

Growth and Urbanization

Growth Commission Workshop

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Vice-Chair Growth Commission

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The Basics and Some Questions

The Basics

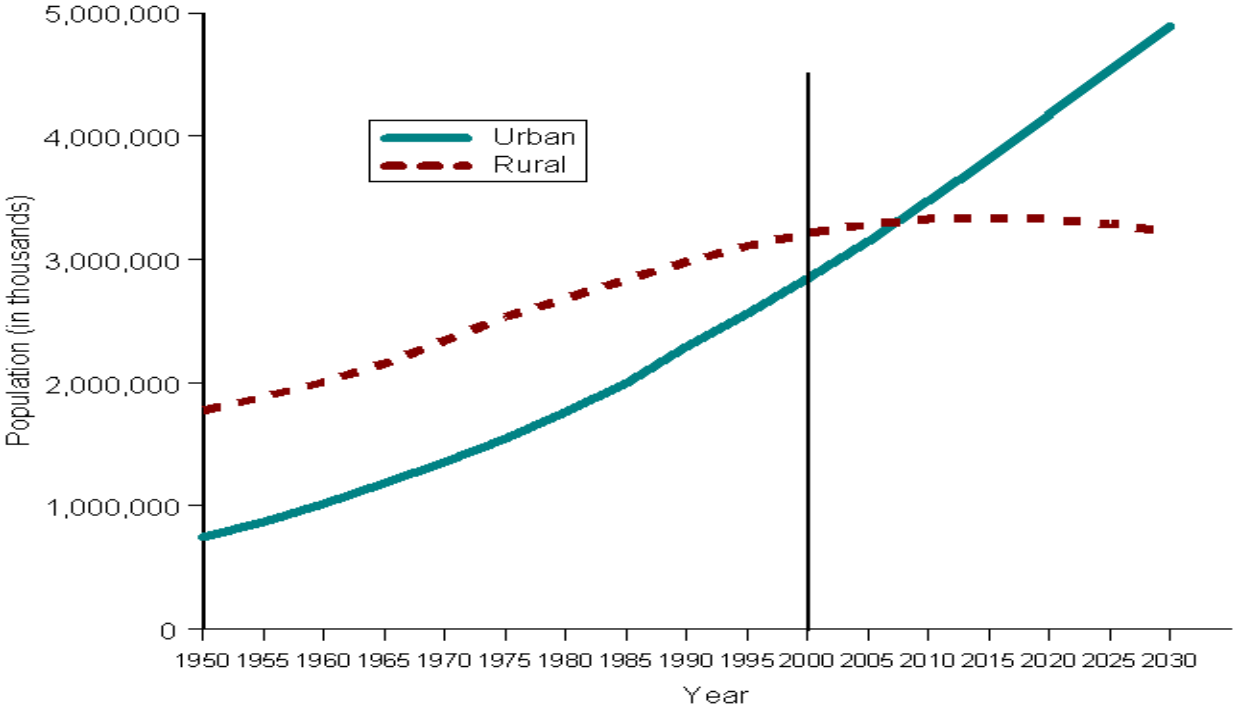
- Cities and Demographics
- Cities and Income

