Chapter 32

URBANIZATION IN THE DEVELOPING WORLD: PATTERNS, ISSUES, AND POLICIES

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1. The challenge of Third World urbanization

By the year 2000, over half of the population of the world will live in areas classified as urban by their respective national governments. The phenomenon of urbanization has a common cause across countries, regardless of the level of development; modern economic growth involves a shift in the composition of output away from primary activities and toward secondary and tertiary production, which tends to concentrate spatially. In turn, this concentration results from the benefits derived by industrial organization from physical proximity and from the technological opportunity to achieve high levels of output per unit of land.

Yet the present urbanization in developing countries does not merely recapitulate the past experience of today's developed nations. The shift from rural to urban is occuring in the context of far higher population growth rates, at much lower income levels, and with considerably fewer opportunities to colonize new frontiers, foreign or domestic. In the process, the absolute scale of urbanization is testing the ability of planners and decision-makers as never before. The developed countries expect their urban population to reach one billion by the year 2000, at which point four out of every five persons will live in cities. The population of the developing nations is only one-third urban, yet it has already reached the one billion mark. Furthermore, another billion will be added in the last two decades of the century. This increase will be fed by urban population growth rates, which, while declining, are three to four times higher than those experienced by the more advanced countries [United Nations (1985)].

Urbanization per se may seem a rather abstract concept. However, it finds vivid embodiment in the emergence of very large cities across all developing regions. Already, in 1980, there were 125 developing metropolises each with more than one million inhabitants, with a collective population in excess of 355 million.

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According to U.N. estimates and projections, by the year 2000 the ranks of millionaire cities is likely to reach about 300, with a total population of close to one billion. The management challenge represented by this growth is best symbolized by the fact that 20 of the world's 25 largest urban agglomerations at the turn of the century will be found in 15 of the Third World nations. The Mexico City region alone is likely to contain up to 28 million residents, a level of concentration for which there is no precedent anywhere.

There are distinct regional differences in the degree of urbanization achieved to date. Two-thirds of the population of Latin America and more than half of the population of West Asia already live in cities. Elsewhere, in Africa, China, Southeast Asia, and South Asia, the proportions vary from just under one-quarter to just under one-third. In each of these broad regions, the population living in cities today will be matched or exceeded by the urban growth expected in the period 1980–2000. In Africa, where the problems of development appear the starkest, two persons will be added to the urban population for every one in place in 1980.

Urbanization patterns differ, as well, in other regards. In Latin America, for example, urban-to-urban migration is more important than rural-to-urban migration and natural population growth is more significant than either in shaping the city of the future. Elsewhere, especially where the degree of urbanization is relatively low, population growth *and* migration are likely mutually to reinforce one another in fueling urban expansion. There are also differences in urban settlement patterns. Very large urban areas, with populations in excess of 5 million, are characteristic of the largest countries of Latin America, Asia, and the Arab world. At the other extreme, most African countries do not contain an agglomeration of 500,000 or more residents. Regardless of how urban population is distributed across city size categories, however, the contribution of urban areas to national output exceeds their demographic share by a factor of two, three, or four. The efficient and equitable management of the urban sector is, therefore, vital to the achievement of macroeconomic objectives. Furthermore, whether because of intense pressure on agricultural land, recurring bouts of calamitous drought, or a legacy of political neglect and outright discrimination, it is clear across all regions that rural areas are worse off than urban areas, whatever the index of relative well-being utilized. Thus the pressure to deal with urban issues has developed against a backdrop of equally urgent demands for meeting rural basic needs.

Even in the best of circumstances, public decision-makers face difficult trade-offs in dealing with the cities of the Third World. Their problems are compounded, however, by the weaknesses of the analytical framework they typically bring to bear on the urban sector. In most countries the pattern of urban settlements is viewed with concern, often bordering on dismay. Large agglomerations are often seen as products of misguided entrepreneurs who concentrate

the generation of output and wealth, and of "marginal" elements who migrate from rural areas, confusing the "bright lights" of the city for meaningful income opportunities. This apparently irrational behavior is seen not only to defeat common objectives of regional "balance", but also to generate a seemingly inexhaustible demand for infrastructure to achieve service levels which, it is asserted, could be provided in smaller quantities and at lower costs elsewhere. For these reasons, such cities are described as exceeding their optimal size and in need of direct measures to freeze or scale back their dimension. Symmetrically, "secondary" centers, varying in minimum threshold size from 10,000 to 100,000, are seen as vehicles for dispersing urban wealth generation, as less costly to equip, and as alternate magnets for rural migrants otherwise bound for large centers. Such cities appear ideal candidates for force-fed expansion, through a wide-ranging program to supply the "missing" prerequisites for growth.

The other set of urban problems facing policy-makers in developing countries involves the existing poverty and inefficiency found within cities. The problems created by the demands of large numbers of urban dwellers for housing, public services, and transportation are real enough. These issues are made more intractable by the tendency of planners to think of these problems in terms of "deficits" whose resolution require such an enormous infusion of public sector resources that despair and paralysis seem to be the only appropriate response. Confronted with the inability to provide each household with a high quality dwelling unit, to build extensive networks of sewers, or to lace an urban area with expressways and rapid rail transit systems, planners often are reduced to symbolic gestures or vain attempts to mandate that new employers and new workers go somewhere else. As in the case of urban settlement patterns, there are policies that can ensure a more equitable and efficient process of development within cities. Before such initiatives can be taken, however, the problems must be placed in perspective with the help of a more appropriate framework. The purpose of this paper is to summarize the findings of urban economists which can contribute to provide such a framework and some directions to policy makers in their efforts to deal with the challenges of urbanization in the developing world.

2. National urbanization: Determinants and policies

2.1. The determinants of urban settlement patterns: Conflicting orthodoxies

Behind much of the anxiety concerning urban settlement patterns in developing countries is the implicit notion of an optimal distribution of population. By that standard, the urban landscape would be covered with a dense network of small- and medium-sized centers, each growing at a similar, low rate. These centers, collectively, would generate at least as much output as the present configuration

of cities. Great urban agglomerations would be largely absent, or at least irrelevant. The rural sector would evolve over time without the need to shift large groups of workers and their families to large or even intermediate size cities. Instead, the rural work environment would be enriched and diversified, as many modern activities located in villages. In the absence of startling shifts and discontinuities, all areas, urban and rural, could be upgraded in unison, receiving public services faster and at a lower cost than in the alternate, "real world" scenario.

Deviations from this "optimum" are thus understood as irrational, inefficient or inappropriate. All too often the policy response is to try to limit population and employment growth in large centers by means of regulations and licenses. The one fact that usually prevents this strategy from being applied fully and consistently is that national government authority is divided among competing groups. Ministries committed to giving spatial policy some priority are opposed by other ministries dedicated to fulfilling macroeconomic objectives. The latter tend to adhere to a different view of large cities. The concentration of economic activity in such agglomerations is accepted for an indefinite period because it appears to reflect the powerful impact of agglomeration economies associated with city size. In addition, forcible redirection of activity to other centers is seen to be disruptive and affect the achievement of such goals as rapid import substitution, increased industrial export activity, and the careful control and regulation of moderate and large size firms.

One can argue that both sets of policy-makers are operating within faulty frameworks. The optimum geography school misunderstands the determinants and consequences of migration. By extension, the key role played by the location of tradeable goods and services in shaping city size is also ignored. The concentrationists err in the opposite direction, confusing the type of urban settlement pattern that occurs under severe locational constraints with that operative under less constrained conditions [Renaud (1981), Richardson (1977), United Nations (1981)].

