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## **The future of urban employment**

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THE FUTURE OF URBAN EMPLOYMENT

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Comments most welcome

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**The Global Crisis of the Cities: Work Employment and Sustainable Growth into the 21st Century**

**I. Introduction**

This paper was originally written as a background document for the ILO's input to the second United Nations Conference on Human Settlements (Habitat II) held at Istanbul, 3-14th June 1996. In recognition of the active role of the ILO in preparation for Habitat II, the Habitat Secretariat called upon it to organise the Habitat II Dialogue (No 4) for the 21st century on the Future of Urban Employment as a contribution to the Istanbul Conference. The paper, ILO (1996), The Future of Urban Employment was specifically prepared for this Dialogue and was the subject of extensive discussions at the preparatory meetings prior to the Habitat II Conference and at the Conference itself.

There are two reasons for publishing this revised version of the background paper [Singh (1995)] as a Discussion Paper. The first is that it presents in greater detail some of the analytical arguments put forward in ILO (1996). Secondly, the present paper takes the analysis further by responding to some of the main issues which were raised in the debates on ILO (1996) as a part of Dialogue 4.

The paper examines the present crisis of the cities both in the rich countries (the North) and the poor countries (the South). However, as in the case of ILO (1996), it is focused on "urban employment: the underlying thesis is that creating and protecting employment can be the determining factor in easing, if not

resolving, the multi-dimension crisis faced by many cities world wide."<sup>1</sup> Apart from its own merits, such a focus is also appropriate in the light of the Programme of Action of the World Summit for Social Development which declared that governments should promote and pursue "active policies for full, productive, appropriately remunerative and freely chosen employment".

In its examination of the crisis of the cities and the question of urban employment, this paper gives primary attention to the relevant analytical issues. It is much less concerned with policy questions or with providing detailed policy recommendations. For these the reader is referred to ILO (1996) which gives a comprehensive account of policy measures and recommendations in various areas. Nevertheless, the present paper does outline the broad approaches to policy which emerge from the analytical discussion.

The main analysis of the paper is concerned with the following issues:

- (1) The long-term relationship between economic development, structural changes in the economy, urbanisation and urban employment.

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<sup>1</sup>See the Preface to ILO (1996).



- (2) Will there be enough work in the 21st century for all people to be gainfully employed? Or, will the nature of technical change mean that there will not be enough work for everybody if people work the same number of hours as they do now, or else will the number of hours worked have to be reduced to permit everybody to be employed? This involves, inter alia, an analysis of the question of "jobless growth" as well as a consideration of the role of the information and communications technology (ICT) "revolution".
- (3) The impact of the liberalisation and globalisation of the world's economy on cities and their employment prospects.
- (4) The role of the informal sector and its relationship to the formal sector: implications for real wages and employment.
- (5) Cities, environment and employment; is there a trade-off between environment and employment?
- (6) The economies and diseconomies of agglomeration and the question of the optimum city size; and the nature of the differences between cities in the third world and cities in the advanced countries.

The paper is organised as follows. Part 1 outlines the present trends in urbanisation in different regions of the world and considers the nature and dimensions of the problems of unemployment and underemployment which towns and cities in these regions face. It also sets out in some detail the main characteristics of the urban labour markets in both the North and the South. Part 2 is the analytical core of the paper and is concerned with the issues listed above. Part 3 examines the broad approaches to policy for urban employment which follow from the analysis of Part II.

## **Part 1**

### **II. The Context**

Two important long run characteristics of the world economy in the second half of the twentieth century have been : (a) rapid industrialisation and urbanisation of developing countries (the South) and (b) the deindustrialisation (in the sense of a declining number or proportion of people employed in

manufacturing) of the older industrial countries (the North). These phenomena represent enormous changes in the economic structures of the individual nations and that of the world as a whole. They also involve equally momentous changes, for better or for worse, in the lives of literally billions of people around the globe.

In the first half of the period (i.e till about the mid- 1970s), the world economy expanded at a historically unprecedented rate of about 5% per annum. In this golden age of fast economic growth, both the third world's industrial revolution and de-industrialisation in the rich countries proceeded by and large in an orderly way, if not always smoothly. However, the associated processes of rapid urbanisation and large scale rural-urban migration in developing countries were far less orderly or smooth. The problems of urban poverty, squalid living conditions, shanty towns and slums began to manifest themselves in towns and cities throughout the developing world. Similarly, in rich countries, the flight to suburbs of the wealthy and the impoverishment of inner cities started to take shape even in this period of fast growth and high employment.

However, in the last twenty years, world economic growth has decelerated considerably; it has also become much more unstable than before. The result has been the reappearance of mass unemployment in Europe and the interruption of the industrial revolution in many parts of the third world. These developments in turn have contributed significantly to a deepening crisis of the cities and towns in the North as well as the South. Richard Rogers in his BBC Reith Lectures in 1995 observed as follows with respect to the problems of cities:<sup>2</sup>

Cities have become socially divisive and environmentally hazardous. And if we in Britain think that our problems of pollution, congestion and inner-city decay are appalling, look at the massive changes that are overwhelming the cities of the developing world.

In 1990, of the 35 cities with populations over 5 million, 22 were in the developing world. By the year 2000 the number of cities in the developing world will double. Two billion people are expected to be added to the urban population of the developing world within 30 years. And this, even though at least half of the new urban population will be living in shanty towns with no running water, no electricity, no sanitation, and no hope.

Another distinguished student of urban development, Janice Perlman, notes the growing convergence in the difficulties faced by large cities all over the globe:

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<sup>2</sup> Rogers (1995)

Every city has a unique history, its own subculture, a built environment representing its specific evolution and both physical and abstract symbols which capture its meaning to its own population. Yet despite these differences, all very large cities have a great deal in common. Regardless of demographic specifics, economic development level, political structure or cultural rules, all of them face the challenge of meeting the needs of their vast and growing populations on severely limited municipal budgets. All struggle daily with air pollution, traffic congestion, drugs, crime and homelessness. All are increasingly polarised between rich and poor, and the poor areas (in different cities) are becoming virtually indistinguishable from one another.

In fact, every first world city today has within it a third world city in which unemployment, over crowding, hunger, disease, malnutrition and high infant mortality are the norm. And likewise, every third world city has in it a first world city of international fashion, high-technology operations, global communications, transnational corporations and post-modern taste. There is a huge gulf between these two worlds, and a strong resistance on part of the privileged to any fundamental changes which threaten the status quo.<sup>3</sup> [parenthesis added]

A central challenge for cities in both the North and the South is that of providing remunerative employment opportunities for all those who seek them. In the North, European cities are faced with high rates of youth and overall unemployment, whilst in U.S. cities, there is less unemployment but nevertheless considerable job insecurity as well as stagnant real wages for nearly two decades. What is required therefore in the urban US is good jobs,

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<sup>3</sup> Perlman (1990), pp 13-14.

not any jobs. Towns and cities of the South are however confronted with an even greater task in this respect. Not only do they have to provide employment for the very large number of currently unemployed and underemployed, they also have the immense burden of creating jobs for an urban labour force which is expected to continue to grow in the foreseeable future at a rate of over 3% per annum.

The ability of the urban economy to create sufficient job opportunities now and in the future, to make the cities as places where people can live with dignity, and indeed to transform them into proud emblems of humanity and civilisation requires careful research and analysis. It also calls for long term and imaginative policy approaches to the present urban crisis. This is all the more necessary if the cities are to harness the opportunities - and not be overwhelmed by the hazards - which follow from the ICT revolution, as well as the liberalisation and globalisation of the international economy.

### **III. Dimensions of Urban Population Growth in Historical Perspective**

The world urban population has increased almost ten-fold between 1950 and 1990, from 200 million to 2 billion. Thus towns and cities around the globe today contain more than a third of the planet's population. Yet at the turn of the century, only 10% of the world population lived in the cities. The long term trends in the spatial distribution of world population are summarised in tables 1-3. The following significant points emerge from this data.

First and foremost, in recent decades, there has been a rapid spread of urbanisation to less developed regions. In 1970, a quarter of the South's population lived in towns and cities. Twenty five years later, i.e. in 1995, this proportion had increased by a further half to reach 37.6 %. The U.N. projections (see table 1) indicate that by the year 2015 more than half of the population of developing countries will be living in urban areas.

Secondly, in contrast to the experience of industrial countries during the course of their economic development, the contemporary growth of urban population in the South has been extraordinarily fast. Bairoch (1983) estimated that between 1950 and 2025, the South's urban population would have increased almost sixteen-

fold, while the North's urban population only rose five-fold between 1840 and 1914 - the period of its most rapid economic growth. These facts have the important consequence, rightly noted in World Bank (1979):

Whereas urbanisation in the industrialised countries took many decades, permitting a gradual emergence of economic, social and political institutions to deal with the problems of transformation, the process in developing countries is occurring far more rapidly, against a background of higher population growth, lower incomes, and fewer opportunities for international migration.

