban areas by about a third of total population. Cities are considered to play a catalytic role in the national economic growth and development of less developed countries. Economic factors are probably the most important for explaining the location, size and growth of urban areas. The pace of urbanization has slowed down especially in countries where the economy has stagnated.

More specifically, there are four major and some minor causes for urbanization. The most important push factor is agricultural productivity coupled with population density in rural areas. The strongest pull factor is the availability of more jobs and higher incomes in urban centres. Education also increases the propensity to migrate. A fourth major factor has been natural increase resulting from lower mortality rates.

At the household or individual level, the net effect of urbanization is an increase in average real income. However, the distribution of income and welfare has not been smooth and we are experiencing an urbanization of poverty. The persistent economic crisis has forced governments to cut social expenditure, resulting often in a decline in already inadequate levels of investment in urban infrastructure. In 1990, at least 600 million people in urban areas of developing countries were living under life and health-threatening conditions. Despite great variation, hardly any large city has been able to avoid unhealthy environmental conditions. In the beginning of the 1990s, nearly a third of the population of developing countries remained homeless or without decent shelter, and their share is rising, since in most cities and towns the shelter delivery system and the demand for labour are unable to keep pace with population growth.

Construction is necessary to accommodate newcomers and to promote economic activity and growth in order to avoid hyperurbanization and related problems. Construction and renovation have a powerful impact on employment. In developing countries, residential construction is one of the sectors most readily able to absorb low-skilled urban labor. The construction sector has often been excessively regulated and the industry cartelized and concentrated and prices exceeded competitive ones. These have contributed to the expansion of the informal sector.

Although the informal sector already accounts for a large share of the economy in developing countries, rapid urbanization may raise this even further. As a rule, the informal sector gains in importance in larger cities and in cities experiencing particularly rapid growth in population. In the most common situation, the informal sector accounts for about 40-50 per cent of overall economic activity in all cities of some size and consequently official figures and ratios displaying the state of the economy give a distorted picture of reality, and it is questionable to what extent policy conclusions can be drawn.

The expansion of the informal sector should also be considered as a positive phenomenon, since it may prevent social and economic problems from exploding, and therefore should probably not be hindered, only directed and guided with the objective being poverty eradication or alleviation. Population explosion in third world cities and countries makes it impossible for the formal sector to provide employment and housing for all, and the functioning of the informal sector can be central to the sustainable growth of cities, and therefore countries. Reforms facilitating the entry of informal sector operators into the formal sector could prove to be efficiency enhancing for the whole economy. Operating outside the legal systems often entails high costs in bribes, higher purchase prices for capital equipment, disadvantages vis-à-vis large-scale companies, restrictions on access to markets, and insecurity, although it may also be highly profitable.

Ways need to be found to implement safety regulations and rules into informal construction and housing in particular. The informal sector's non-compliance to health, safety and internationally accepted labor standards is serious. There is therefore an urgent need to facilitate the activities of the informal share of the economy, while at the same time actively encouraging adherence to acceptable standards.

The economic model of the 1960s and 1970s emphasized in many countries a leading role of the public sector in urban policy. This led to excessive regulation of private activities and large transaction costs for private agents when dealing with the public sector. In most land markets, for instance, the record of government regulation has been a depressing one. In recent years, the role of markets has been emphasized, while the role of government has been seen not so much as a direct provider of different goods, but as an agent which enables people and enterprises to carry out their roles. This enablement paradigm inherent in the Global Shelter Strategy emphasizes support-based partnerships between government, the private sector, communities and individual households. Partnerships are necessary and efficiency enhancing due to the differing comparative advantages various actors have in enabling shelter strategies. The central government continues to create the legislative framework for contractual relationships between various parties and the macro-economic and political conditions required for successful action in human settlements. Private enterprises have always been the main provider of housing and have a real comparative advantage in doing so at relatively high income levels. While some claim that successful improvement of a country's housing conditions is mainly a function of its economic advancement, with the countries of the Pacific rim achieving the greatest improvements in housing conditions, others claim that achievements to date have rarely been due to the action of governments despite the enabling rhetoric, and are more usually a result of social movements of the poor. In developing countries, communities and individual households are the most important and efficient producers of their own housing by producing low-cost shelter tailored to individual requirements and circumstances, in developing certain kinds of infrastructure on a collective basis, in mobilizing people for collective action, and in mediating between people, government and the commercial private sector.