2.2. Migration and natural population growth: Some stylized facts

The role of migrants in city growth is more complicated than the optimalists believe. As a general rule, roughly 40–50 percent of urban growth is caused by immigration or the reclassification of previously rural population centers. The rest of the growth is due to natural increase, including the children born to migrant parents. Furthermore, there is regional variation; the percentage of the urban population born elsewhere is low in Latin America and South Asia, and high in Africa. Finally, the relative contribution of each component varies by place and, for any given location, over time.

There is also a consensus among students of migration concerning the determinants of relocation which differs from the views of the optimalists [Morrison (1983), Population Reports (1983)]. Migrants tend to move from places of lower economic opportunity to areas of higher economic opportunity. Migration levels originating from any area tend to reflect "push" factors related to the lack of local opportunities. Once set in motion, however, the characteristics of potential destinations, relative to those of the origin, are paramount. The possibility of choosing from among a variety of career paths is clearly very important in selecting a destination. So is the ease or difficulty of acquiring information about locational alternatives; distance acts as an impediment to relocation. Urban places may have an attraction over and above that reflected by narrow employment considerations, but this is difficult to pinpoint with any confidence. Clearly, educational opportunities are important, especially for those migrants who have a relatively high level of education to begin with. Skilled and professional workers, especially those involved in urban-urban migration, also seem responsive to the level of public services among competing alternative destinations. Unfortunately, the fiscal and planning mechanisms through which communities acquire, extend, and maintain infrastructure and education services may operate in such a way as to discourage moves to other than the larger centers of the country. In particular, secondary centers are rarely allowed to compete with one another for available central grants and urban development loans. Since local initiative is not usually rewarded, secondary centers have difficulty in getting access to the resources necessary to enhance their relative attractiveness through strategic infrastructure investments.

Other conclusions follow from the existing research literature. Contrary to melodramatic depictions of city-bound migrants, these individuals are among the most "upwardly mobile" in their area. They are primarily young (15–30), are better educated and better off financially than their non-migrant or rural-bound cohorts. They are likely to have nonagricultural skills and considerable linkages with destination-area households. Such linkages provide information on work and residence opportunities upon arrival. As a consequence, migrants tend to find jobs quickly after moving. Over time, there seem to be few employment-related differences between migrants and nonmigrants of the same age, sex, and educational level. Similarly, migrants do not concentrate themselves disproportionately among the ranks of the very poor or among the unemployed and underemployed. Most migrants believe they *and* their children are better off than if no move had taken place.

There are, of course, unsuccessful migrants, though studies suggest the proportion involved in rarely more than 10 percent. These move on to other cities or return to their place of origin. Even then, most origin areas appear to gain more than they lose. Population pressure is reduced, underutilized work time is cut, while remittances of migrants increase the living standards of relatives left behind.

None of this is meant to deny the optimalist contention that rapid city growth, whatever its source, is difficult to accommodate, especially in large centers. There, the higher costs for labor and land, the discontinuous nature of additions to infrastructure capacity, and the difficulty of performing public works in built-up areas, may offset potential economies of scale that come with higher densities and large city size; as a result the unit costs of infrastructure may be relatively high. Larger centers may require greater numbers of public services and more expensive types of services than smaller cities (e.g. sewer systems). Finally the income levels in such areas may encourage consumers to demand higher quality service than is the case elsewhere. Nevertheless, as detailed below, services can be provided, and at standards affordable to the beneficiaries, without necessarily drawing on subsidies paid by the nation as a whole. What is more, the available evidence indicates that public service provision, including education, health, clean water and sanitation, may on balance be as expensive, and possibly even more costly, to provide in rural areas and small towns, as in large cities [Linn (1982)].

There remains, then, the optimalist hypothesis that entrepreneurs who locate in larger centers are misguided because they could locate elsewhere, and receive similar or larger returns on their investment by operating in cities where public services, wages, and land are cheaper. There may be a small measure of truth to this assertion but, as demonstrated below, it in no way invalidates the initial or long-term net advantage of operating many businesses in large agglomerations.

2.3. The determinants of city size in the course of development

While the degree of urbanization appears closely associated with the levels of economic development, the link between urbanization and urban concentration is more complex. Empirical work, for example, suggests certain associations. One study of 44 countries [Rosen and Resnick (1980)] estimated Pareto distributions for the largest 50 cities or all cities over 100,000, whichever yielded the greater sample. The resulting Pareto exponents were found to vary as a function of at least two variables: per capita income and national population size. The wealthier and the more populous countries tend to have more evenly distributed populations, and are less likely to concentrate activity in a handful of very large centers. Henderson (1980) utilized an urban deconcentration index to explore city size distributions in 34 countries. He found that greater agricultural activity, more decentralized political system, increasing urban population, and larger proportions of resource-oriented to resource-independent activity, all are associated with decreased concentration. The ability of the labor force to manipulate modern technology, as measured by levels of education, also has an impact. At the initial stages of modern economic growth, concentration increases with improvements in education; thereafter, as educational opportunities con-

tinue to increase, more dispersed patterns of urban population are evident.

These associations can be blended together into a hypothesis about the determinants of urban settlement patterns within any country. For the sake of generality, it is useful to concentrate on countries or regions with the population and resource potential to support a diverse set of cities of different sizes at some point in their development.[1] Then the pattern of urban settlements appears to depend on two major factors: the impact of national or regional production patterns, and the public policies that affect the relative attractiveness of different cities as centers of production and consumption.

Urbanization under severe constraints.[2] Cities and their size are molded by the tradeable goods and services they produce and "export" and, through such basic activities, by the demand they generate for locally consumed goods and services. The process of development that increases the level of urbanization also reshapes the composition of goods and services produced in the urban centers. This has implications for what types of urban areas are likely to grow relatively rapidly at each stage in a nation's development.

Early industrialization is built around resource-based tradeable activities. These include mining, agroprocessing, construction materials, beverages, textiles, repair activities, and the production of simple machinery and parts. Ports involved in interregional and international trade emerge, as do administrative and agrobusiness service centers. Activities which are dependent on physical proximity to natural resources tend to be scattered. Other production, facing no such impediments, tends to locate in large centers. The reasons are straightforward. The supply of skilled labor is small and only large centers are likely to be assembly points for a diversified labor pool. Interregional and international transport is poor and only large centers are likely to have sizable, accessible markets or be well connected to the outside world. This is particularly important for any production using imported inputs which are available at port locations without the heavy costs of internal transportation. Urban public services are inadequate in quantity and quality, but large centers are better off than other locations. Industrial experience is limited, and large centers are usually the only places where knowledge of new markets and new technologies are readily available. Therefore, at early stages of national development, most plants that are not bound to a particular resource base will act as if urbanization economies, i.e. savings external to the firm that are associated with city size, are paramount in

[1]This is meant to exclude idiosyncratic cases like Chad, Lesotho, Bhutan, Yemen, Nepal, Mauritania, Burkina (formerly Upper Volta), Burundi, and Rwanda.

[2]Among contemporary examples of this phenomenon one can cite the Ivory Coast, Indonesia, the Philippines, Thailand, Pakistan, and Egypt. Empirical work on this issue is reviewed and extended in Parr (1985). Also useful is Wheaton and Shisido (1981).

location choices. City specialization in a related group of industrial activities is rare; thus, as argued below, the basis for extensive trade between cities suffers, as does the development of a vigorously expanding system of intermediate cities.