Thirdly, there are important regional differences in the degree of urbanisation among developing countries (table 2). Latin America and Eastern Europe<sup>4</sup> have the highest incidence of urbanisation in the South - it is now almost as high as that in the North. The level of urbanisation, however, is much lower in Africa and Asia, with the result that urban population in these two regions is growing at a much faster rate than elsewhere and will continue to do so for the foreseeable future.[See Table 3]

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<sup>4</sup> Note that the source of this table is the World Bank and that of Table 1 is UN. Therefore there may not be an exact correspondence between the 'less developed regions' in Table 1 and the 'low and middle income countries' in Table 2.



[TABLE 2 AND 3 GO HERE]

Fourthly, Chart 1 displays the outstanding fact that the world's largest cities today are increasingly found in developing countries. In 1950, there were only two cities, London and New York with populations of more than 10 million. By 1994, of the 15 such cities in the world, 11 were in the South and London was no longer in the top 15. World Bank projections indicate that two decades from now, of the world's 28 largest cities with population of 10 million or more, 24 will be in developing countries, and only four in rich countries. Although Tokyo will still be the world's biggest city with population approaching 30 million (closely followed by Bombay), New York by then will have dropped to the thirteenth place in the league table.

[CHART 1 GOES HERE]

Fifthly, an important related point which highlights the difference between rich and poor countries in their present urbanisation processes is that the population of large cities (population greater than four million) in developing countries is growing much faster than that of their smaller cities. However in

developed countries, large cities have generally been losing population, which explains the trends evidenced in Chart 1.<sup>5</sup>

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<sup>5</sup> see I. Sachs (1986); and Singh (1992b).

IV. Urban Labour Markets in the North and the South:  
Unemployment, Underemployment, Informalisation and Urban Poverty.

As noted previously, some of the central elements in the crisis of the cities, in the North as well as the South, are the lack of adequate employment opportunities, job insecurity and low wages for many of those who are employed, as well as widespread poverty. The main characteristics of the urban labour markets in different regions may be summarised as follows.

**The North**

1. As most people in the North live in cities, the current mass unemployment there is necessarily an urban phenomenon. There has been a large trend increase in unemployment rates in most industrial countries since 1973. In 1970 there were 8 million people unemployed in OECD countries; in 1994 the unemployed numbered 35 million, about 10% of the labour force. The rise in unemployment has been particularly marked in West European countries. West Germany provides a striking example of this. It is a remarkable fact that between 1964 and 1973 the average rate of unemployment in West Germany was less than 1% of the labour force. The corresponding unemployment rate for the last ten years (i.e. 1986-1995) has been over 8% of the labour force and

is rising. In this context it is also important to recall that between 1964-1973, West Germany not only had full employment for its own citizens but also provided jobs for large numbers of "guest workers" from Turkey and other countries. The immigrants constituted almost 10% of the labour force in that period. As many guest workers subsequently became permanent residents, the present mass unemployment has produced serious tensions between the indigenous and immigrant communities in several German as well as European cities.

2. In addition to the current high recorded rates of unemployment, a considerable proportion of the workforce in advanced economies is presently obliged to work part-time, or is too discouraged by the lack of employment opportunities to look for work at all. If these involuntary part time and discouraged workers are included, it is estimated that this would raise the OECD unemployment rate by half as much (OECD (1994)).

3. (a) Unemployment rates have been appreciably lower in the U.S. than in Western Europe. Between 1964 and 1973, the U.S. unemployment rate averaged 4.5%. During the last ten years (1986 to 1995), it has been higher (6.4%), but not as high as in Western Europe.

(b) Despite this superior U.S. performance relative to Western Europe in relation to open unemployment, the U.S. nevertheless has a large army of underemployed people. Thurow (1996, p.56) observes:

"There are 8.1 million American workers in temporary jobs, 2 million who work 'on call' and 8.3 million self-employed 'independent contractors' (many of whom are down-sized professionals who have very few clients but call themselves self-employed consultants because they are too proud to admit that they are unemployed). Most of these more than 18 million people are looking for more work and better jobs. Together these contingent workers account for 14 percent of the workforce."

(c) The average real wage for non-supervisory workers in the U.S. declined at a rate of 0.3% per annum in the 1970s, 1.0% per annum in the 1980s and 0.3% per annum between 1990 to 1994. In contrast in the 1960s, the corresponding average real wage rose at a rate of 1.4% per annum (Pollin & Zahrt, 1996).

(d) In addition to the huge underemployment and stationary or declining real wages, another unfavourable aspect of the labour market experience in the U.S. in the recent period has been the growing inequality of wages. Wage dispersion had decreased in the U.S. during the 1950s and 1960s but wages have become much more unequal during the last two decades. Wage dispersion has also greatly increased in the UK over the last fifteen years.

However in continental Western Europe there has been very little change in the recent period.

### **The South**

1. The unemployment challenge facing towns and cities in developing countries today is somewhat different from that which confronts their counterparts in advanced countries. Since in developing countries, there is hardly any public provision or welfare payments for those who become unemployed, most urban residents in these countries are obliged to seek work, howsoever unremunerative it may be. Consequently, the recorded rates of unemployment in developing countries tend to be generally low.

This may be illustrated by the case of Mexico. Mexico, although still a developing country, joined the OECD - the rich countries club - following its entry into NAFTA. At a time of large scale unemployment in industrial countries, it turns out that the country with one of the lowest unemployment rates in the OECD is Mexico - its recorded unemployment rate was 2.9 percent in 1992, 3.5 percent in 1993 and 3.7 per cent in 1994 compared with double digit rates in several European economies. OECD (1992) rightly notes:

"As there is no unemployment insurance in Mexico, the open unemployment rate is not very sensitive to economic cycles; once

out of a job in the formal sector of the economy most people have to find some remunerative activity unless they belong to high income categories" (page 103).

The employment problem in the South thus manifests itself primarily in the forms of underemployment and low productivity/low remuneration work, often called 'disguised unemployment', following Joan Robinson.<sup>6</sup> More significantly, however, as noted earlier the urban labour force in a majority of developing countries is increasing at a very fast rate of about 3% per annum. This is partly due to migration but largely due to natural increase.<sup>7</sup> The employment challenge before these countries is therefore not only to reduce the existing large disguised unemployment, but also to provide adequately remunerative jobs for the rapidly growing new entrants to the labour force.

To illustrate, UN estimates for the Asia-Pacific countries indicate that between 1980 and 1990, 40% of the total labour force growth took place in the urban areas in these countries.

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<sup>6</sup>Joan Robinson had introduced the concept in relation to unemployment in advanced countries in the 1930s. As we shall see below it is becoming relevant again in advanced countries such as the US where welfare state provisions have been greatly reduced and labour markets made "more flexible".

<sup>7</sup>This point is taken up in Part II below.

For 1990-2000 the corresponding proportion is expected to be 61%. By the period 2000-2010, urban labour force growth for the Asia-Pacific region will represent 96% of all labour force growth. UN 1995 notes that "translated in numbers of people, the urban labour force of the ESCAP region will grow by 328 million in the 20 years between 1990 and 2010. Therefore, the problem of urban labour force absorption will be a major concern for governments". (UN 1995, page 2-26)

Similarly, Tokman (1997) reports that in Latin America, for demographic reasons, the rate of growth of total labour force fell from 3.5% per annum in 1985 to 3% per annum in 1995. However the rate of growth of urban labour force continued to be more than 3% per annum since rural migration to the cities increased the urban proportion of labour force from a little over two-thirds in 1980 to slightly more than three-quarters in 1995.

To appreciate the dimensions of the task of providing remunerative employment to this burgeoning urban labour force in developing countries, it is useful to turn to the observed statistical relationships between the growth of output and the growth of employment. These data suggest that for a labour force growing at 3% a year, the overall growth rate would need to be



about 6% per annum just to provide jobs to the new entrants to the labour force.<sup>8</sup> The overall rate of economic growth would have to be higher still if the existing backlog of underemployment and open unemployment is also to be appreciably reduced. However, Table 4 indicates that during "the lost decade" of the 1980s, the Latin American economies expanded at a rate of only 1.6% per annum. Moreover even with the recovery from the debt crisis in the 1990s these countries have only been able to grow at just about half the required rate. Yet in the same table, the post-1980 record of the East Asian countries indicates that this is by no means an over ambitious task. These economies have expanded at a rate of well over 7% per annum during 1980-1995.

3. These differences between East Asian and Latin American economic growth are reflected in the urban labour market experiences of the two groups of countries in the 1980s and 1990s.