Urbanization in the Third World has taken place without economic development, industrialization or an increase in agricultural productivity. This has led to a dramatic shortfall in urban employment. Other consequences of urbanization have been the growth of the service sector, growth of the informal sector, growth of slums and squatter settlements, varying effects on productivity and manufacturing, increase in per capita imports, food in particular, and increasing demands on infrastructure.

It has been argued that higher productivity in cities should not only be seen as a result of industrialization and agglomeration economies, but of better infrastructure and more skilled labor. Overall economic growth can be hampered by the lack of investment in infrastructure. In the economies of Japan and the United States, for example, telecommunications, electricity, and water are used in the production process of nearly every sector, and transport is an input for every commodity.

There is a wide variety of patterns and levels of urban growth and primacy. In general, concentration is first increasing and then decreasing in per capita GNP. Primate cities in newly industrializing countries are the 'engines' that drive the development process for countries in the incipient stages of modernization. Primate cities have become primate in demographic terms only because they were already primate in economic and political terms.

While the optimal urban structure has not yet been discovered, it is apparent that spatial structure and economic growth are connected. Urban agglomerations provide a cradle for the development of new ideas and technologies. At the firm level, location defines the availability of factors of production, competition, and exposure to ideas. Local competition promotes technical progress, and urbanization enhances the accumulation of human capital at the individual level. Urbanization externalities play an important role in city growth. Growth rates of different industries in a city are positively correlated. Open societies, with substantial labour mobility across industries should therefore exhibit greater spread of ideas and growth. This would argue in favour of promoting immigration and migration.

Cities aid the spread of ideas, which is central to economic growth, a crucial ingredient in the role cities will play in the new global economy. Causality works both ways: While cities raise the accumulation of human capital, human capital levels also promote the growth rate of urban agglomerations even over a century. The range and density of human capital in cities may directly contribute to the generation of more human capital in cities.

Entrepreneurial activities in contrast to rent-seeking ones and incentives for the most able in society can be especially important and beneficial to growth. The urban role in the development of human capital should be a central part of government policy towards cities and economic growth. In addition, competition within an industry as opposed to local monopolies contributes to economic growth.

Results are not strong enough to validate a particular urban policy to best enhance economic growth. The causality linkages from cities to growth remain

somewhat obscure, and only policy suggestions to improve the urban climate can be given. One policy recommendation would be the elimination of spatial distortions. Another one is that local governments should be independent. In addition to competition, information and incentives, decentralization of governments make them more dynamic in trying to attract new taxpayers to their area.

The argument against urbanization externalities is crowding. Empirical evidence at least pointed in favour of aggregate demand spillovers and against crowding, but also suggested that urbanization externalities are not important for productivity, and that standard neoclassical forces drive most of city and industry growth.

The cities and the surrounding areas in Asia that have been most successful in becoming major centres of organization and control for world production and markets, have experienced the most rapid and sustained economic growth. This, in turn, has accommodated rapid population growth. However, most cities of the Third World have been less conducive to economic development than those of the West during early phases of development. Rapid urbanization without economic development may have led to overurbanization, which has acted in turn as a powerful brake on subsequent development, thereby creating a further vicious circle of underdevelopment.

Overurbanization was regarded as one by-product of mistaken industrialization strategies based upon import substitution. This policy changed the terms of trade in favor of the urban sector and thus the rates of return between the urban and rural sectors. The distribution of resources and both internal and external terms of trade are often more a result of a political power struggle, rather than a reflection of underlying economic productivity and future growth potential. Cities, and countries as a consequence, may fall, and some may already have fallen, into another poverty trap, in which the urban population extracts benefits and favorable subsidies, while the rural sector and other productive sectors suffer and are unable to compete with imports. The increase in the propensity to import imputable to urbanization affects not only the importation of manufactured consumer goods and automobiles, but food products as well. In general, however, cities do appear to continue to function as growth centres, although there may be significant distortions preventing the full employment of their productive potential.