The cited constraints operate at another level as well. Those public policies that affect the relative attractiveness of different cities tend to favor large centers already playing a significant role in the economy. The public sector at early stages of development tends to be both relatively centralized and overwhelmed by the perceived public investment short-falls in interregional transport and communications facilities, and in urban services. National authorities are tempted to favor a few centers that are preeminent in some respect, including major ports, administrative capitals, and other large cities. This occurs because the central government, which controls the bulk of investable resources, is committed to taking as many shortcuts to achieve its modernization objectives as possible. By focusing on large cities, the public sector finds it possible to reduce the need for anticipatory physical and social infrastructure while achieving certain industrial targets. In effect, one or two cities become industrial and commercial city states, which can operate with only a fraction of the telephones, paved roads, power plants, and educational facilities needed to create the same environment at many points in space.

After this initial resource-oriented stage has passed, the most rapidly growing tradeable activities are associated with the emergence of engineering and metallurgy subsectors. Again, it is likely that the cited constraints will limit economic diversification to the largest centers, and that the agglomeration economies experienced by firms will continue to be linked to city size. Big cities act as economic supermarkets, providing a wide variety of inputs, services, skills, and clients for firms; and consumer goods, services and opportunities for workers of varying skill.

Urbanization in a less constrained setting.[3] The emergence of numerous intermediate centers, and of smaller centers that later grow into secondary cities, depends on a combination of factors. These factors tend to find full expression only in developed countries, but they can be detected in middle income developing countries as well. First is the growth of hinterland markets around urban centers that originally had a limited servicing role. This establishes an independent base for urban growth, in at least some activities. Second, as experience with consumer and producer goods' production processes becomes more extensive, much of this activity becomes routinized and is *potentially* available for profitable duplication in secondary centers. The reason, discussed below, is the shift in the nature of the relevant agglomeration economies, from those linked to

[3]This section reflects the conclusions of World Bank research work in Brazil, Mexico, Colombia, Taiwan, and Korea can also be cited as an example. Empirical evidence is available in Vining, 1985.

city size per se to those identified with local clusters of related activities, i.e. localization economies. Third, and critical to the full blossoming of the second factor, is the redirection of interregional and public service investments at the margin to modify the relative attractiveness of intermediate centers.

Hinterland markets can expand in one of two ways. First, improvements in agricultural practices, in infrastructure, and in public policies toward the rural sector can boost incomes and create new demands for local goods and services. Building upon this base, it becomes possible for area local entrepreneurs in the cities to initiate or expand production in a series of commodities to a scale at which longer distance exporting becomes possible. This expansion of the tradeables base facilitates the growth of additional local-serving jobs, and permits the labor force to expand. Less often explored, but important, is the process of deconcentration across areas as distant as 100 kilometers from a large metropolis [Hamer (1985)]. For reasons that appear linked to decision-making under severe uncertainty, entrepreneurs in a developing metropolis generally will consider plant transfers or new branches only within the expanding region of influence of the home base. Within that region, some of the metropolitan dynamism gets transferred to free-standing communities which can offer proximity to the advantages of the original center at somewhat lower costs in wages, land, congestion, etc. Simultaneously, local entrepreneurs, who provide the basis for almost all expansion in secondary cities beyond the metropolitan region, also take advantage of the advancing edge of that larger market, finding new export possibilities. While this relatively easy form of decentralization is often viewed disdainfully, as a form of sprawl, it does contribute to enlarging the geographic area within which diversified industrial production takes place.

Clearly contributing to both deconcentration and decentralized development beyond the metropolitan region is a subtle shift in the nature of agglomeration economies operative for a widening number of industrial subsectors. Instead of merely reaping savings from the massing of large numbers of sectors in a metropolis, blocks of employment prosper in *specialized* secondary centers, where savings appear to depend on proximity to related industries. Among the benefits from these localization economies are: savings from information exchanged among related firms; cost reductions from the easy provision of intermediate inputs tailored to such firms; new opportunities for plant specialization within an area shared with establishments producing related commodities; and greater options for workers and businesses searching for specific job and skill combinations.

Empirical work suggests that the incremental savings that come from additions to industry output or employment in one city tend to become quite small once that local industry group reaches a total size which is moderate in absolute terms [Henderson (1986)]. Thus, where localization economies are operative, one expects that the affected firms maximize their advantage by growing in intermediate

centers where one group of related activities is dominant and the rest of the workers are involved primarily in support or nontraded activities. Such specialization allows full exploitation of the dominant form of agglomeration effects for those firms while keeping the offsetting costs of doing business at more moderate levels than found in metropolitan centers. To expand those activities in the larger centers, once locational constraints are relaxed, yields few additional advantages while increasing the costs of many inputs.

Thus, in an environment where few locational constraints prevail, intermediate cities grow by specializing. Clearly, large metropolitan areas play a critical role and continue to expand, though less rapidly than secondary cities. But, at the margin, the key firms would now be in advanced technology items, in goods subject to volatile style changes, in national and international business services, in higher education, and in administration. The size of these metropolitan markets also ensures that a mix of market-seeking footloose industries attach themselves to the area.

In all this, there is a critical supposition that the policy environment is conducive. It is in this regard that the concentrationists operate from an incomplete perspective, by ignoring the impact of policies that inadvertently hold back decentralized development. These can be classified into two categories.

While the changing profile of national production provides a basis for the emergence of medium-sized centers, the speed at which this transformation takes place is dependent upon the improvement of local public services and of regional and interregional access. On one level this appears obvious. Until access is significantly improved across the system of cities, proximity to the main consumer markets, especially those in and around historically preeminent centers, dictates the location of producers who are neither resource-bound nor too small to cater to more than a very localized market area to begin with. Similarly, policies that ensure better city infrastructure in secondary centers reduce the costs of doing business there, even under price and tax policies that emphasize full cost recovery. Less apparent, however, is the important role these improvements play in attracting and retaining high-skilled workers, managers, and entrepreneurs. Work in both developed and developing countries suggests that high- and low-skilled labor are poor substitutes for one another. This means production of emerging tradeable commodities is associated with fairly rigid skill mix requirements. Decentralized development as described above thus depends on mechanisms which overcome the disamenities of secondary centers particularly from the vantage point of the skilled worker or entrepreneur. Many of these amenities are associated with the quantity and quality of public services, including education. Rising levels of amenities allow businesses at off-center locations to offer lower compensation packages to scarce types of workers and managers. These reductions may mean not only greater expansion possibilities for particular lines of production, but the difference between the existence or absence of certain kinds of activities.

Along with these initiatives, there are others whose importance is not as obvious and whose impact is harder to quantify; these are the so-called implicit spatial policies. Such policies are primarily macroeconomic or sectoral and they share in common a tendency implicitly to favor industrial development in some locations rather than others [Renaud (1981)]. They are also policies whose merit on strictly aspatial grounds is often dubious. One simple example can be found in the treatment of the rural sector in most developing countries during the last two decades. Very often governments taxed agricultural exports, controlled domestic food prices, placed heavy duties on imported inputs, ignored rural demands for credit, and in other ways restricted opportunity in rural areas. The result was that many secondary centers experienced long periods of stunted growth. Conversely, when the policy environment changed, the improved health of the hinterland was quickly reflected in the growth of secondary cities.[4]

Another common source of problems, was, and is, to be found in the nature and the administration of policies related to industrial promotion. Looking across industrial subsectors and across cities, it is clear that the input requirements of different production processes vary widely, as do the supplies of inputs at different locations. In the extreme, some inputs, such as easy access to government officials, to imported inputs, or to particular sophisticated services, may be available at only a few locations. Under these circumstances, promotion policies that affect subsectors which feel location-bound will result in long-term subsidies to particular urban areas.