The ILO's World Employment Report for 1995 summarised the labour market conditions in the fast growing East Asian and South-East Asian economies during this period as follows:

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<sup>8</sup>See further Singh and Zammit (1995)

- (a) total employment grew rapidly in the 1980s, with a marked acceleration in the latter half of the decade. The growth rates ranged from 2.3 percent in Hong Kong to 5.9 percent in Singapore;
- (b) as a result, unemployment fell between the mid-1980s and the early 1990s. The unemployment rates in the latter period were extremely low, ranging from 2.0 to 2.7 percent;
- (c) in some countries, such as Malaysia, Singapore, Taiwan and China, labour shortages emerged and there was significant immigration of labour from neighbouring lower-income countries;
- (d) employment growth was spearheaded by the manufacturing sector. Manufacturing employment grew at a rate of over 6 percent per annum during the 1980s for the dynamic economies of the region;
- (e) as a result, the structure of employment continued to shift to manufacturing and other high-productivity activities in the modern sector rising from about 7 percent of total employment in 1960 to around 18 percent by 1994. This presented growing opportunities for those in low-productivity activities to move into better modern-sector jobs, thereby sharing in the gains from growth;
- (f) at the same time real earnings grew steadily, with the rate of growth averaging a little over 5 percent per annum during the 1980s.<sup>9</sup>

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<sup>9</sup>ILO (1995), page?

The contrasting situation with respect to the urban labour markets in slow-growing Latin American countries during the 1980s and 1990s is reported below:

- (a) There was a steady fall in modern-sector employment between 1980 and 1992, with paid employment falling at a rate of about 0.1 percent per annum during the 1980s. This reversed the trend of the previous three decades, when steady economic growth had led to a significant expansion of modern-sector employment. (ILO 1995, Page ?)
- (b) Informal sector employment rose from 40% of non-agricultural employment in 1980 to 50% in the early 1990s. Between 1980-1995, 8 out of each 10 new jobs created during this period were low quality informal jobs. (Tokman 1997)
- (c) Between 1980 and 1990, the average real wage in manufacturing in Latin American economies fell by 13% and the minimum real wage by more than 30%. With the economic recovery after the debt crisis in the 1990s the average real manufacturing wage rose but in 1995 it was still below its 1980 level. (Tokman 1997)

## **5. Urban Poverty**

Although in developing countries as a whole, more of the absolute poor are still living in rural areas, as urbanisation proceeds, poverty is becoming essentially an urban phenomenon. The World Bank's estimates of the incidence of urban poverty in developing countries suggest that a quarter of the South's urban population in 1988 lived in absolute poverty - the incidence was the highest

in African cities (41.6%) and the lowest in the Asian cities (23%).<sup>10</sup> In Latin America the corresponding figure was 34.2%.

Tokman (1997) describes the urbanisation of poverty in Latin America in the 1980s:

The poor performance of the eighties resulted in an increase in poverty. The percentage of households below the poverty line increased from 35 to 39 per cent, interrupting the declining trend shown previous to the crisis. Rural poverty, however, remained constant while the expansion was concentrated in the cities. Poverty at the end of the last decade became mostly urban. 63 per cent of poor households are urban dwellers. In addition, 88 per cent of the 60 million new poor are urban. Poverty expansion has also concentrated in the non indigent poor accounting for 80 per cent of the new poor. This is the result of the deterioration of middle groups due to the changes in the employment situation and the reduction of social expenditure combined with the processes of privatisation and targeting."

## Part II Analytical Issues

To reiterate, a central policy task facing the cities both in the North and the South is to ensure that in an increasingly competitive world economy, subject to rapid technical change, there is enough work and jobs, indeed good jobs for their current and potential labour forces. In the way that our societies are

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<sup>10</sup>There is evidence that the incidence of poverty in East and South-East Asian countries fell appreciably in the 1980s and 90s as a consequence of fast growth of output, employment and real wages.

presently organized, most people would accept that unemployment is not only an economic waste, but it also leads to social degradation, to ill-health and indeed to criminality. It lowers self-esteem, is demotivating, creates insecurity, resistance to technical change, among other negative effects. Unemployment is therefore deeply damaging to the status of the citizen. The question of employment is crucial because of its all-pervading, comprehensive economic and social linkages. Creating sufficient numbers of productive, adequately-paid jobs is therefore key to the many-sided problems confronting the cities: poverty, urban squalor, drugs and crime.

For this purpose, part II will analyse a number of long-run factors which may affect job creation and the future of urban employment. Specifically, we consider below the impact of the following elements: (a) long-term structural changes which are endogenous to economic development itself; (b) liberalisation and globalisation; (c) technology; (d) flexibility of the labour market and the informal sector; (e) environment; (f) agglomeration and the question of the optimum city size;

Economic analysis and economic history suggest that as an economy develops and per capita income increases, there are important

changes in its structures of production and employment. Classic empirical studies by Kuznets (1971), Colin Clark, and Chenery et al. indicate the following regularities in these spheres:

(a) The share of agriculture in employment declines, while that of industry and services increase.

(b) There is, however, a non-linear relationship between the growth of industrial employment and per capita income. In the early stages of economic development, both services and employment expand at the expense of agriculture. However, once a very high level of per capita income is reached, industrial employment begins to decline while that of services continues to increase (see chart 3).

Structural evolution of production during the course of development is somewhat different than that of employment. The share of manufacturing in constant prices rises with growing per capita income. At very high levels of per capita income, it may decline slightly or even remain stable (see chart 4). However, in current prices, the share of manufacturing is more likely to follow a non-linear pattern of the kind observed for employment.

Economic analysis suggests that these observed regularities in the structure of production and employment are caused by the differences in the income elasticity of demand,  $e$ , and the rate

of growth of productivity,  $p$ , of the three broad sectors - agriculture (a), manufacturing (m) and services (s) - of the economy. The essential stylized facts concerning  $e$  and  $p$  in the three sectors can be summarized as follows:

$$(1) \quad e \text{ of (a)} < e \text{ of (m)} = e \text{ of (s)}$$

$$(2) \quad p \text{ of (a)} = p \text{ of (m)} > p \text{ of (s)}$$

where the letters in the parentheses refer to the economic sectors. Equation (1) suggests that the income elasticity of demand in agriculture tends to be much lower than that in manufactures (so-called Engel's Law): the former is usually less than one whilst the latter may be two or three. At high levels of per capita income, income elasticity of demand in services, studies show, may be somewhat greater than that of manufacturing, but since productivity growth in manufacturing commonly exceeds that of services (see equation (2)), manufacturing prices fall relative to services prices. If both the relative prices and income effects are taken into account, the rate of growth of total demand for services may be no greater than that of manufacturing. This is the main reason why the change in the structure of output follows a different pattern than that of employment, as indicated in charts 3 and 4 above.

If equations (1) and (2) hold, it can be shown that, over time, the share of agriculture and manufacturing in employment will eventually be greatly reduced and most of the labour force will tend to be employed in the service sector. As in early stages of development the bulk of economic activity originates in the agricultural sector it follows that until a fairly high level of per capita income is reached, the manufacturing sector will expand at the expense of agriculture, in terms of both output and employment; it is only in the long-term that labour will shift out of manufacturing into services (deindustrialisation).<sup>11</sup> As long as the rate of growth of demand for manufactures remain the same as for services even at high levels of per capita income, there is no reason why the share of manufacturing in total output should decline.

It is significant that although the share of manufacturing in employment declines at a high level of per capita income, the relationship between per capita income and urbanisation is linear (see chart 5). The analytical reason for this linear relationship lies in the fact that manufacturing and many service industries benefit from economies of agglomeration found in many

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<sup>11</sup> For a fuller discussion of these issues, see Singh (1987); Singh and Tabatabai (1993); Rowthorn and Wells (1987) and Baumol et al. (1989).



urban areas (see further Part 3 on this). Thus, in developing countries urbanisation is usually based on industrialisation. In advanced countries with a very high level of per capita income the mainstay of many cities may therefore be services.

All of these are big subjects. However, our purpose here is not to summarise the literature in each area, but rather to bring out the issues which are salient to policy, particularly with respect to employment, unemployment, productivity and real wages. Again, where appropriate, the differences in the analyses of these issues for developing and developed countries will be highlighted.

Goldsmith and Olpadwala (1992) provide evidence on the relationship between poverty and environmental degradation. They write:

The evidence today is overwhelming that the poor in cities suffer disproportionately from environmental problems. In Papua New Guinea's city of Port Moresby, for example, "water, sewage, and garbage collection was provided only to the rich who were long heavily subsidized owing to the low prices charged." We also find that "in Mexico City, the highest concentrations of dust particles in the air are found in the south-east and north-east areas where lower income groups live. In Manila, some 20,000 people live around a garbage dump known as Smokey Mountain...Moving to a cleaner, safer location is beyond their means." More generally, "it is virtually always the poorest groups who suffer most from floods, landslides or other 'natural' disasters." The consequences are predictable: "the urban poor have infant mortality rates that are two and sometimes three times higher than the middle- and upper-income groups in the same city. (footnotes omitted)

More significantly, the employment challenge in the Third World cities lies in creating jobs not just for the currently unemployed and underemployed, but rather for an urban labour force which is growing at the rate of about 3% per annum.