While the economic effects of structural adjustment programmes vary, the social consequences appear to be a general shift in favour of the rural population, while the urban population has suffered from increased unemployment, stagnant incomes and escalating prices. The liberalization of trade directs resources to export-oriented industries away from import-substituting ones. Export-oriented industries tend to locate close to the source of inputs, which in the case of developing countries are usually raw materials and agricultural products and thus represents a welcome decentralizing effect.

Typically structural adjustment focuses more on overall targets for reducing domestic absorption and less on how it is to be reduced. Housing will often bear a large portion of the costs. Cuts in public expenditure induced by structural adjustment have caused drastic drops in rural and urban construction.

However, government spending is far less important than government policies that affect housing prices and characteristics by laws, regulations, and other means. These can have vast and pervasive impacts not only on the performance of the housing sector, but on the performance of the broader economy as well. One of the clearest lessons of the last twenty years is that significant shelter improvements cannot be achieved in a declining macroeconomic climate.

Urbanization appears to be an inevitable process. Influential factors on urban change can be governments' macro-economic policies, tax systems, interventions in setting prices for certain goods and services, and the distribution of power and resources between national, regional, and local governments. Government tax and expenditure policies affect relative prices of infrastructure and collective goods. Solutions to the problems of cities depend heavily on their effective management. The most common needs faced by cities are improving their financial structure and management, urban information systems, strengthening the role of the urban informal sector, and institutional capacities, including the role of municipal governments. There has been a weakening of metropolitan-wide governments recently with the growth of conservative ideology, economic decline or stagnation, and the growing assertiveness of local units of governments.

APPENDIX

A.1 The Mega-city Project of the United Nations University

The Mega-city Project of the United Nations University (UNU) was initiated in 1990 as part of the UNU's Programme on Alternative Rural-Urban Configurations. The objective was to examine the growth of large metropolitan agglomerations, especially in the developing world, in regard to the patterns and projections of their growth, the demographic and economic causes, and the social, economic, and environmental consequences. Following a global examination of the mega-city phenomenon, a series of studies were undertaken in Asia, Latin America, and Africa. The project is intended to provide new data, analyses, and insights that will enhance our understanding of mega-cities and contribute to their improved management.

The book called *Mega-city growth and the future* is the initial product of this UNU Programme. It is based on an October 1990 conference jointly organized by the UNU and the Population Division of the United Nations with the support of the Tokyo Metropolitan Government. That conference brought together leading scholars and planners concerned with mega-city issues from both the developed and developing countries, as well as officials from the World Bank and major development assistance agencies. In the conference, participants explored a great range of issues relating to mega-cities: the demographic and economic causes of mega-city growth and its morphology; the economic and social consequences of this growth; and numerous management issues and approaches. The book begins with growth trends of mega-cities covering also demographic issues and data needs for research, labour force change and mobility in the extended metropolitan regions of Asia, the impacts of current global adjustment and shifting techno-economic paradigm on the world city system, and technology. The second part of the book evaluates the economic and social consequences of mega-city growth, in particular the redistributive role of mega-cities, economic impacts of third world mega-cities, the issue of size, social and welfare impacts, and impacts on families and households. The third and final part studies mega-city management policies, management and innovation strategies, financing infrastructure in developing countries, land and shelter issues, transportation, poverty, environmental management, and attempts to establish priorities for research in the 1990s.

The United Nations Population Division also has an ongoing research programme on mega-cities. Within the UNU programme to date 13 monographs have been published in the mega-city series. In preparation are volumes examining mega-city problems in greater detail at the regional level in Asia, Latin America, and Africa. Also under way are studies of Tokyo and aspects of the Japanese experience in mega-city management. It is anticipated that these studies collectively will help lead to a greater

understanding of the mega-city phenomenon in its various manifestations and suggest the policy measures required to meet the challenge posed by mega-cities, their management, and transformation into sustainable human settlements.