Consider, for example, the impact of a heavily protectionist trade regime intended to impose a forced march to full-fledged industrialization. Research findings across developing countries suggest that many or most of the heavily favored sectors tend to locate in the largest urban areas, where they can satisfy their exceptional demand for imports, sophisticated factors of production, or access to discretionary favors [Renaud (1981)]. Under such a trade regime, the industrial value-added of major metropolitan areas is boosted by the artificial inducements. From this follow longer-term effects, which encourage additional growth over and above that recorded at one point in time.

As other locational constraints diminish, a neutralization of industrial promotion programs would allow production to restructure itself spatially over time. A less interventionist regime would tend to encourage sectors with fewer ties to the largest cities. With the passage of time, more cities would emerge that would be capable of accommodating the demands of sophisticated production. At that point, industrial modernization would no longer coincide with the growth of only one or two centers.

More generally, if any individual set of sectoral policies is ill-advised on

[4]Evidence exists that nonfarm rural employment is heavily linked to agricultural growth (e.g., Thailand and Colombia).

macroeconomic grounds, their differential spatial or urban impact is one more reason to consider reform. If the policies are justified but the economic environment is such that economic agents in urban centers, other than those initially benefited, are denied access to resources on reasonable terms with which to remedy locational deficiencies, then the public sector should act to remedy the matter. Among other measures, it is appropriate to modify the system of intergovernmental fiscal relations so that all urban centers can compete for matching grants and urban development loans on the basis of local performance in mobilizing resources through enhanced tax efforts and fuller cost recovery. Subsidizing services in selected, usually metropolitan, areas is counterproductive to any decentralization strategy. In the final analysis, however, central planners must take a hard look at sectoral policies before accepting the associated spatial consequences.

2.4. Public intervention in shaping city size: Limits and opportunities

Certain general principles apply when urban settlement policies are contemplated. Urban growth is the result of innumerable individual location decisions by households and businesses. These processes are complex; therefore, the probability is great that direct intervention through orders and prohibitions will prove counterproductive.[5] For this reason, policy-makers should avoid the temptation to assign optimal sizes to different cities and then set about forcing individuals to abide by them. Attempts to throttle the growth of particular cities above a certain size, by issuing edicts or by neglecting the infrastructure demand generated by new growth, are likely to harm national economic development and mire the bureaucracy and its subjects in red tape. Similarly, the central government must consider the large-scale replicability of any potential action to promote growth in secondary centers. For, at any point in time, only a few central initiatives are possible, and these must compete with all other demands for central financial and administrative resources. For example, it is not possible to declare that a large set of secondary centers are too small and then to attempt to flood those areas with costly, integrated packages of assistance meant to create the missing prerequisites of growth. Another, similarly unwieldy set of initiatives involves those meant to create regional balance by building new cities of particular sizes. Without exception this approach has meant a commitment of resources that cannot be sustained for very long.

In the end, the central decision-makers must realize that, to affect urban settlement patterns, they must concentrate on policies which have little of the

[5]There are several examples of this. Among others, one can cite Jakarta, Indonesia; the major metropolises in India; Seoul, Korea; Manila, the Philippines; and Buenos Aires, Argentina. A good review of the issues involved is found in United Nations (1981).

glamorous veneer of traditional spatial policies. Furthermore, they must apply their chosen measures consistently, and resist the temptation to modify policies repeatedly, thus muddling the signals sent to the individual economic agents who ultimately shape city size. This is no easy task, for little can be said about the precise way in which new outcomes will follow more appropriate policies. There is no available model of city size distribution which can be estimated with data and then used to predict changes in relative city sizes in the presence of policy changes. Nevertheless, even marginal changes in the growth rates of different city size groups will lead to the reallocation of millions of urban dwellers over time. The lack of precise estimates of policy change impacts is therefore no grounds for complacency in designing policies towards improved urbanization patterns.

Among the set of implicit spatial policies that require attention, to ensure consistency with spatial goals, one can list several as critical. The recommendations made share in common the fact that reforms are justified on nonspatial grounds alone. First, there is a need to ensure that the rural economy is not restrained by punitive price controls, heavy implicit or explicit export taxes, artificial constraints on the use of yield-boosting inputs, and poorly planned credit and technical assistance delivery systems. Market towns and regional centers can be stimulated simply by removing disincentives to rural production. In turn, this allows such centers to absorb a greater proportion of rural workers who seek better opportunities outside the countryside, as agricultural production restructures itself. Central decision-makers must also learn to accept the fact that, even in the best of circumstances, the modernization of the rural sector in the presence of population pressure requires urban policies that accommodate immigration at all city sizes. Thus, a reform of rural credit policies to remove a bias toward large-scale farmers will help to preserve opportunities in the countryside for paid labor and small producers. Yet, other policies meant to improve rural life, such as more and better schools and improved accessibility, stimulate outmigration. In fact, an effective family planning program in rural areas is probably one of the few mechanisms that can dampen migration flows without retarding other, worthwhile economic development objectives.

A second set of nonspatial initiatives is required, involving the environment in which industrial firms operate. Two major areas deserve attention. To begin with, measures should be taken to reduce unnecessary incentives to operate business near centers of government power. Too often, ongoing access to customs officials, tax administrators, regulators, government bankers, and sector policy-makers, especially those located in the capital, is made profitable. This type of implicit incentive to concentration rarely has any social benefits, and should be avoided by regulatory reform that stresses simplification, decreases uncertainty as to application, and encourages geographic decentralization of authority. Along with this change, another is necessary. This would involve modifying the implicit price signals that govern location behavior. A good example can be found in in-

ternational trade regulation. A protectionist regime encourages the premature expansion of large cities by promoting the growth of inefficient, import-competing activities, many of which are dependent on inputs that are found in preeminent centers, and that are costly or impossible to acquire elsewhere. The adoption of lower, more uniform levels of protection is usually recommended on general, macroeconomic grounds. These same reforms will enhance decentralized growth, as well, by improving the *relative* level of promotion for many sectors that have excellent opportunities to grow in secondary centers. At the same time, reform would discourage the early emergence of domestic production in sectors which cannot avoid locating in big cities during earlier periods of national modernization.

Explicit spatial policies are also worth pursuing to improve opportunities for growth among secondary centers but they must be adopted with caution. As an example, location subsidies or tax breaks are often championed without sufficient regard for their limited effectiveness and serious fiscal costs. Firms searching for new plant sites tend to operate in an environment characterized by great uncertainty as to the pattern and future course of costs in different locations [Hamer (1985), Townroe (1979)]. They tend to avoid choices involving great distances from their home base, unless the firms are large enough to support major search costs and to sustain possible major cash flow problems for the first few years. Thus, the amount of interregionally mobile investment at any point in time is small and successful redirection of this will have limited implications for off-center communities. Add to this the lost revenue implications of such policies and it is doubtful whether they can be justified.

One can also argue that the location of public industrial investments should not be distorted to accommodate arbitrary regional objectives. Such enterprises may have a role in pioneering the development of non-traditional locations. However, this does not mean that public enterprises should accept sharp reductions in profits to promote regional goals. Since all too many public firms in developing countries are poorly managed, further departures from commercial objectives are probably unwise. Given the existing macroeconomic constraints in most developing countries, it is likely that such ventures will have to follow locational criteria not unlike those pursued by private enterprises.