Some Questions

- Cities and Policy
- Cities and Growth

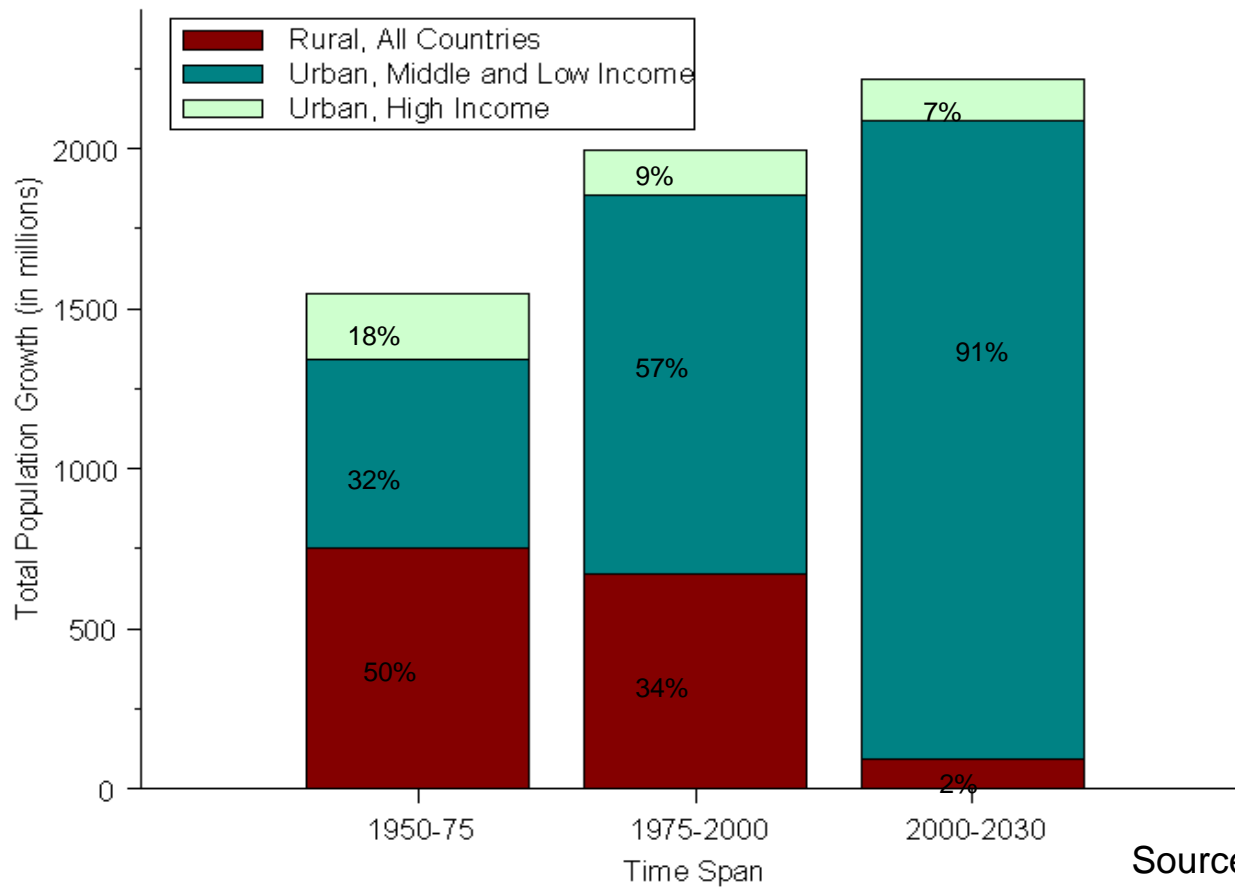
Cities and Demographics

Future World Population Growth Will Be Mainly Urban



Source: UN Urbanization Prospects 2005

Almost All of that Population Growth Will Take Place in Cities of Poor Countries

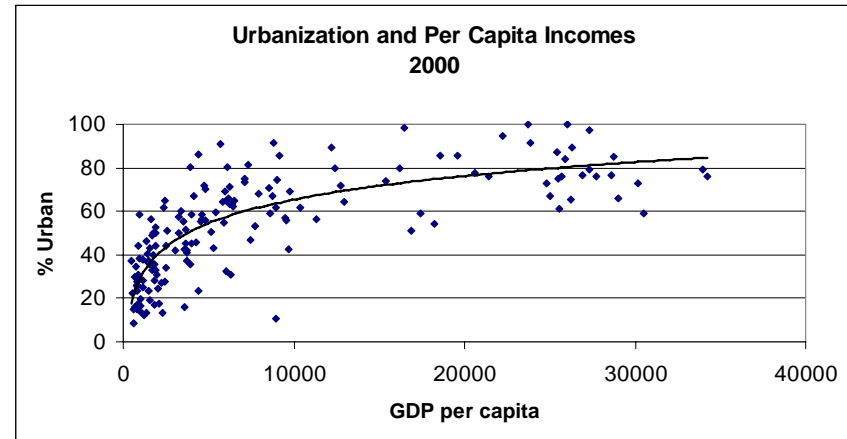


Source: UN
Urbanization Prospects
2005

Cities and Income

Urbanization and Per Capita Incomes Across Countries

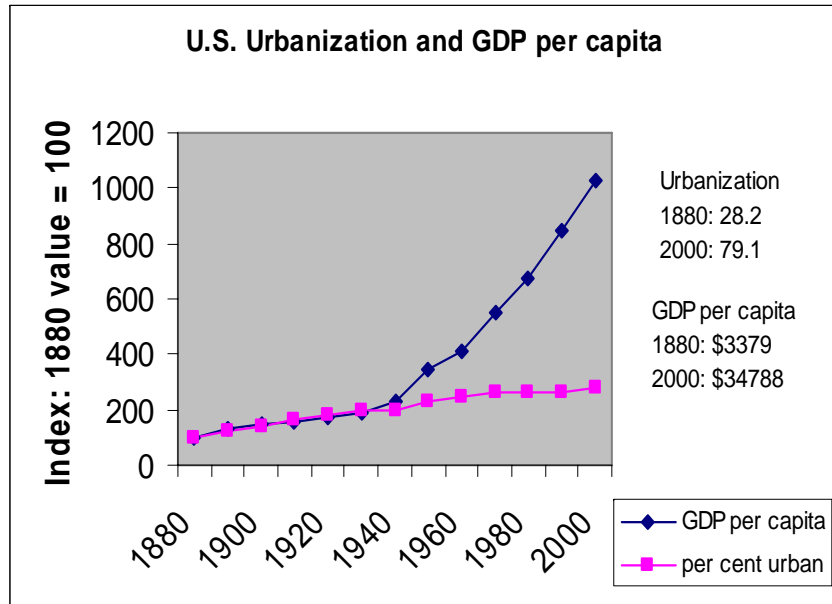
- Strong link between urbanization and per capita incomes across countries
- Robust over different periods