UNU books on mega-city and urban development:

Volume 1: *Mega-city Growth and the Future*, edited by Roland Fuchs, Ellen Brennan, Joseph Chamie, and Fu-chen Lo

Volume 2: *Emerging World Cities in Pacific Asia: Growth and Adjustment to Global Restructuring*, edited by Fu-chen Lo and Yue-man Yeung

Volume 3: *Mega-cities in Latin America*, edited by Alan Gilbert

Volume 4: *Challenge of Urban Growth in Africa*, edited by Carole Rakodi

Volume 5: *Tokyo: A Mega-city in Transition*, edited by Tatsuhiko Kawashima

A.2 Workshop in preparation of the UNU/WIDER conference

The UNU/WIDER and the Finnish Ministry of the Environment organized a two-day preparatory meeting on 17-18 February 1995 in order to identify the main subjects that should be raised at the conference on *Human Settlements in Changing Global Political and Economic Processes* that will be organized in Helsinki on 25-27 August, 1995. This brainstorming session produced valuable ideas and suggestions incorporated in this paper and in the agenda for the UNU/WIDER August 1995 Conference on Human Settlements in the Changing Global and Political Economic Processes.

Participants: UNU/WIDER

Dr Reino Hjerppe, *Chairperson*

Professor Mihály Simai

Mr Derseh Endale

Professor Hernando Gómez Buendía

Dr Aiguo Lu

Dr Moustafa A. Moustafa

Ms Pii Elina Berghäll

Mr Eero Yrjö-Koskinen, *Conference Secretary*

Ms Lorraine Telfer-Taivainen, *Rapporteur*

FINNISH MINISTRY FOR THE ENVIRONMENT

Mr Martti Lujanen

Ms Outi Berghäll

INVITEES

Professor Gyula Bora, Budapest University of Economics

Mr Mauri K. Elovainio, Telecom Finland

Professor J. van Ginkel, Utrecht University

Dr Simo Hakamäki, Finnish League of Municipalities

Professor Nigel Harris, London University College

Professor Briitta Koskiahho, Tampere University

Professor Heikki Loikkanen, Helsinki University

Dr Fu-Chen Lo, United Nations University, Tokyo

Dr Pekka Pietilä, Tampere Technical University

Professor Ranko Radovic, Helsinki University of Technology

Dr Fondo Sikod, Cameroon University

Professor Tapio Varis, Helsinki University of Art and Design

Professor Sule Özüickren, Istanbul Technical University

REFERENCES

- Ades, A. and E. Glaeser. 1994. Trade and Circuses: Explaining Urban Giants. NBER WP No. 4715.
- Alangir, M. and Erora, P. 1992. *Providing Food Security for All*. International Fund for Agricultural Development (IFAD). London.
- Bairoch, P. 1988. *Cities and Economic Development, From the Dawn of History to the Present*. University of Chicago Press.
- Begovic, B. 1991. The Economic Approach to Optimal City Size. Progress in Planning, Pergamon Press. Vol. 36, Part 2.
- Berghäll, O. 1992. International Experience in Shelter and Economic Development. Paper presented at the International Conference on Shelter and Economic Development, Kampala, January.
- Berghäll, P. E. 1991. Bargaining on Developing Country Debt. Master's thesis, Helsinki School of Economics.
- Berghäll, O. and A. K. Aubynn. 1993. Structural Adjustment: The Implications on Housing. Working Paper, Ministry of the Environment, Finland.
- Bhadra, D. and A. S. P. Brandao. 1993. Urbanization, Agricultural Development, and Land Allocation. World Bank Discussion Papers No. 201, IBRD.
- Bourgignon, F. and C. Morrison. 1992. *Adjustment and Equity in Developing Countries – A New Approach*. Paris: OECD.
- Building and Social Housing Foundation. 1994. The Reallocation of Resources to meet Global Shelter Needs. St. George's House: Windsor Castle.
- Cheshire, P. and A. Evans. 1991. *Urban and Regional Economics*. An Elgar Reference Collection, Edward Elgar Publishing Limited.
- Colman, D. and F. Nixson. 1994. *Economics of Change in Less Developed Countries*. 3rd edition. New York: Harvester Wheatsheaf.
- Day, R., S. Dasgupta, S. Datta, and J. Nugent. 1987. Instability in Rural-Urban Migration. *The Economic Journal* 97: 940-950.
- DeLong, B. and A. Shleifer. 1993. Princes and Merchants: European City Growth before the Industrial Revolution. *Journal of Law and Economics*.
- Dowall, D. E. 1991. The Land Market Assessment, A New Tool for Urban Management. UNDP.
- Fuchs, R., E. Brennan, J. Chamie, F. Lo, and J. Uitto. 1994. *Mega-city Growth and the Future*. United Nations University Press.