What is needed, instead, is a set of policies which stress the importance of improved interregional access, on the one hand, and of improved infrastructure at the local level on the other. The steady improvement of transportation and telecommunications across the national territory is clearly justified by the large dividends which can be reaped by improving access to domestic and international markets. In fact, until access to secondary cities is significantly improved, *physical* proximity to the main consumer markets, especially in and around large cities, will dictate the location of most producers except those that are resource-bound or those too small to cater to more than a very localized market area.

Other central, infrastructure-enhancing, initiatives are probably sensible as well. The government should develop and expand the use of industrial zones and estates targeted selectively in areas of proven growth or well-documented potential. There is general agreement in the literature that the opportunity cost of underutilized public investment is so high that developing countries cannot afford to rely on "leading infrastructure" as an inducement for industrial dispersal. However, at most stages of development, there are areas outside the major urban centers where industrial growth and diversification can take place. It is in these areas where improved infrastructure is a critical condition for further growth. Elsewhere, the obstacles to industrial development are so many that even radical improvements in public services will not be cost effective and only gradual upgrading of infrastructure can be expected as economic development proceeds.

Finally, improved access to public services and education plays an important part in modifying the relative attractiveness of secondary centers over time. Such improvements reduce the operating costs of businesses and help attract skilled workers and professionals to off-center locations. Since the needs of rural areas and of large cities cannot be ignored, and since central resources are limited, intergovernmental fiscal relations must be modified. Local taxes and user charges must be exploited more fully and transfers of funds from the center to municipalities must be tied more explicitly to local resource mobilization efforts. In addition, local governments must take a larger role in planning, executing, and maintaining local investments, allowing an already overextended central bureaucracy to concentrate its resources in a more selective fashion.[6]

In the final analysis, urban settlement patterns are the indirect outcome of many policies interacting with the economic agents who must make locational decisions. These policies stress the development of a reformed macroeconomic environment backed by an orderly expansion of interregional investments. Cities must continue to extend and upgrade local public services, relying more heavily than before on local taxes and user charges. In turn, while some central government resources should be spent to provide services for the very poor, regardless of location, most national grants and loans to improve city infrastructure should be linked to local effort. Through the application of these policies, the constraints on the development of urban centers, regardless of size, can be systematically reduced.

[6]This emphasis on local resource mobilization in secondary centers is not meant to excuse subsidization of public services or heavy reliance on central funds in metropolitan areas. Besides straining central resources and limiting central support for rural areas and secondary cities, subsidized public service provision in metropolitan areas is one of the major policy distortions clearly fostering inappropriate location decisions, and thus excessive urban concentration.

3. Efficient and equitable development of cities: Issues and policies

3.1. The policy problem[7]

Improved policies towards urbanization will help to alleviate some of the pressures of growth on the cities of the Third World. Nevertheless, the problems now confronting policy makers in the management of those cities will remain for the foreseeable future as urbanization will continue apace in all developing countries. Urban policies at the city level are therefore of central importance in ensuring that the scarce economic, human and financial resources heavily concentrated in urban areas are utilized in as efficient and equitable manner as possible.

Analysis and experience show that, contrary to common perception, there is often no conflict between the twin objectives of efficiency and equity in the design of urban policies. Of course, this is not to imply that conflicts or tradeoffs never arise, in particular as many of the prevalent inefficiencies tend to result in benefits to the economic and political elite of a country. In fact, the biggest obstacle to urban policy reform may well be that a majority of the decision makers, who themselves are members of the urban elite, tend to have a particular view of the urban problem, which regards the growth of slums as an infringement on the beauty of their city; street vendors, pedestrians and overcrowded buses as a nuisance impeding the movement of automobiles; and education and health care needs as consisting of unmet requirements of higher education and modern hospitals. The policy prescriptions drawn from this diagnosis of the urban problem include the "beautification" of cities through slum removal and construction of high-cost public housing projects; the banning of street vendors from commercial districts; the construction of limited-access highways and high-cost rapid transit facilities without commensurate control over the use of private automobiles; and the expansion of subsidized universities and city hospitals.

An alternative view, which is advocated here, would take as basic objectives of urban policy an increase in the overall efficiency of urban growth and the alleviation of urban poverty placed in the context of the interaction between the forces of demand and supply of goods and services in cities (including transport, housing and public services) and labor, capital and land. The diagnosis of the urban problem would then, for example, include the observation that the demand for labor, and in particular for unskilled labor, is not expanding quickly enough to provide employment at rising wages to a rapidly increasing labor force, whereas the demand for land, capital transport, housing and public services are expanding more rapidly than their supplies, thus resulting in higher prices or

[7]Much of the subsequent analysis draws on Linn (1983) to which the reader is referred for details and documentation.

shortages for these important inputs or services. The policy analysis and prescription flowing from this diagnosis then would focus on efforts to match more effectively the demand and supply of labor, and to develop investment, pricing and regulatory approaches which lead to a more rapid expansion of supplies of urban land, capital and services while also rationing their demand in an efficient and equitable manner. The remainder of this paper develops this approach further by exploring the urban policy issues in the areas of employment, transport, housing, social services, and administration and finance.

3.2. Urban employment and labor market policies[8]

Cities in developing countries in effect represent the apex of employment growth and opportunities. As indicated above, urban employment growth is the primary factor inducing rural–urban migration, which in turn tends to equilibrate urban and rural wages for unskilled labor at a common low level, especially in informal sector activities. Urban unemployment, while not uncommon, tends to be restricted to the younger, more highly educated and relatively well-off groups among the urban labor force, who can afford to wait for desirable employment opportunities after leaving school, or who have been temporarily dislocated from their government or modern sector jobs during period of economic austerity. The truly poor are not able to afford periods of unemployment, but instead have to work long hours in low-productivity occupations.

The source of urban employment problems, as well as their solutions, may be found in three dimensions: labor supply, labor demand, and the interactions between supply and demand in the urban labor market. On the supply side, the rate of population growth is the most important underlying source of aggregate labor force growth. Countries which manage to contain and reduce population growth rates will, albeit with a lag of some 10–15 years, also see a significant slowdown in the rate of growth in the labor force which needs to find urban employment opportunities. Obviously, an effective national family planning and population policy is at the core of a longer-term effort to limit urban employment problems. There are no obvious appropriate policy interventions which might deal with two other factors contributing to the growth of urban labor supply: migration and increases in the labor force participation rate. Both reflect individual households' reactions to employment opportunities, which are not easily controlled and where public intervention generally will contribute only to reduce efficiency in resource allocation and lower earnings, especially for poor households. On the other hand, education and training policies have an important

[8]For a broader assessment of employment and labor market issues and policies in developing countries, see Squire (1981).

impact on the composition of labor supply, albeit also only in the longer term. In many developing countries, overextension of formal, liberal arts-oriented education, not geared sufficiently to the needs of agriculture, industry and service activities for applied technical and vocational training, and the use of formal education as a sorting device by public and private employers, have contributed to urban unemployment among the young, better-off, and relatively well-educated. More emphasis on basic education, complemented by on-the-job and other informal training in technical and vocational skills, can help upgrade the urban labor force and reduce the incidence of urban unemployment.