- Most countries with per capita incomes > USD20,000- > 60% urbanized; those with USD 10,000/- mostly >50% urbanized or more



Source: WDI (2005)

Urbanization and Income

- While relationship has regularity across countries;
- The relationship over time within countries varies.
- The US experience is illustrative— once a threshold of urbanization is reached, growth takes off.
- But this is not universal...

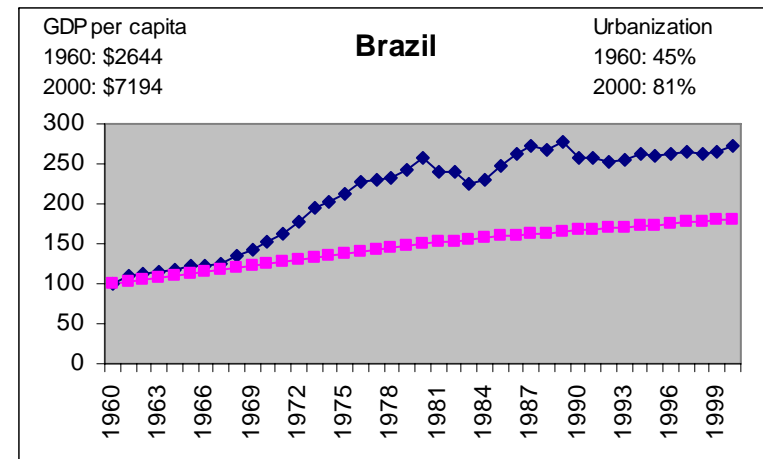
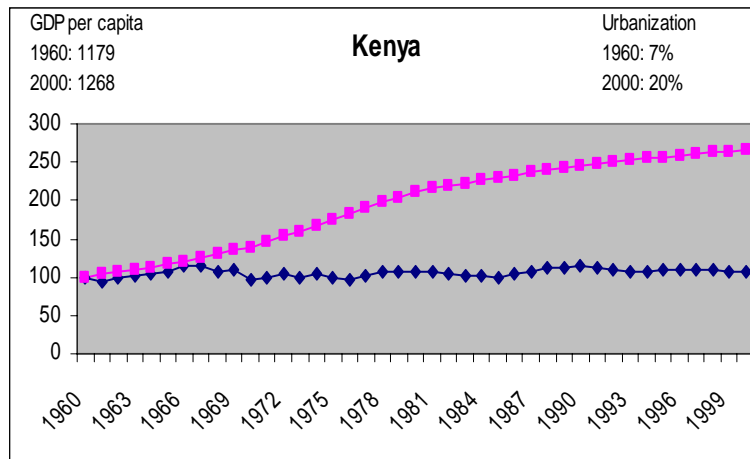
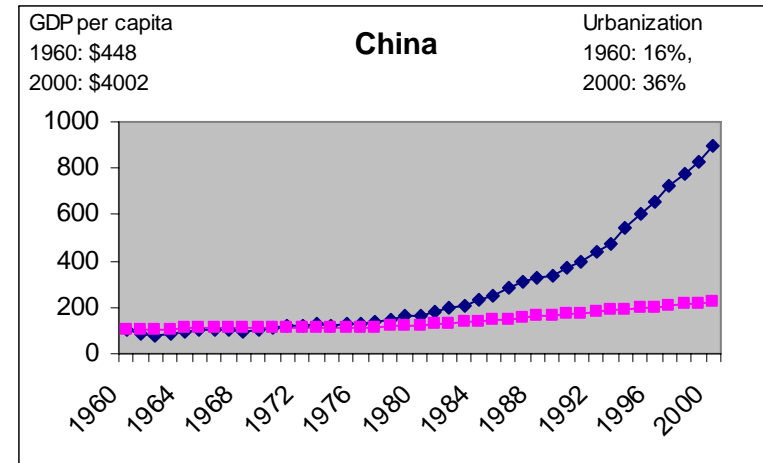
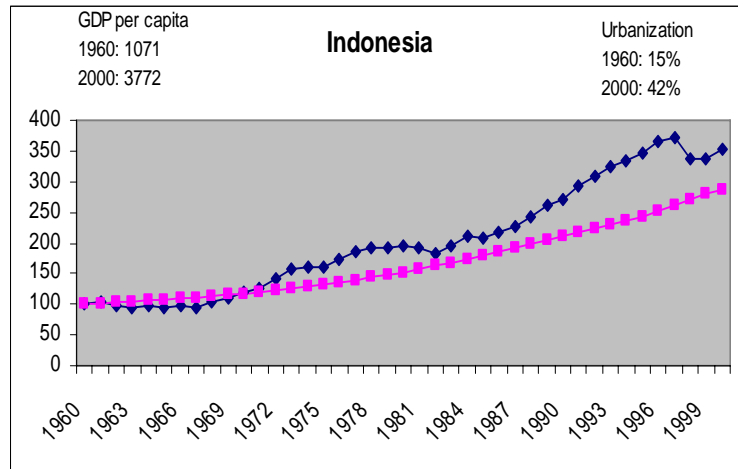