**Box 3**  
**'Urban` Population, Statistical Definition**

Countries use a wide variety of criteria for defining "urban" population. UN (1987) notes: "The most common criterion for urban population is a minimum number of people but the figure differs from country to country, reflecting a variety of social and geographical conditions. For example, an urban population is defined as at least 200 persons in Denmark, Greenland, Iceland, Norway and Sweden, but as 20,000 in Mauritius and Nigeria, and as 30,000 in Japan; most countries choose a minimum between 2,000 and 5,000 persons. Other criteria that are used to define an urban area are the number of dwelling units in a locality and characteristics of settlement, such as population density, economic activity, and living facilities. There are also several ways to define 'urban agglomeration`. For example, it may be defined in terms of the administrative boundaries of cities or by areas of high population density." The UN data cited in the tables in this section are based on national definitions of urban and rural populations. UN (1987) states: "The practice was adopted, after lengthy study and discussion, on the grounds that the national statistical authorities were in the best position to distinguish the two populations in their own countries."<sup>12</sup>

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<sup>12</sup> Quoted in Singh (1992b).

## PART 2

### **IV. STRUCTURAL CHANGE, LONG TERM ECONOMIC GROWTH, EMPLOYMENT AND URBANISATION**

#### IV.1. Economic Significance of Cities

Despite all the enormous problems of poverty, unemployment and other deprivations of the cities, they also embody for developing countries their hopes for the future. Urbanisation and industrialisation are the inevitable structural consequences of the process of economic development. As the discussion below will show, in general, the higher the level of a country's per capita income, the greater is its degree of urbanisation and also greater is the extent of its industrialisation until a very high level of per capita income is reached. It is in view of these analytical and empirical relationships that cities are regarded as engines of economic growth.

Indeed, in large parts of the third world much the bigger fraction of GDP originates in the urban sector even though the latter accounts for a relatively small proportion of total population or employment. For example, although Kenya is 23 percent urban, Nigeria 35 percent and India 27 percent, in all three countries, cities account for 70 percent of gross domestic product (Olpadwala and Goldsmith, 1992). Chart 2 presents similar data for other cities and countries. Sao Paulo, for example, accounts for a tenth of Brazil's population but over a third of its GDP.

[CHART 2 COMES HERE]

#### IV.2. Long Term Economic Growth and Structural Change

Economic analysis sheds important light on this apparent paradox of enormous failings of the cities to meet the minimum needs of their people and their concurrent role as engines of economic growth. Economists note that long-term economic development has always been accompanied by far reaching changes in the structures of production, employment, demand, foreign trade and other variables. On the basis of the historical experience of today's developed countries, Kuznets (1971) in his classical study derived the following generalisations.

(a) Long-term economic development is associated with a rise in the share of manufacturing in national output and a decline in that of agriculture.

(b) The proportion of labour force employment in agriculture declines while that in manufacturing steadily increases until the country reaches a very high level of per capita income.

(c) Both (a) and (b) are accompanied by an expanding market for industrial goods.

These empirical findings have been confirmed in more recent research and can be explained in terms of the differences in the income elasticity of demand, 'e' and the rate of growth of production, 'p' of the three broad sectors - agriculture(a), manufacturing(m) and services(s) - of the economy. The essential stylized facts concerning 'e' and 'p' in the three sectors can be summarized as follows:

$$'e'_{of(a)} < 'e'_{of(m)} = 'e'_{of(s)}$$

$$'p'_{of(a)} = 'p'_{of(m)} > 'p'_{of(s)}$$

where the letters in the parentheses refer to the economic sectors. If these relationships hold, it can be shown that, over time, the share of agriculture and manufacturing in employment will eventually be greatly reduced and most of the labour force will tend to be employed in the service sector, as is increasingly the case in the advanced economies. As the bulk of economic activity originates in the agricultural sector it follows that in the early stages of development, and until a fairly high level of per capita income is reached, the manufacturing sector will expand at the expense of agriculture, in terms of both output and employment; it is only in the long term that labour will shift out of manufacturing into services.<sup>13</sup>

#### IV.3. Urbanisation and Per Capita Income

It is significant that although the share of manufacturing in employment declines at a high level of per capita income, the relationship between per capita income and urbanisation is linear (see chart 2). The analytical reason for this linear

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<sup>13</sup> For a fuller discussion of these issues, see Singh (1987); Singh and Tabatabai (1993); Rowthorn and Wells (1987) and Baumol et al (1989).

relationship lies in the fact that manufacturing and many service industries benefit from economies of agglomeration found in many urban areas (see further Part 3 on this). Thus, in developing countries urbanisation is usually based on industrialisation. In advanced countries with a very high level of per capita income the mainstay of many cities may therefore be services.

#### IV.4. Structural Change, Employment and Rural Urban Migration

In considering the future of urban employment for developing countries, a central question is how far agriculture has the capacity to employ more labour, and how far this would be desirable. Here there is a significant dilemma. For the structural reasons outlined earlier - and also because technical progress in agriculture is generally both labour-saving and land-saving - the long-run employment elasticity of agricultural output tends to be very small, if not negative. Singh and Tabatabai (1993) provide estimates of the "measured employment elasticity" in agriculture for different groups of countries, over the period 1960-1990.

Developed market economies	-1.94
Developing market economies	0.48
Latin America	0.25
Sub-Saharan Africa	0.90
South and South-East Asia	0.43

Singh and Tabatabai note that these are crude elasticities, obtained as the ratio of the rate of growth of the economically active population in agriculture to that of agricultural output. Thus the figures do not necessarily reflect solely the supply response of the labour force to increases in agricultural production: the share of the economically active population in agriculture can rise without any concomitant expansion of the agrarian economy if there are insufficient employment opportunities outside the sector. Nevertheless, the measured employment elasticities for the developed market economies are negative and for the Latin American countries quite small.

In addition to this broad global analysis of employment elasticities in agriculture, Singh and Tabatabai also cite some detailed micro-economic evidence on 'genuine' employment elasticities which is more significant. Empirical research on the Indian Green Revolution indicates that, as the agrarian economy moves from one to two or more crops, the demand for

agricultural labour rises. But once multiple cropping has been achieved, genuine employment elasticity begins to decline and it may even become negative, as is the case in the advanced countries. Thus even though in a number of developing countries there may be a short- to medium-term increase in the employment capacity of the agrarian economy as the Green Revolution-type technologies are introduced, over the longer term (say, after a decade) the employment elasticity would be expected to decline.

This important structural characteristic of agricultural employment during the course of economic development was emphasized by the late Arthur Lewis (1978) as the essential reason for rural-urban migration. He noted that the natural population increase in rural areas has to find employment in towns. For otherwise, in those parts of the world where agricultural land cannot be increased except at an enormous cost, the family farm will tend to become progressively smaller. Lewis commented on the case of Germany at the end of the 19th century, where the population was increasing at a rate of 1.2 percent per annum. About half of the population at the time lived in urban areas. The urban population grew at about 2.5 percent per annum thus absorbing the whole of the natural increase in population both from rural and urban areas. Similarly in Latin America in recent decades, the rate of natural increase of population has been 3 percent per annum. With an urbanisation rate of about 50 percent, urban population has been rising at a rate of 6 percent per annum to absorb the entire natural increase of population. Thus the Latin American rural population remains constant while all the natural increase finds a living in urban areas. This however does not happen in Asia because although the rate of growth of population is lower than in Latin America (say about 2.5 percent), so is the rate of urbanisation (in the region of 25 percent). Thus if the Asian towns are to absorb the whole of the natural population increase, their population will have to grow at a rate of 10 percent per annum. Lewis regarded this as impossible. He pointed out that in a complex industrial system whose interdependent parts must grow in some sort of balance if profitability is to be retained, employment in manufacturing and mining cannot grow faster than at about 4 percent per annum.

#### IV.5. Contribution of Migration to City Growth

Although the structural factors outlined above are the main reasons for rural-urban migration, other factors are also important. Research shows that the latter include the economic

health of the urban economy, the mass media, the education system as well as government policies.<sup>14</sup>

In the context of this discussion on rural urban migration it must be emphasized that, contrary to popular impression, migration is not the sole or even the most important cause of the enormous expansion of cities in the third world. Research by the UN (1985) showed that between 1960 and 1970, in 26 large cities in 20 developing countries, 37 percent of population growth was due to migration and 63 percent to natural increase. A main reason for this is likely to be the high urban birth rates in developing countries. Oberai (1993) suggests that at an early stage of development, when levels of urbanisation are low and rates of both urban and rural natural increase are moderately high, net migration generally contributes more to urban population growth in LDCs than natural increase. At an intermediate stage of urbanisation, natural increase predominates. At a late stage, with high levels of urbanisation and low rates of natural increase, the relationship is more likely to be reversed again in favour of net migration.

#### IV.6. Operational Implications of the Structural Analysis

What conclusions can we draw from the foregoing structural analysis of urbanisation and long-term growth of per capita incomes? There are two implications which are particularly important.