There is more scope on the demand side for effective urban employment policy than on the supply side, at least in the short and medium term. However, most labor demand policies need to be managed at the national, rather than at the city or project level, which limits the scope for intervention by city-level authorities. The single most important factor determing total (and thus also urban) labor demand growth is the overall growth rate of the economy. Successful macroeconomic and sectoral management which leads to sustained rapid economic growth, as has been the case for example in many of the East Asian economies, is central to maintain sustained growth in labor demand and earnings.[9] The growth of industrial, service and government activities, which as a general rule accompanies economic development, is obviously of greatest direct importance for urban labor demand growth, but indirectly the growth of rural labor demand, mainly in response to policies affecting agricultural growth and rural development, also plays a role in regulating the overall employment outlook for a country, and thus also for the urban areas.

In addition to affecting the pace of economic growth and thus labor demand, the macroeconomic, trade and sectoral policies also directly influence labor demand by affectiving the labor intensity of economic growth. Such policies as overvalued exchange rates, trade regimes favoring import-substitution and inhibiting growth of export-oriented activities, interest rate and credit management, investment incentives, and tax and regulatory regimes in many developing countries have tended to provide powerful incentives to favor capital-intensive choices of technique, activities, and scale of operation and have militated against labor intensive activities which are generally carried out by export oriented and small to medium-scale enterprises. A reversal in these policies, besides fostering improved overall economic performance, can also support more labor intensive development, thus helping substantially to meet the urban employment challenge.

Imperfections in the labor markets have also contributed to some of the urban

[9]This is not the place for a more detailed assessment of the macro and sectoral policies which help explain the difference between more and less successful economic growth performance of developing countries. For a recent review of economic policy and management patterns and impacts, the reader may refer to World Bank (1983a).

employment problems. Most notable are institutional practices such as minimum wage legislation, public employment patterns, educational requirements unrelated to productivity evidence, ethnic and caste barriers to job access, and labor registration requirements. Lack of adequate information and access to jobs, or alternatively the often high cost of gaining information or of commuting have placed limits on the matching of labor demand and supply and have resulted in earnings differentials and in lower effective wage rates and earnings, especially for unskilled labor. Efforts designed to limit the distorting impacts of minimum wage legislation and of discriminating hiring practices and to reduce access and commuting costs can therefore also help in urban labor absorption and increasing labor earnings.

So far, macro and sectoral policies have been discussed which need to be pursued mainly at the level of the national authorities. Additionally, a number of policy instruments can usefully be employed at the city level, designed to improve labor supply and demand conditions and the working of the urban labor market. These include the elimination of frequent local administrative, tax and regulatory practices inhibiting small-scale and informal sector activities (such as bans on street vendors, neighborhood markets or traditional transport services, etc.), the consideration of labor-intensive techniques in urban public service provision, and the careful planning of the design and location of urban infrastructure investments with an eye to reduce commuting costs and facilitate access, especially by the poor, to educational, health and family planning facilities. These local- and project-level interventions cannot offset the impacts of national-level policies that discriminate against effective urban labor absorption, but they represent one of the elements of a broader strategy to support efficient and equitable urban growth.

3.3. Urban transport

Transport provides the essential link between urban activities, between residence, employment, and amenities, between and among urban producers and consumers. Intraurban transport demands, investment requirements and costs increase more than in proportion with city size, even as the agglomeration economies of cities reduce the interurban transport and communications requirements. The correct design, pricing, and regulation of intraurban transport therefore become more important with increasing city size as a factor determining the efficiency of urban resource allocation. In addition, the nature and design of urban transport systems in developing countries also has important impacts on such common important national policy objectives as energy conservation, foreign exchange and public resource saving and regional balance, since excessive growth of urban transport services tends to be highly intensive in energy, foreign

exchange and public resource use, and tends to foster urban concentration through biases in national public investment and financing patterns in favor of the larger cities. Finally, urban transport policies have major implications for the distributional effects of urban growth. The urban poor are particularly affected by the inadequacy of the urban transport system in providing them with ready and affordable access to employment, educational and health care opportunities, as well as by virtue of the fact that the provision of other urban public service (such as fire and police protection, power and water supply, sewerage and garbage disposal) is frequently dependent on the road accessibility of a neighborhood.

Transport investment, pricing and regulatory practices in many cities of the developing world, however, besides often encouraging inefficient urban development patterns and resource use, have mainly benefited the wealthy and the middle-income groups by providing costly, but highly subsidized infrastructure primarily for use of private automobiles, very limited public transit facilities accompanied by restrictions in the development of low-cost private transit, and frequently inadequate road access in poor neighborhoods.

This brief overview of urban transport issues in developing countries can be complemented by a review of public policy options, contrasting commonly found policies which have tended to be both inefficient and inequitable with proposed alternative policies that avoid many of these shortcomings. Examples of successful application of the proposed policies may be found in the developing world, but much remains to be done in the majority of Third World cities if they are to come to grips with their growing transport problems. Since the urban transport system represents a highly interconnected system of competing and complementary activities, it is important to design a comprehensive strategy of policy action at the city level buttressed by supportive policies at the national or provincial level (including, for example, appropriate policies regarding domestic automobile production, taxation and registration, petroleum product pricing, etc.). In many developing countries this requires a significant change in policy perceptions at all levels of government, which obviously cannot be expected to happen overnight, especially as the beneficiaries of traditional urban transport policies, particularly higher- and middle-income car owners, bus users, and property owners are certain to be vigorously opposed to policies reducing their preferential and subsidized treatment. Much will therefore depend on a successful improvement in urban services for all major user groups in parallel with shifts in the distribution of the benefits of public intervention from the better-off to the poorer segments of the urban population.

In the area of transport investment, traditional investment policies have emphasized highway construction designed to meet the needs of private automobiles, matched by a neglect of access roads to poor neighborhoods and of facilities supporting buses, bicycling and walking, and, in an increasing number of cities, accompanied by very costly investments in high-technology rapid rail

transit (especially subways). In contrast, more appropriate urban transport investment strategies have reduced the emphasis on general purpose arterial road construction mainly benefiting automobiles, stressing instead improved facilities for existing bus and minibus use (including reserved bus lanes, loading bays, terminals, etc.) and expanded neighborhood street-paving programs combining access routes for bus services and other public service vehicles with installation of bicycle paths and walkways. Only a few of the largest cities and along very limited routes are subways and other types of rapid rail transit systems likely to represent a cost-effective response to developing countries' urban transport problems. Their high capital and operating costs, substantial foreign exchange requirements and onerous needs for financial subsidies severely limit the scale at which they can be built in Third World cities, thus making only limited contributions to solving the urban transport problem. Moreover, because of overall economic and financial resource constraints, the huge capital outlays required reduce the scope for alternative solutions which would have broader benefits, particularly among the poor urban population groups.

Urban transport pricing, subsidies and taxes are another powerful policy tool often abused or underutilized. Subsidization of automobile use in highly congested and polluted cities is common, including in some cities even the provision of tax-exempt or subsidized central-city parking facilities [Linn (1981)]. Subsidized public urban bus and rail services are also common, generally provided by financially troubled state enterprises offering poor service of limited coverage. Privately owned transit operations (and even nonmotorized vehicles), in contrast, are often taxed and restricted by national or local authorities, if they are allowed to compete at all with their publicly owned counterparts [Walters (1979a,b)].