- Gilbert, A. and J. Gugler. 1992. *Cities, Poverty and Development, Urbanization in the Third World*. Second edition. New York: Oxford University Press.
- Glaeser, E., H. Kallal, J. Scheinkman, and A. Shleifer. 1991. Growth in Cities. NBER Working Paper No. 3787.
- Glaeser, E. 1994. Economic Growth and Urban Density: A Review Essay. Working Papers in Economics E-94-7. The Hoover Institution, Stanford University, November.
- Hardoy, J. and R. Morse. 1992. *Rethinking the Latin American City*. Washington, DC: Woodrow Wilson Center Press; Baltimore, MD, and London: John Hopkins University Press.
- Hardoy, J. and D. Satterthwaite. 1981. *Shelter: Need and Response, Housing, Land and Settlement Policies in Seventeen Third World Nations*. John Wiley and Sons Ltd.
- Harris, N. 1992. (ed.) *Cities in the 1990s, The Challenge for Developing Countries*. Development Planning Unit, University College London Press.
- Harris, N. 1994. Urbanization in Developing Countries: A World Overview. Development Planning Unit, University College London, U.K., and Development Strategy and Policy Unit, The Urban Foundation, Johannesburg, South Africa, 30 June.
- Henderson, J. Vernon. 1986. Efficiency of Resource usage and City Size. *Journal of Urban Economics* 19: 47-70.
- Holtz-Eakin, D. and A. Schwartz. 1994. Infrastructure in a Structural Model of Economic Growth. NBER Working Paper No. 4824.
- Hoselitz, B. F. 1969. The role of cities in the economic growth of underdeveloped countries. *Journal of Political Economy* Vol. 61, No. 3 pp.195-208.
- Hoy, M. and E. Jimenez. 1991. Squatters, Rights and Urban Development: An Economic Perspective. *Economica* 58: 79-92.
- Jensen-Butler. 1993. A Theoretical Framework for Analysis of Urban Economic Policy. Department of Political Science, University of Aarhus, August.
- Klaassen, L. H., J. G. D. Hoogland, and M. J. Van Plet. 1987. Economic impact and implications of shelter investments. In *Shelter, settlement and development* edited by L. Rodwin. Boston: Allen and Unwin.
- Mills, E. and B. Hamilton. 1994. *Urban Economics*. Fifth edition. HarperCollins College Publishers.
- Ministry of Urban and Rural Construction and Environmental Protection. 1987. China.
- Moavenzadeh, F. 1987. The construction industry. In *Shelter, Settlement and Development*, edited by L. Rodwin. Boston: Allen and Unwin.
- Renaud, B. 1984. Housing and Financial Institutions in Developing Countries: an overview. Staff Working Paper 658. Washington, DC: World Bank.
- Rosen, K. and M. Resnick. 1980. The size distribution of cities: an examination of the Pareto Law and Primacy. *Journal of Urban Economics* 8.