First, in view of the still large rural populations in Asia and Africa, there will continue to be a very large potential for rural-urban migration on these two developing continents. Secondly, a significant conceptual, as well as an important policy question for a developing country is what is the optimal degree of "de-ruralisation" (in the sense of a decline in the share of agriculture in output and employment) and rural-urban migration? Are these processes occurring at too fast a pace or much too slowly? Should economic policy be geared towards accelerating the decline in the share of agriculture or should it rather attempt to slow down the decline?

A number of economists argue that, in general, the decline in agriculture's share in developing countries over recent decades has not proceeded fast enough in view of the large

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<sup>14</sup> For a fuller discussion of these issues see Oberai (1993).



underemployment of labour and the very low levels of productivity in that sector. Others suggest-on the basis of the poor living conditions in many third world cities, with their slums and urban squalor-that de-ruralisation has been, if anything, too rapid. In view of its policy significance, the concept of the optimal degree of de-ruralisation requires precision.

Following Singh's (1987,1989) definition of an efficient manufacturing sector in the context of the "de-industrialisation" of an advanced economy, Singh and Tabatabai (1993) conceptualize an "efficient" size and composition of the agricultural sector. From this they go on to suggest that the optimal degree and rate of de-ruralisation for a developing country is one which best enables it to achieve its overall long-term growth potential as well as meet the country's social objectives with respect to poverty alleviation, income distribution, and employment. Thus, to illustrate, there was a big fall in the share of agriculture in Nigeria during the oil-boom decade, 1973-1983. This was largely an indirect consequence of the rising exchange rate and other factors associated with the oil price rise (the "Dutch disease" syndrome). In 1973 agricultural production accounted for 54 percent of GDP; by 1983 this share had fallen to 34 percent as a result of both the rise in oil revenues and the attendant decline in agriculture, as resources were sucked away from the sector.

In terms of the analytical scheme outlined above, such de-ruralisation would be regarded as much too fast and inefficient, since most economists would agree that it has reduced the long-term growth potential of the Nigerian economy as a whole (see, for example, Collier, 1988). Over the same period in the Republic of Korea the share of agriculture in GDP fell from 35 to 15 percent. This even more rapid rate of de-ruralisation, however, may be regarded as having been efficient, since it did not undermine the long-term growth potential of the country's economy; it was also consistent with the alleviation of poverty and the creation of adequate employment opportunities outside agriculture. To make this conception of an optimal pace of de-ruralisation for a country operational from a policy perspective would therefore require, inter alia, a careful analysis of agriculture's various contributions, including, in particular, its contribution to the balance of payments and to employment in the economy.

## V. INDUSTRIALISATION OF THE SOUTH AND THE DEINDUSTRIALISATION OF THE NORTH

In the light of this theoretical analysis, it is useful to consider the nature of the actual structural changes which have taken place in the North and in the South and their implications for their respective urban economies.

The main impetus to structural change in the South in the postwar period has been the desire of developing countries to industrialize rapidly to catch up with the rich countries. Consequently, following the end of the second world war, a large number of third world countries embarked on a veritable industrial revolution - a revolution that they had been prevented from implementing fifty or a hundred years earlier by the rather different world economic and political conditions. With their political independence and with the new world economic conjuncture that prevailed in the post-war period, most poor countries initiated a serious process of industrialisation and, particularly during the 1960s and 1970s, several of them made rapid industrial progress. Even developing countries in Sub-Saharan Africa, which started with extremely unfavourable initial conditions when colonial rule ended, managed to increase their share of world manufacturing production during these two decades.

More significantly, a group of nations in Asia and Latin America - the so-called newly industrializing countries - were especially successful in establishing a technical, scientific and industrial infrastructure, in training their labour forces and in developing a relatively broad based industrial structure. By the 1970s these countries were providing formidable competition to the North in a range of consumer and producer goods industries.<sup>15</sup>

As a consequence of this industrialisation, the third world's share of world industrial production and world manufactured exports has increased appreciably over the last four decades. More importantly from the perspective of the present discussion, the productive structures of developing economies have significantly changed during this period.

Tables 5 and 6 provide evidence on changes in the structures of employment and output respectively in different regions of the world economy. Table 5 indicates that the share of agriculture

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<sup>15</sup> Singh (1989, 1992a); Chenery et al (1987).

in total production in developing countries halved between 1960 and 1990 - from more than 30 percent to a little over 15 percent.

There was a sizeable drop in every region, including Africa where agriculture's share fell from a little over 45 percent to about 30 percent over this period.

Turning to manufacturing, for the South as a whole, the share of manufacturing in GDP increased by 5 percentage points between 1960 and 1990, from 15.6 percent to 20.7 percent. There were, however, important regional variations: the South and Southeast Asian countries' share increased by 9 percentage points (to reach a figure of nearly 23 percent) indicating their relatively faster pace of industrialisation; the African countries share nearly doubled to almost 11 percent in 1990, but their starting point was very low. The Latin American countries which were the most industrialised among the developing economies at the beginning of the period have hardly recorded any increase at all in the share of manufacturing over these three decades. This is essentially due to two reasons: (a) the share of manufacturing in GDP in Latin American countries in 1960 was already high, being over 20 percent and (b) as we shall see in the next section, Latin America industry suffered a severe setback in the 1980s. As a result, the share of manufacturing in GDP fell during that decade. In all developing regions in table 5, there was an appreciable increase in the share of services.

Despite the important progress registered by the third world industry in the last three to four decades, the bottom half of the table shows that over 60 percent of the third world's labour force is still employed in agriculture. There has, nevertheless, been a marked change in the employment structure of the labour force in these economies over the last quarter century along the lines predicted by the theoretical analysis of section IV. The pace of change in the structure of employment has however been much slower than in that of output.

The top part of tables 5 and 6 provide corresponding information on structural changes in employment and output in industrial countries. These show deindustrialisation in the sense of sizeable declines in the share of manufacturing in both output and employment in these countries over the three decades 1960-1990. Although there are obviously very important inter-country variations, the average share of manufacturing in GDP for the aggregate of industrial countries is now about the same as that for developing countries taken together - a little over 20

percent. Yet 30 years ago manufacturing's share of GDP was on average twice as high for industrial countries as for developing countries.

Similarly, table 6 indicates for advanced countries a large fall in the share of industry in total employment over the quarter century 1965-1990. These aggregate figures however conceal the extent of job losses in industry suffered by leading individual industrial countries; the latter have been the source of public disquiet about deindustrialisation in these nations. UNCTAD (1995) data for the G-7 economies show that not only the share of industrial employment in total employment fell in most countries, but there was also a huge fall in the absolute numbers employed in manufacturing in a number of countries, particularly in Europe. Thus, in the UK there were 7.9 million manufacturing workers in 1970; by 1993 this number had fallen to 4.3 million, a shrinkage of 45 percent. In France, the corresponding figure was 23 percent, in Germany 14 percent and the average for the G-7 industrial countries was a fall of 15 percent. Japanese industrial employment actually slightly increased over this period.

The above differences in the nature of structural changes experienced by economies in the North and the South go some way towards explaining the differences which were noted earlier with respect to urbanisation patterns in the two groups of countries.

The fast growth in the size of large cities in the poor countries is due both to greater manufacturing and service employment as well as to reduced employment in agriculture. In the North, large cities<sup>16</sup> have been losing population in part because of deindustrialisation and specifically the disappearance of older smokestack industries which had an important place in many of these cities.

## **VI. THE POST-1979 GLOBAL ECONOMIC CHANGES AND THE URBAN ECONOMIC CRISIS IN THE SOUTH AND THE NORTH**

### **VI.1. Economic Policy Changes in the North and their Impact on the South**

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<sup>16</sup> See further the discussion of agglomeration economies in the following sections.

The end of the 1970s witnessed far-reaching changes in the domestic macroeconomic policies of industrial countries. These changes were heralded by the appointment of Paul Volcker as the Chairman of the Federal Reserve Board in the United States in 1979. Following the second oil price increase, the United States government embarked on a highly contractionary monetary and fiscal policy. These policies were later emulated either willingly (as for example in the case of the UK) or unwillingly (through a process of competitive deflation) by other industrial countries (e.g., France). The net result was a prolonged recession between 1979 and 1983 in the advanced countries and an unprecedented rise in international money and real interest rates.

As a consequence of the developments in the North, the third world countries, at the beginning of the 1980s, were subjected to a series of unprecedented external shocks. Equally significantly, a number of these adverse factors have continued to operate throughout the decade (and into the 1990s), which has made economic recovery in many poor countries extremely difficult.