An alternative package of transport pricing policies could include congestion pricing for private automobiles using area and time specific license charges as applied successfully in Singapore, complemented by central city parking fees for on- and off-street parking [Watson and Holland (1978)]. General taxation of automobiles and gasoline, particularly when differentially higher in larger cities as compared with smaller towns and rural areas, is also an option for limiting private automobile ownership and use in urban areas, albeit second-best in terms of efficiency compared to the more specific congestion charges. Administrative ease, public revenue needs and a progressive incidence across income groups, however, make these taxes attractive fiscal instruments. Careful design of public bus fares to reduce widespread subsidization, to introduce distance-graduated tariffs, and to permit more frequent adjustments in line with cost increases, combined with a nondiscriminatory treatment for private transit operators, could go a long way in ensuring financially viable, reliable and broadly accessible urban bus service. Finally, the costs of urban road infrastructure investments could be more fully recovered from those reaping many of their benefits, i.e., from the landowners who find their property values enhanced by public investment.

Special assessments or betterment charges have been used successfully in Korea [Doebele (1979)] and Colombia [Doebele, Grimes and Linn (1979)] for this purpose; more effective urban property taxation is another possibility.

Finally, urban transport is frequently encumbered by misplaced regulatory restrictions, including those on privately operated transit modes including buses and minibuses, as well as traditional nonmotorized forms of public transport (e.g. rickshas and bekjas). Regulatory controls have limited private transit operations as well as the freedom to set fares, thus affecting the availability of privately supplied transport services directly as well as indirectly. In contrast, the use of private automobiles in congested areas is generally subjected only to insignificant and poorly enforced controls.

A preferable approach to urban transport regulation would rely more on control of the use of private automobiles in the congested areas, including daytime parking bans; would provide preferential treatment to transit vehicles (e.g. reserved bus lanes, which are now successfully used in a number of Third World cities); and would reduce the constraints on entry by private bus and minibus operators while easing limits on the fare structure, where these make private operations financially unviable [Walters (1979a)].

In implementing these and related urban transport policies a comprehensive approach to transport planning and administration and its integration into overall urban land use planning are important. The common fragmentation of responsibility for the urban transport sector among many public agencies often makes this difficult in developing countries. The successful design and implementation of a comprehensive transport policy in Singapore certainly owes much to the relatively clear assignment of public responsibility for the city's urban transport system.

3.4. Urban housing

An appropriate definition of housing is an important starting point for the correct diagnosis of the urban housing problem in developing countries. Housing should be defined to include not only the shelter structure as such, but also the residential plot of land with its on-site services (water, power, garbage collection, etc.) and the access it permits to off-site services (education, health, etc.), employment and other urban amenities. Thus broadly defined, housing is an important element of welfare and economic development in Third World countries, commonly accounting for a substantial share of household spending, fixed capital investment and even employment opportunities. In urban areas, housing problems are particularly important and visible, in view of the high population density, which requires higher service standards for public and environmental safety, and does not readily permit traditional building methods. Public in-

tervention in the urban housing market is therefore very common, not only to regulate private activity in response to important externalities, but also through public investment in infrastructure and even housing structures. Despite these efforts, large slum areas in many cities of the Third World house more than half of the urban population, half of whom generally lack access to safe water supply and human waste disposal.

In beginning to address the urban housing problem, an understanding of the major determinants of housing demand and supply are crucial. Aggregate housing demand is the expression of many individual private preferences for suitable combinations of particular housing attributes (including access, space, tenure, services, and shelter structure), scaled according to the size of the urban population and its income level and distribution. Given the multidimensionality of housing and the heterogeneity in preferences and income levels, it is in practice very difficult to meet housing needs on a comprehensive basis through public intervention. Public housing programs generally have to rely on a small number of types or models of intervention, quite apart from administrative and financial constraints limiting their scope. Therefore, turning to the supply side, it is important to recognize the different roles which must appropriately be played by public and private agents in housing supply and the many constraints which public intervention often places on the private sector's ability to respond in meeting housing demand, especially those policies which restrict land conversion, provision of public services and construction of shelter.

The urban housing problem – whose symptoms include land invasion and illegal subdivision, overcrowding, lack of basic services, poor access to employment opportunities, and rapidly rising land and housing prices – can then be diagnosed as the result of a rapid increase in housing demand placing a heavy strain on an inelastic supply of housing, including the supply of accessible residential land, services, construction materials, contracting services and finance. As public intervention is often a major cause contributing to the low responsiveness of housing supply and since the poor, precisely because of their limited command over resources, are especially affected by the maladjustments in the urban housing market, correction of urban housing policies can make important contributions to greater urban efficiency and equity.

In the past, public housing policy generally consisted of attempts to build high-cost, subsidized housing projects, which usually ended up benefiting the higher income groups rather than the poor, and in any case could only meet a small fraction of total urban housing demand because of their high cost and the prevailing limits on public resources. In fact, these public housing programs have tended to limit the expansion of total housing supply since they tied up public and private resources which could more appropriately have been devoted to provide much-needed infrastructure and other services. Even more misguided, however, have been slum removal policies, involving, as they generally do, the

destruction of valuable, if unsightly, housing stock providing shelter for the poor, and often representing the only assets owned by them.

Fortunately, these conventional approaches have slowly come to be superseded by more appropriate interventions, with public policies designed explicity to assist in expanding those dimensions of the housing supply which the public sector is best equipped to provide. This means in practice some assistance in land assembly and subdivision, but mainly the provision of essential residential services which are best provided by the public sector to take advantage of economies of scale, to avoid private monopolies, and to allow effectively for health and environmental externalities. Even without subsidies, access to publicly provided services of water and electricity, for example, can provide substantial cost saving compared to the privately supplied substitute (water sold by water vendors, or kerosene and other fuels used for household purposes). Slum improvement – not removal – programs have been demonstrated to be an appropriate way in many cases to upgrade services without destroying housing stock [World Bank (1983b)].

Governments should generally not be directly involved in shelter construction, since experience has shown that the private sector tends to be more efficient in responding to the multiplicity of household preferences, particularly where it is the household's variable earnings profile. The success of large-scale public housing contracting and labor services, drawing on the financial resources of an extended family, and purchasing material inputs at intervals consistent with a poor household's variable earnings profile. The success of large-scale public housing projects in Hongkong and Singapore is explained by a number of exceptional factors, including relatively high average income levels, unusually capable institutions, acute land shortages, and cultural acceptability of high-rise, high-density living. Similar efforts elsewhere, for example, in Brazil, have not succeeded to replicate the success of these two cities [Linn (1983)].

Besides direct investment activities, the public sector influences urban housing demand and supply through pricing, taxation and regulation. Property taxation, although often hailed as an instrument with direct effects on urban land use, housing supply and demand, in practice probably has few such effects, at least at the relatively low effective rates generally found in developing countries [Bahl 1977)]. Its major use lies in its potential as a local fiscal mechanism to finance urban service provision in a reasonably efficient and equitable manner. In contrast, user charges and development fees can have a substantial effect in encouraging an efficient allocation of demand and investment patterns for urban public services. Estimates of marginal cost of service provision can serve as a guide to efficient pricing, although the cost of administration will limit the fine adjustments in the pricing structure. Subsidies, except those aimed selectively to small (and thus usually poor) consumers, should in general be avoided because of their detrimental efficiency, equity and financial implications.

Regulation and control of urban housing in developing countries have, on the whole, not been effective in achieving their stated goals, and often have in fact been counterproductive, partly because they are difficult to administer and partly because of their intrinsic design. Regulations regarding urban land use, subdivision and building standard are observed mainly in the breach, but nevertheless may result in clouded land titles, serve as an excuse for razing slums, or force the adoption of unnecessarily high building standards in public housing projects [Dunkerley et al., (1983)]. Rent control – although rarely very effective because commonly circumvented in practice – tends to limit housing supply growth, impedes mobility, and limits property tax revenues. In practice, therefore, less rather than more regulation and control of urban housing activity, and the careful evaluation, design and application of regulatory measures to ensure that they serve meaningful objectives effectively, should be aimed for.