Source: US Census, WDI,
Johnston and Williamson (2005)

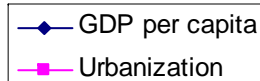
Adapted from Malpezzi and Lin
(1999)

Urbanization and GDP Growth over Time

Urbanization is necessary, but not sufficient for growth



Source: WDI (2005)



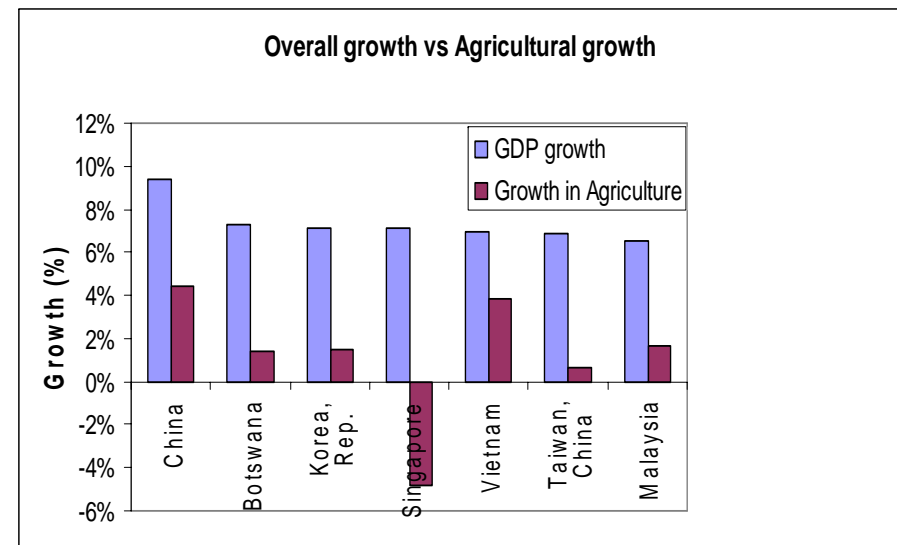
Cities, Policies and Growth: What is the Role of Urbanization in a Growth Strategy?

Urbanization, Growth, and Policy

- Income growth does not take off without urbanization
- But, it is hard to explain when and why it does in a given country
- Some countries don't grow but continue to urbanize – e.g., Africa – why?
- Many have not been able to sustain rapid economic growth with urbanization while others have.
- Can these patterns be explained by policies? natural constraints? Idiosyncrasies?