The most important channels through which these changes in economic policy and the slow-down in the North's and hence in world economic activity (as the North accounts for about 80 percent of the total output of the world's market economies) affected economic and industrial development in the third world countries were the following: (a) a reduction in the demand for third world products, including commodity and mineral exports; (b) as a consequence of (a), a fall in commodity prices and hence adverse movements in the terms of trade; (c) an increase in the real burden of interest and debt service payments, partly due to (a) and (b) and partly due to an enormous increase in interest rates; (d) a reduction in the quantum of aid and other capital flows.<sup>17</sup>

## VI.2. Inter-Continental and Inter-Sectoral Differences in Economic Performance

However, the external shocks did not effect all developing countries equally; nor was their effect uniform. There were

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<sup>17</sup> For a fuller analysis of the issues see Singh (1992a). See also Dornbusch (1985).

striking inter-regional differences. Table 7, which provides data on comparative sectoral (agricultural and industrial) and overall economic performance of the developing economies during the last quarter century, shows that there was a trend fall in their rate of growth of GDP in the 1980s, compared with the period 1965-1980, from 5.9 percent to 3.2 percent per annum. However, the table also reveals that this was mainly an aggregation effect caused by the collapse of economic growth in the Latin American and Sub-Saharan African countries in the later period, i.e. in the 1980s. By contrast, both the East and the South Asian countries not only maintained their momentum of economic expansion in the last decade, but indeed recorded a trend increase in their growth rates. The rise in the growth rate was particularly significant for the Indian as well as the Chinese economies.

Table 7 also shows that, although in the pre-1980 period the East Asian countries grew somewhat faster than their Latin American counterparts, the difference in the growth rates was relatively small (7.3 percent per annum for the former as against 6 percent per annum for the latter during 1965-1980). However, the Latin American growth rate in this earlier period was considerably faster than that of the South Asian economies, so that the average rate of economic growth for all countries together on the two continents was broadly similar before the debt crisis of the 1980s.

Both groups of Asian economies in Table 7 recorded a trend increase in their agricultural growth rates during the 1980s. However, although the agricultural performance of Asia was superior to that of the other two developing continents, the main reason for the overall economic failure in Latin America and Sub-Saharan Africa in the recent period lay in their extremely poor industrial record. In the 1980s, industry expanded at a rate of over 10 percent per annum in the East Asian countries, and at a rate of over 6 percent in the South Asian countries. The corresponding industrial growth rate in Latin America was only 0.7 percent per annum.

In order to assess the impact of the differential overall economic performance on the average standard of living of the people on the three continents, the GDP growth rate figures in Table 7 have to be adjusted for the rate of growth of population, terms of trade and net factor payments abroad. These adjustments indicate that during the last decade per capita income in Sub-Saharan African countries fell by as much as 25 percent and in

Latin America by 15 percent. However, the Asian countries average per capita income was a little over 50 percent higher at the end of the decade than at the beginning (United Nations, 1990).

### VI.3. Impact on Modern Sector Employment

A major consequence of these inter-continental and inter-sectoral differences in economic performance in the 1980s has been a deepening crisis of the urban economy and society particularly in Latin America. The contrast in this respect between the fast-growing industrial economies of the developing countries in East and South-East Asia and the industrial failure in Latin America could not be more striking. In the former group of countries, faster industrial growth has led to rising real wages as well as increasing employment, particularly in the modern sector (see Table 8 for changes in real earnings in manufacturing in different developing regions over the last two decades). The opposite has been true of the stagnating Latin American economies in the 1980s and even into the 1990s.

The World Employment Report for 1995 summarizes these developments for the successful Asian countries:

- \* total employment grew rapidly in the 1980s, with a marked acceleration in the latter half of the decade. The growth rates ranged from 2.3 percent in Hong Kong to 5.9 percent in Singapore;
- \* as a result, unemployment fell between the mid-1980s and the early 1990s. The unemployment rates in the latter period were extremely low, ranging from 2.0 to 2.7 percent;
- \* in some countries, such as Malaysia, Singapore, Taiwan and China, labour shortages emerged and there was significant immigration of labour from neighbouring lower-income countries;

- \* employment growth was spearheaded by the manufacturing sector. Manufacturing employment grew at a rate of over 6 percent per annum during the 1980s for the dynamic economies of the region;
- \* as a result, the structure of employment continued to shift to manufacturing and other high-productivity activities in the modern sector rising from about 7 percent of total employment in 1960 to around 18 percent by 1994. This presented growing opportunities for those in low-productivity activities to move into better modern-sector jobs, thereby sharing in the gains from growth;
- \* at the same time real earnings grew steadily, with the rate of growth averaging a little over 5 percent per annum during the 1980s;
- \* the combined effect of these developments was a steady decline in levels of poverty and the region's noteworthy performance in terms of an equitable distribution of income. Indeed, an international cross-section of countries showing the proportion of people under a given poverty line and their relative per capita mean consumption level suggests that East and South-East Asia, with a per capita consumption level around 26 percent lower than Latin America and the Caribbean in 1990, had, nevertheless, half the proportion of people living under the common poverty line: in 1990, around 15 percent of the population in East and South-East Asia lived under the poverty line compared with 59 percent in South Asia, 54 percent in Sub-Saharan Africa and 28 percent in Latin America and the Caribbean.



The same Report's summary of the corresponding situation with respect to employment and real wages in the Latin American economies is given below.

- \* there was a steady fall in modern-sector employment between 1980 and 1992, with paid employment falling at a rate of about 0.1 percent per annum during the 1980s. This reversed the trend of the previous three decades, when steady economic growth had led to a significant expansion of modern-sector employment;
- \* over the same period the share of employment in the urban informal sector increased from 13.4 percent of the labour force to 18.6 percent;
- \* in most countries the average real wage (across all sectors) fell during the 1980s, recovering in only a few countries towards the end of the decade. The extent of the decline varied across sectors, ranging from 5 percent in industry to 20 percent in agriculture. The minimum wage was also estimated to have fallen by an average of 24 percent in real terms across the region, while average earnings in the informal sector declined even more sharply (by 42 percent).

With respect to Sub-Saharan Africa, the Report notes that instead of rapid industrial development, there was a collapse of the modern sector in many Sub-Saharan countries. The negative

consequences of this for employment in the region are plain from the following facts:

- \* there is strong evidence of a substantial decline in modern-sector employment since the mid-1980s in countries which experienced a sharp fall in GDP growth. Paid employment in manufacturing declined at a rate of 0.5 percent per annum during the 1980s. This decline was especially severe in Ghana (by over half), Benin, and Niger. In contrast, in countries such as Botswana and Mauritius which experienced the highest GDP growth in the 1980s, modern-sector employment continued to expand;
- \* rural-to-urban migration remained high. This, together with the decline in modern-sector employment, led to an expansion of low-productivity urban informal-sector activities. On average, the informal sector is now believed to employ over 60 percent of the urban labour force;
- \* urban unemployment has increased and now ranges between 15 and 20 percent compared to around 10 percent in the mid-1970s;
- \* real wages in manufacturing fell sharply throughout the 1980s. Of the 15 countries for which data are available, real wages fell in 12. The mean rate of decline was 12.3 percent per annum during the 1980s.

Turning to the North, the effects of the post-1979 changes in economic policies in industrial countries on their own urban economies have been profound. These effects have been referred to earlier in the discussion of de-industrialisation; they will be taken up further in the analysis below on globalisation and of the informal sector. Suffice it is to note here that, as in the case of Latin American cities, the first world cities have also experienced growing informalisation of the labour market, low wages for the unskilled and increased deprivation for the bottom quarter of the population.

## **VII. GLOBALISATION: IMPLICATIONS FOR CITIES NORTH AND SOUTH**

An outstanding feature of the world economy during the recent period has been "globalisation", a term which normally connotes three things: (a) freer trade between countries in goods and services; (b) freer movements of financial capital as well as (c) removal of restrictions on direct foreign investment. The globalisation process started in advanced countries with the deregulation of financial markets in the late 1970s. It gathered pace in the 1980s with the virtual abolition of exchange control among most industrial countries (Cosh, Hughes and Singh 1992).

In the 1990s, liberalisation of financial markets has become a world wide phenomenon, and it now involves a large number of developing countries as well (Singh, 1995a). For a variety of reasons, this external liberalisation has gone hand in hand with internal liberalisation, particularly of labour markets in many countries. The whole process has been given further impetus by the recently concluded Uruguay Round Agreements, which provide for freer trade, not just in manufactures but also in agriculture and service.

The important question in the context of this paper is how would globalisation, which basically represents the supremacy of market forces, affect cities and urban prospects in the North and the South. It is conventional wisdom among economists to welcome liberalisation of the world economy as a positive force which will lead to greater trade, greater productivity, more jobs and higher wages. This is, however, not a perception shared by the ordinary public in most countries in the North and in many countries in the South.

Workers, trade unionists and the general public in industrial countries increasingly blame cheap labour products from developing economies for their job losses or for their stagnant

real incomes. So, unlike the 1950s and 1960s, when free trade with advanced countries was feared by developing countries, today it is the former who are more concerned about the ill effects of a liberal trading regime. These concerns were epitomised by Ross Perot and Pat Choate in their condemnation of the North American Free Trade Agreement with Mexico as "drastic and unfair scheme... (which) will pit American and Mexican workers in a race to the bottom". Hence in many advanced countries there are populist demands for protection from third world imports. These often take the form of asking for the imposition of labour or environmental standards on Third World products.