3.5. Social services

It is commonly observed that the average urban dweller is better off than the average rural inhabitant as regards education, health, and nutrition, and that education and health care services are in much more ample supply in urban than in rural areas. However, research has shown that averages tend to hide the fact that in the cities of the Third World there are sizeable pockets of poor households which are much worse off than the urban average would suggest, and that the urban poor in many ways are comparable to their rural counterparts in regard to education, health and nutrition levels and access to social services [Basta (1977); Lee and Furst (1980); Linn (1983)]. The main problem for the urban as for the rural poor is, therefore, that they are caught in a vicious cycle of low incomes leading to poor education, health, nutrition and family planning, which in turn interact with and reinforce each other in producing continuing low productivity and incomes.

Public action can help to break this vicious cycle, but as often as not public interventions have been limited in effectiveness by poor design or implementation. As was mentioned above, the reliance on high-cost, advanced services in urban education and health care has limited access to the much needed basic education, technical training and preventive health services. This in turn has been compounded by the location of educational and health facilities primarily outside poor neighborhoods making physical access by the poor families difficult and costly. Efforts can be made successfully to focus educational and health services more explicitly on the priority needs of poor neighborhoods, to tailor them particularly towards high risk target groups (especially infants, young children and their mothers), and to ensure that physical and cultural obstacles to accessibility of social service facilities by the poor are minimized. Complemen-

tarities within and among social services should also be fully exploited. For example, school lunch programs can serve the goals of improved child nutrition and better school attendance among the urban poor, and a basic health care program can serve as a vehicle for disseminating information on nutrition and family planning. Improved integration of social service provision at the local level can go a long way in helping to attain this goal of exploiting complementarities, but, in the absence of significant efforts at improving local administration skills and capacities, local initiatives and involvement do not guarantee success.

Finally, consideration should be given to increase the extent of cost recovery for social services, particularly when they go beyond meeting the basic needs of poor population groups or where excessive use can be limited by even nominal fees. Given the limitations on financial resources of urban governments, any measure which helps to mobilize public resources in an efficient and equitable manner in support of worthwhile urban service provision should be exploited.

3.6. Urban public administration and finance

Public administration in urban areas faces difficult and important tasks. Some public sector involvement in the management of urban growth is unavoidable, and the role of the public sector probably grows as urban agglomerations increase in size, because of the increased need to manage the externalities of agglomeration and residential density which cannot be left entirely to the invisible hand of free market forces. The demand for public services and thus public expenditures certainly grows more than in proportion with city size and so does the size of the urban government [Linn (1981)]. With the pervasive role of urban government in managing urban growth, and the potential for positive as well as detrimental impacts of public policy amply demonstrated in the preceding sections, it is clear that the best urban strategy is substantially dependent on the quality of public institutions that are to implement it.

Considering the importance of urban government particularly in the largest cities of the Third World, and, in turn, the importance of efficient city growth to a country's overall economic performance, it is striking how, for all practical purposes, the local authorities administering urban areas are often treated with benign neglect, if not open hostility, by their national governments. Besides such neglect or even obstruction by higher-level governments, responsibility for urban public administration, which in principle involves a highly interrelated set of interventions in infrastructure and social service investment planning, implementation and financing, as well as in the control and regulation of urban land use and of many activities, is generally spread across a very fragmented set of public institutions. Responsibilities are usually divided along hierarchical lines among central, state and local government agencies, along geographic lines where urban

areas are divided into a multiplicity of municipal jurisdiction, and along functional lines where autonomous state enterprises have responsibility for the investment, financing and regulating roles in particular urban service functions. Such an environment of fragmented responsibility virtually rules out a comprehensive and coordinated approach to urban development and planning, except under unusual circumstances, and then only for brief periods.

Another factor compounding the problems of urban government is that local public agencies often have insufficient authority to raise financial resources with which to meet their urban service responsibilities [Bahl and Linn (1983)]. In many cases the resulting "urban fiscal gap" is at least partly due to unrealistically high service standards previously alluded to; in many other cases, it has its origins in a mismatch between expenditure functions and revenue sources allocated to urban governments by higher-level authorities. While the demand for urban services tends to increase rapidly with city growth and generally has to be met by the local authorities, their revenue-raising authority is often restricted to relatively inelastic sources, such as property taxes, specific excises, fees and fines, and generally stagnant and erratic transfers from higher level governments. Even for those sources of revenue which are put at the disposal of local governments, high-level governments often restrict the local authority in the definition, scope and valuation of tax bases; dictate exemptions and the level and structure of tax rates and user charges; and limit local capacity for tax collection. These limitations on local revenue mobilization capacity, and the concomitant lack of administrative support and technical assistance in matters relating not only to tax administration, but also to management, budgetary and accounting practices, personnel training, and the intrinsic weaknesses of municipal governments resulting from low status and pay, all frequently add up to urban governments very poorly equipped to handle the large and rapidly expanding responsibility of urban administration and finance.

Under these circumstances, reform of urban administration is generally a difficult task, compounded also by the intricacies of local and national politics. The approach chosen in addressing the problems of urban administration and finance will depend to a large extent on whether one believes in the efficacy of a strong centralized (generally national level) authority, or whether one believes that local self-government is important in articulating and effectively meeting the demands for public action in a heterogeneous urban environment [Bird (1978)]. In the former case, preference will be given to strong central control and direction over urban policy, administration and finance. In the latter case, increased devolution of responsibility to local authorities will be aimed for, with fragmentation accepted as a necessary, but not always detrimental side effect.

Whichever of these two approaches is chosen, three general considerations apply equally across the board. First, whether entrusted with a large or small array of responsibility, urban governments should be given the leeway and

encouragement to raise the financial resources commensurate with the responsibilities which they have been given. This is an important tool which helps ensure that urban areas are not subsidized by rural areas, thus also limiting incentives for excessive urban growth and concentration; but it also will tend to foster increased internal efficiency and equity of cities, and limits the drain on scarce national fiscal resources. The urban property tax, automotive taxation, user fees and development charges hold out the greatest prospect as efficient, equitable and administratively feasible financing instruments that can be used to finance urban public services.[10]

Second, technical assistance to the local authorities in the areas of financial management and administration of infrastructure planning investment, and operation and local regulatory and planning procedures can usefully be provided by higher-level government agencies or possibly through an autonomous municipal development authority, which could also act as a financial intermediary offering loan finance for major public investment projects of urban governments.

Finally, the adoption of the types of policy directions proposed in the preceding section in the areas of employment, transport, housing and social service provision can improve urban policy making and administration substantially, even in an environment of a relatively weak or fragmented urban government. Improvement is therefore possible even where the financial base of city agencies remains overextended, where administrative capabilities leave much to be desired, and where cohesive policy planning and implementation is out of the question. Even selective application of partial policies have been shown to succeed in facilitating the difficult job of managing rapid urban growth in developing countries. At a minimum, those policies and interventions which have commonly served to compound the urban policy problems can be eliminated. In fact, much progress has been made in recent years in many developing countries to replace counterproductive, conventional policy approaches with imaginative new departures even without substantially changing the entire existing structure of urban government and finance. Nonetheless, the overall ability of urban government to constructively support urban growth ultimately is heavily influenced by a well-working administrative and financial structure and a set of mutually supportive relations between a city's local authorities and the national (and provincial) government agencies.

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