- Schadler, S., M. Carkovic, A. Bennett and R. Kahn. 1993. Recent Experiences with Surges in Capital Inflows. IMF Occasional Paper 108. Washington, DC.
- Schwartz, J. and R. Johnson. 1992. Maximizing the Economic Impact of Urban Water Supply and Sanitation Investments. *Water and Sanitation for Health Project (WASH) Technical Report No. 82.*
- Sen, A. and M. Nussbaum. 1993. *The Quality of Life.* The United Nations University.
- Sethuraman, S. V. 1985. Basic needs and the informal sector: the case of low-income housing in developing countries. *Habitat International* Vol 9, No. 3/4.
- Spence, R., J. Wells, and E. Dudley. 1993. *Jobs From Housing: Employment, building materials, and enabling strategies for urban development.* IT Publications/ODA.
- Strassmann, W. P. 1985. Home-based restaurants, snack bars, and retail stores: their contribution to income and employment in Lima, Peru. Working Paper No. 86 (East Lansing, Women in International Development, Michigan State University).
- Tirole, Jean. 1994. Korruption pysyvydestä. *Finnish Economic Journal* 90/2.
- UNCHS. 1993. United Nations Centre for Human Settlements (Habitat). *Public/Private Partnerships in Enabling Shelter Strategies.* Nairobi.
- UNCHS. 1994a. United Nations Centre for Human Settlements (Habitat). *Population, Urbanization and Quality of Life.* UNCHS contribution to the International Conference on Population and Development, 1994, Nairobi, (UNCHS).
- UNCHS. 1994b. United Nations Centre for Human Settlements (Habitat). *Shelter, Employment and the Urban Poor.* (UNCHS).
- UNDP. 1994. Some Questions and Answers About Sustainable Human Development. United Nations.
- United Nations. 1989. Economic and Social Council. Economic Commission for Europe Annual Bulletin of Housing and Building Statistics. Geneva.
- United Nations. 1992. Commission on Human Settlements. Building Materials for Housing. Report of the Executive Director HS/C/14/7.
- United Nations. 1992. Commission on Human Settlements. The Relationship between Underemployment and Unemployment and Shelter Provision. Report for the Executive Director, United Nations.
- United Nations. 1993. *World Urbanization Prospects.* The 1992 Revision. United Nations.
- United Nations. 1994. Economic and Social Council, Economic Commission for Europe, Committee on Human Settlements. Contribution of the Committee on Human Settlements to the United Nations Conference on Human Settlements (Habitat II); towards sustainable human settlements development in the ECE region. HBP/AC.10/R.1, 2 August.

- United Nations. 1994. *Report of the Preparatory Committee for the United Nations Conference on Human Settlements (Habitat II)*. General Assembly Official Records, Forty-ninth Session, Supplement No. 37 (A/49/37). New York.
- United Nations. 1994. *World Population 1994*. Department of Economic and Social Information and Policy Analysis, Population Division.
- United Nations. 1995. Commission on Human Settlements. Review of National Action to Provide Housing for All since Habitat I: The United Nations Conference on Human Settlements, 1976. Report of the Executive Director HS/C/15/5.
- The Urban Age*. 1993a. Urban Entrepreneurs Issue. Vol. 1, No. 2, Winter.
- The Urban Age*. 1993b. Urban Infrastructure Issue. Vol. 1, No. 3, Spring.
- The Urban Age*. 1994a. International Migration and Cities. Vol. 2, No. 3, Spring.
- The Urban Age*. 1994b. Privatization and Cities. Vol. 2, No. 4, October.
- Wakely, P. 1994. The Origins and Meaning of 'Enablement' and Support. Unpublished manuscript, Development Planning Unit, University College, London.
- Water and Sanitation for Health Project. 1991. Report of the Workshop on Private Sector Participation in Urban Water Supply, Bali Indonesia May 1991, Field Report No. 346.
- Wheaton, W. and H. Shishido. 1981. Urban Concentration, Agglomeration Economies and the Level of Economic Development. *Economic Development and Cultural Change* 50:17-30.
- WHO. 1992. Commission on Health and Environment. *Report of the Panel on Urbanization*. World Health Organization, Geneva.
- World Bank. 1984. *The Construction Industry, Issues and Strategies in Developing Countries*. IBRD.
- World Bank. 1988. *World Development Report 1988, Infrastructure for Development*. Oxford University Press.
- World Bank. 1991. *Urban Policy and Economic Development, An Agenda for the 1990s*. A World Bank Policy Paper. IBRD.
- World Bank. 1993. *Housing, Enabling Markets to Work*. A World Bank Policy Paper. IBRD.
- World Bank. 1994. *World Development Report 1994, Infrastructure for Development*. Oxford University Press.

UNU World Institute for
Development Economics Research
(UNU/WIDER)
Katajanokanlaituri 6 B
00160 Helsinki, Finland

Telephone (358) 0-693841
Telex 123455 unuei fi
Facsimile (358) 0-6938548