It was seen earlier that the labour markets of the North have been dominated by two important tendencies namely: a) de-industrialisation and b) high overall unemployment. In addition, there is evidence of increasing inequality between skilled and unskilled workers, particularly in the U.S. In defiance of conventional wisdom, Adrian Wood (1994) has argued in an important recent book that all these tendencies have been caused by globalisation, in the shape of intense competition from developing countries, in less skill-intensive products. Wood's conclusions are, however, controversial.

The countries of the South have their own reservations about the liberalisation process. They are, for example, concerned that the Uruguay Round Agreements have extended multilateral rules and disciplines to a number of policy areas affecting industrial development. The net result would be to circumscribe their domestic policy autonomy, and particularly their ability to use industrial policies to foster exports and to achieve rapid structural changes and economic growth - as was done in the past by the highly successful East Asian economies. Developing countries, are also similarly worried by the economic instability which free capital movements engender.

The record so far of the market supremacy model and the liberalised world economy has not been particularly inviting. The world trend rate of economic growth between 1980 and 1995 has been about half of what it experienced between 1960 and 1973 (rightly regarded as the Golden Age), when it was subject to extensive regulation. Moreover, the earlier period was used by more or less full employment in industrial countries, whilst the Allrightcent period has been plighted by mass unemployment. In addition, the world economy has been much more unstable in the market supremacy period than it was in the Golden Age.

Whether or not all the ill effects, feared by the critics of liberalisation, materialize, one thing is clear: both the national and the world economies will display greater instability and be subjected to greater external economic shocks than before.

The cities and towns, North and South, will have to learn to live with these shocks. If the proponents of globalisation are right, there would be compensation in the form of faster growth and more jobs. But at this point, it is very much an open question whether or not these favourable outcomes will actually come about.

Finally, it may be useful to comment on Krugman's (1995) formal model of new economic geography, from which he derives implications for the effects of globalisation on the sizes of large third world cities. Krugman's model analyses agglomeration effects arising from the interactions among market size, transportation cost and increasing returns at the firm level. The model suggests that globalisation may reduce the size of primate cities in developing countries. The basic intuition here is that free trade reduces the economies of agglomeration while leaving the centrifugal forces (ie. diseconomies of agglomeration) much as before. This is because trade permits

firms to sell abroad, thus reducing their need to be close to the domestic market.

However, as Isserman (1995) points out in his comment on Krugman's model, the model is too simple in that it excludes agriculture and the countryside as well as other important variables. For example, trade liberalisation may destroy domestic agriculture and thus increase rural-urban migration, leading to an increase in the city size, a conclusion opposite to what Krugman suggests.

#### VIII THE TECHNOLOGICAL REVOLUTION AND CITIES

It is widely believed that the world is undergoing a new, far reaching technical revolution as a result of the rise and spread of information technology. Professor Freeman (1989) has argued that the "information and communication technology paradigm" presently sweeping the globe is as important in terms of its spillover effects and overall economic impact as any of the three major technological revolutions of the past two centuries. He identifies them as being based: firstly, on a cluster of textile innovations (approximately 1770-1830); secondly, on railways



(approximately 1840-1890); and thirdly, on electricity, the internal combustion engine and the chemical industry (approximately 1890-1930).

The revolution in information and communications technology (ICT) involves a constellation of industries, such as computers, electronic components and telecommunications. These are among the fastest-growing industries in most leading industrial countries. The new technology has not only resulted in the introduction of a wide range of new products but, more importantly, has produced a drastic fall in costs and vastly improved technical performance in many other sectors of the economy. Of equal significance, the new technology is bringing about fundamental changes in the organization and structure of firms and industries, and changes in factory lay-out and in the management structure, procedures and attitudes of large firms.

The essential question raised by this technological and organisational revolution in the present context, is whether and to what extent it is responsible for the phenomenon of mass unemployment in industrial countries and the huge under-employment in many third world cities today. Has the pace of technological progress become so fast that we are observing

jobless growth - e.g. economic growth does not create any employment at all, or in a less extreme form, the hypothesis would be that a given percentage change in economic growth leads to a smaller increase in employment than it used to be the case of either of these hypotheses. Available data show that productivity growth, whether measured in terms of labour, capital, or total factor productivity, has fallen in the post-Golden Age period in every leading industrial country as well as in most developing regions, compared with the Golden Age (UN, 1995). This suggests that at least at the aggregate level, an acceleration in the rate of technical progress could not be regarded as a cause of rising unemployment. For if the rate of technical progress had become faster in the recent period, productivity growth would have increased rather than fallen. Similarly there is no evidence to indicate that the employment elasticity of output has fallen compared with before: if anything, at the aggregate level, its value in the recent period is greater than in the Golden Age. The reason why there is more unemployment now is not because economic growth does not create jobs, but is simply that the OECD and the world economies are expanding at a slower rate than before.

In short, what available evidence suggests is that the full potential of the new technological revolution is not being harnessed because of the slow growth of world demand and output.

Apart from its implications for urban employment, another important issue with respect to the information and communications technology is its possible impact on 'economies of agglomeration'. Will it, for example, tend to erode those economies and thereby reduce the comparative advantage of large primate cities. There is no firm evidence on this subject but the general view seems to be that it is unlikely to have a serious impact on the advantages offered by large cities, particularly in the third world. Even in the case of the first world, the recent Economist's Survey of the cities observed:<sup>18</sup>

"Silicon Valleys are likely to remain the exception rather than the rule, because the advantages of concentration will usually be greater in one large city than in a string of towns..... In practice, the sheer variety of skills gives cities an edge over towns. In a city, an employer can find every possible combination of skill, age and background. When the European Bank for Reconstruction and Development set up in London in 1991, it needed people from 38 different countries speaking more than 50 languages, as well as

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<sup>18</sup> Economist (1995).

experts in banking, economics, law, administration and so on. Three-quarters of those it eventually recruited were already living in London."

### **PART 3**

In order to gain a fuller understanding of the role of the cities and their ability to create adequate job opportunities now and in the future requires a discussion of certain other important issues which are the subject of this part of the paper. The following topics will be reviewed: the role of the labour markets and that of the informal sector; the question of economies of agglomeration and optimum city size; the environmental degradation of the cities and the question of a possible trade-off between environment and employment.

All of these are big subjects. However, our purpose here is not to summarise the literature in each area, but rather to bring out the issues which are salient to policy, particularly with respect to employment and unemployment. Again, where appropriate, the differences in the analyses of these issues for developing and developed countries will be high-lighted.

#### **IX THE URBAN LABOUR MARKETS AND THE INFORMAL SECTOR: THE NORTH AND THE SOUTH**

## **IX.1 The South**

Combining together the traditional notion of economic dualism in the development literature with that of segmented labour markets from modern labour economics, many researchers have found it useful to discuss the labour markets in the developing countries in terms of the so-called 'informal' and formal sectors. The former usually refers to 'unprotected' jobs outside the preview of labour legislation on minimum wages, health, safety and other benefits. Many of these jobs are casual, insecure and irregular. Informal sector employment also includes 'marginal activities' such as hawking, shoe-shining or domestic service. The ILO has been a leader in sponsoring or carrying out empirical studies of the labour markets in developing countries. For recent reviews of ILO's work in this area and new studies of labour markets, see among others Rodgers(1989), Oberai(1993), Standing(1995).

The most important analytical and policy issues which arise in relation to the third world labour markets and the informal sector are listed below.

- a. How perfectly or imperfectly do labour markets in the third world work? Specifically, are market imperfections

and other rigidities responsible for the rising unemployment and underemployment in many developing countries during the last decade?

b. Does the informal sector make a genuine contribution to employment? Or, does it simply represent low-productivity disguised unemployment, arising from the non-availability or the destruction of formal sector jobs as a consequence of economic depression?

On (a) there is a wealth of evidence on segmentation and imperfections in the urban labour markets in developing countries. For identical occupations, there are likely to exist large wage differentials within the same city. There is discrimination on the basis of sex, age, ethnic origin and there exist many barriers to entry for jobs in the formal sector.

Nevertheless, it is important to emphasize that although labour markets in developing countries may be imperfect in the static sense, from a dynamic perspective, they seem to work very well. It was seen in section VI that in countries in Latin America and Africa where GDP growth collapsed in the 1980s and their demand for labour fell, there were huge declines in real wages.

Similarly, in the East-Asian countries, faster growth of production and the increased demand for labour in the recent period led to appreciable real wage rises. Available evidence flatly contradicts the view that the rise in urban unemployment and underemployment in Latin American or the African countries has been due to inflexible labour markets. These countries have experienced gigantic falls in real wages over the relevant period. (see table 8).

Turning to the informal sector, there are conceptual distinctions which are important. The informal sector can expand for any of the following reasons.

(1) There is a general rise in economic activity, which involves both the formal as well as the informal sectors. However, if the rate of growth of economic activity accelerates beyond a certain point (say 6 to 8 per cent, as has happened in the East-Asian economies), the formal sector may expand at the expense of the informal sector.