Fast Growers

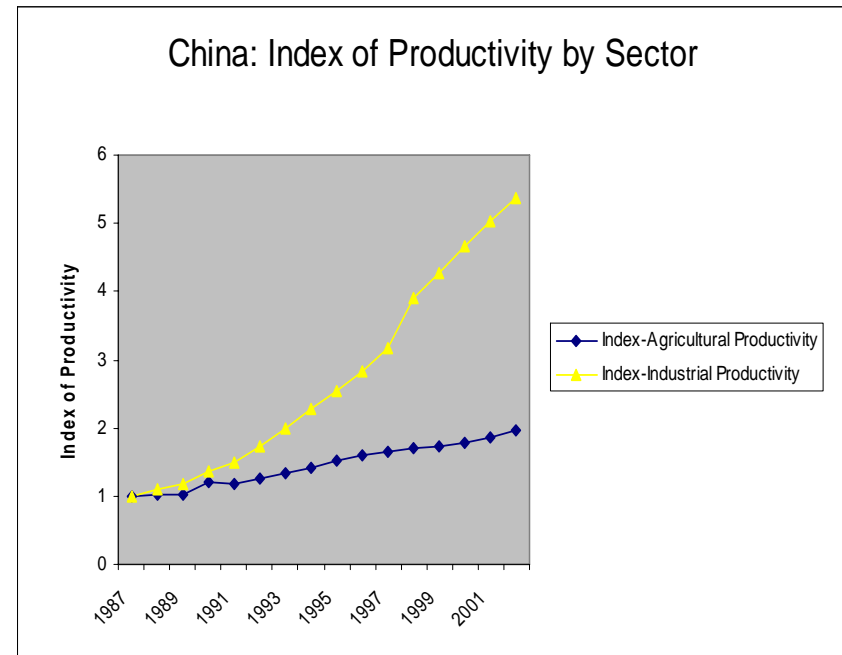
- In all countries with growth rates over 7% for the last 15 years or more, growth has been in cities.
- Will this always be the case?



Source: DDP

For the Fast Growers Productivity Gains are in the Cities.

- Industrial productivity far outpaces agricultural productivity;
- Big gains from rural-urban migration;
- Is there evidence of increasing returns to scale of urbanization?



Urbanization, Growth and Policy

Question 1:

- Are agglomeration economies just part of the growth process?
- Or, do agglomeration economies drive growth? Collier attributes most of Asia's more rapid growth relative to Africa to earlier exploitation of agglomeration economies. Is this credible?
- What should governments do to promote these agglomeration economies?

Urbanization and Policy: Sustaining Rapid Growth

Question 2:

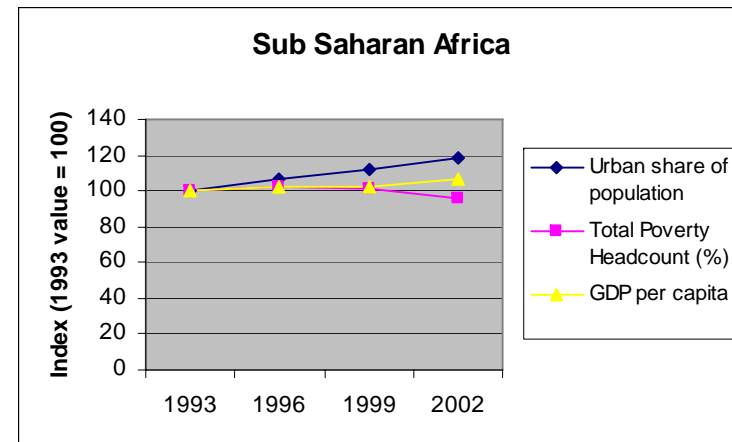
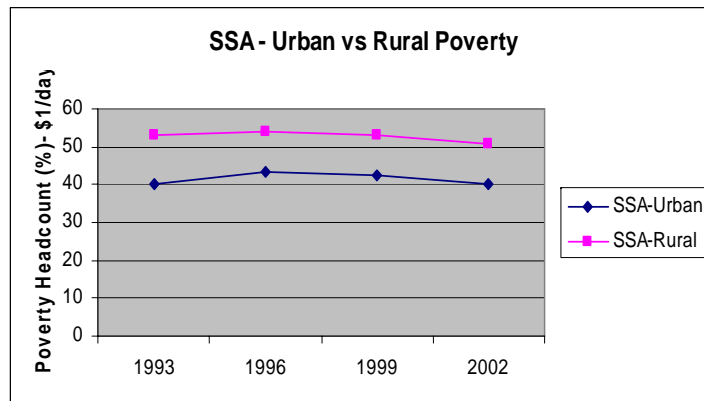
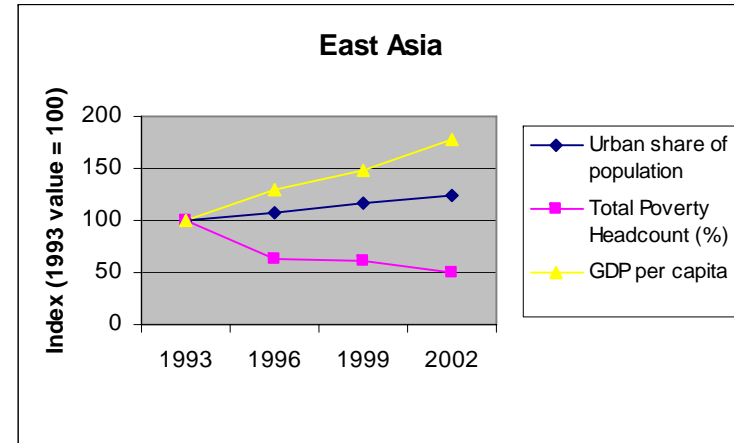
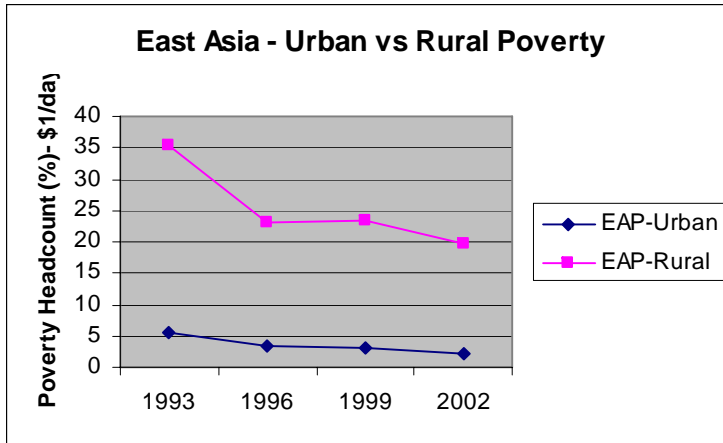
- How to manage the downside of rapid growth in cities?
 - Can India build the urban infrastructure to support industrialization and more urbanization?
 - How can China handle the regional inequalities that have followed rapid growth?
 - Will high land and housing costs disrupt the economy and the social fabric?
 - More is expected of government in urban environments, this is much easier if urbanization and higher growth go hand-in-hand.

Policy Perspectives on Urban and Growth : Rural Romanticism?

On the one hand, many want to reverse urbanization:

- A UN Survey found that most governments were pursuing policies to slow down or reverse migration to cities.
- This is possibly driven by concerns about the negative aspects of urbanization: poverty, crime and slums in cities

Urban vs Rural Poverty



Source: Ravallion (2007), WDI.

While governments clearly worry about rapid urbanization

- There is little evidence suggesting that urbanization is impoverishing
- Poverty incidence is consistently lower in cities
- Even in stagnant Sub-Saharan Africa, poverty incidence has gone down some in the face of rapid urbanization
- In fast-growing East Asia, although inequality has increased, poverty has gone down dramatically with urbanization

An Alternative View on Urban Policy and Growth: The Neo-Classical City

On the other hand, are those who think cities will spontaneously contribute to growth

- Eliminate distortions
- Let people move
- Liberalize the financial sector
- Provide local public goods AND

Livable cities will build themselves

A Broader Perspective on Urban Policy and Growth

Urbanization appears to be essential for growth, poverty alleviation and jobs.

If so, can we identify policies that can make it more effective?

And limit the downside of urbanization

A Broader Perspective on Urban Policy and Growth

Is there a middle ground between the agnosticism of “neoclassical nostrums” who would largely let markets determine urbanization outcomes and those “romantic ruralists” who would reduce the role of cities?

If there is such a perspective, can we identify some of the main elements?