(2) There is a collapse in economic growth and a shrinkage of the formal sector. In the absence of a



publicly provided social safety net, workers will be obliged to accept any jobs in the informal sector, howsoever non-remunerative or unproductive they may be. In these circumstances, the informal sector expands at the expense of the formal sector. This has been the situation in many Latin American and African countries, particularly during the 1980s.

(3) However, the informal sector can also expand for totally different reasons which are unconnected with the growth of the economy. Here the proximate cause may be tax evasion, or onerous rules and regulations which lead to the expansion of the black or the unregistered economies.

The appropriate policy towards the informal sector would clearly be different in each of these circumstances. Therefore, it is important to empirically distinguish between these different cases although in practice it is not always easy to do so.

## **IX.2 The North**

The expansion of the informal sector has not only been a characteristic of the third world economies, but has increasingly become a feature, in the 1980s, of the urban labour markets in industrial countries as well. This has both been due to a trend decline in the rate of growth of GDP in these countries, as well as the government measures in many of them, to roll back the welfare state and to increase labour market flexibility.

Eatwell (1995) and UNCTAD (1995) have formalized the concept of disguised unemployment and estimated its empirical significance for a group of leading advanced countries. They postulate a segmented labour market: in the high productivity, high wage sector, the level of employment is determined by aggregate demand, while in the low productivity, low wage sector employment is determined by the supply of labour to that sector. If there is a fall in aggregate demand leading to layoffs in the former sector, in the absence of a social safety net, the latter sector would act as a perfect sponge for displaced workers. Measured employment in that case will become independent of aggregate demand. This, UNCTAD (1995) suggests, "is the full-employment that would be attained with a highly flexible labour market." Empirical estimates of disguised unemployment indicate that if it is added to open unemployment, "true" unemployment is much higher

than measured unemployment in the US and Japan. These estimates show that corrected for disguised unemployment, the true unemployment rates have tended to converge among the leading industrial countries in the 1980s.

## **X. ECONOMIES OF AGGLOMERATION AND THE "OPTIMAL CITY SIZE"**

### **X.1 Economies of Agglomeration**

The main reason why manufacturing industry flocks to urban areas is the economies of agglomeration. These economies are important both analytically and from the policy perspective since they highlight the difficulties developing countries face in any programme of a more equitable spatial distribution of population. The agglomeration economies, particularly in a large third world metropolis, take several forms, the most significant of which are listed below.

(a) Infrastructure for modern industry: electricity, telecommunications, airports etc. These are extremely expensive facilities which for poor countries are difficult to provide except in one or two locations.

(b) Specialised business services, including consulting, financial offices and so on. All these activities are essential for modern industry and business and require a minimum population size for their profitable operation.

(c) Thick labour markets, i.e. the availability of labour with a wide variety of skills.

(d) The important role of externalities as well as of the economies of scale. The large scale operations of firms leads to lower costs and better services which in turn improves the operations of other firms who purchase these inputs and services. This process generates an organic virtuous circle of expanding markets and increased technical change.

(e) Large city provides the focus of interaction for the intellectual, business, cultural, political and religious elites.

## **X.2 The "Optimal City Size"**

In view of the economies of scale and agglomeration outlined above, the question arises whether diseconomies set in beyond a certain city size. Is there an optimal size of the city? There clearly are manifest diseconomies arising from congestion, enormous traffic jams, environmental pollution, etc. in any large metropolis in the Third World. However, there does not appear to be an optimum unique city size.<sup>19</sup> Southern cities like Mexico City, Sao Paulo, Seoul, Bombay are reaching population sizes not previously attained by cities in developed countries, except Tokyo. In view of the fact that Tokyo is probably one of the best run cities on the planet with well functioning social services, relatively little crime, etc. it will be difficult to argue that Tokyo's population of 25 million is too large, or is not optimal.

### **X.3 Trade Off Between Equity and Efficiency**

A very important policy question for third world governments is whether a more equitable spatial distribution of modern activities can be obtained by dispersing them from large cities to smaller towns and indeed rural areas. This may clearly be equitable, but all the evidence indicates that the dispersal is

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<sup>19</sup> See World Bank (1979), Cohen (1976), Oberai (1993).

unlikely to be efficient. This is for two reasons; a) the economies of agglomeration, and equally importantly, for developing countries, b) the huge costs of development of the necessary infrastructure and facilities elsewhere other than in a few large cities.

This is not to deny that some industries and modern service activities could not profitably be shifted from large to smaller cities or even to rural market towns. However, because of the infrastructural costs and the economies of agglomeration, the scope for such decentralisation on efficiency grounds alone is much more limited in the developing than in developed countries.

#### **X.4 Structural Differences Between the Third World and the First World Cities**

The essential difference between the two groups of cities lies in the fact that the Third World cities are subject to what may be called "expanding urbanisation" whilst those in the industrial countries are experiencing "mature urbanisation". In the latter case, instead of an increase in size, the large cities are often losing population to smaller cities. One important reason for

this is that unlike developing countries, the smaller cities in advanced countries already possess the necessary infrastructure for modern business activity. Thus when the diseconomies due to congestion, higher rents or transportation inconveniences become too large in the big cities, there is a movement of people or businesses to smaller cities or suburbs. Thus in mature urbanisation, city-to-city migration is the main factor affecting the system of cities. The determinants of city-to-city migration are rather different from those of rural-urban migration experienced by the third world cities.

Moreover, in advanced countries there are rather different demographic, technological and other factors which will affect the future shape of the large cities. To illustrate, in the foreseeable future the dominant demographic trend in these countries will be the growth of the retired and the aged population. The tastes and preferences of these people, many of whom are likely to be relatively well off (living on various forms of index-linked pensions) will have a profound influence on the future development of the large cities and of the urban system as a whole. Similarly growth in leisure spending of the population is likely to be a major factor in shaping the economic activities of cities and in determining their place in the urban hierarchy.

## **XI ENVIRONMENT AND THE CITIES: THE NORTH AND THE SOUTH**

### XI.1 The South

The cities, North and South, as suggested in earlier sections, suffer from serious environmental degradation. The problem is, however, particularly acute in developing countries. Not only are the world's largest cities increasingly to be found in the third world, so also are the world's dirtiest and the most polluted. In many large third world cities, the water and the air quality often do not meet the minimum standards for healthy living.

Yet there is a paradox. People keep leaving the environmentally, relatively more friendly, rural areas to flock to the cities. The major reason clearly is that large cities do provide more job opportunities than small towns or the countryside. A whole range of job-creating auxiliary service activities - cafes, restaurants, cinema houses - spring up to serve the needs of manufacturing or modern service industry firms which may be attracted to large cities by economies of scale and agglomeration.



The dispersal of economic activities from the large cities may not only be useful from the point of view of equity, but may also be crucial for the environment. However, as noted above, the economies of agglomeration and the high costs of infrastructure forbid this course of action for most poor countries.

The costs involved in environmental improvements in large cities in developing countries are perhaps best summed up by the following thought experiment suggested by Olpadwala and Goldsmith (1992):

Consider what it would cost to provide every household and industry in Sao Paulo or Bombay with hook-ups for municipal sewage treatment. (Sao Paulo is a city of about 18 million people with only 16% of its households and some industries connected to treatment plants; Bombay has nine million, with most of its effluent untreated.) What would it cost for all large Third World cities? Few dare make such estimates. Analysts hesitate in part because of the known magnitudes for cases in the industrialised world. For example, the 60 municipalities of the Boston metropolitan area, with about three million people, are now under order from a US federal court to treat their sewage, almost all of which is dumped, untreated, into the harbour. Fortunately, household and industrial hook-ups are

already in place, and the drainage system is adequate. The court order does not require construction of tertiary treatment facilities which would be required to turn the effluent into water of drinking quality. All Boston needs under the court order to do is to build facilities for primary and secondary treatment and a single pipe eight miles out into the ocean. The cost: more than US \$6 billion, or about \$5 thousand per household.

It is staggering to translate these costs into Brazilian cruzeiros, Indian rupees, or Nigerian nairas.

What this analysis suggests is that for poor countries, with large cities, in order to create jobs and raise per capita incomes, unhealthy environment may be a necessary cost to bear for a long time. This is not a new situation. Even rich cities like London were environmentally unhealthy until about fifty years ago. Then the Clean Air Act and other related measures made the city much more environmentally friendly, although some argue that under the weight of the motor car, London is now reverting back to its old self.

None of the above is to suggest that third world cities should ignore the environment. They need to keep fully informed about the environmental degradation and the research on the latest

technological developments to overcome these difficulties. The cities may also be able to implement smaller environmental projects to the extent that these can be afforded. But, the leaders of the cities should, nevertheless, not lose sight of the fact that there may be a possible trade-off between the growth of output and employment and the improvement of the environment.

## **XI.2 The North**

Advanced countries are not, however, confronted by such cruel environmental dilemmas. Their cities are rich enough to afford substantial environmental improvements without being obliged to sacrifice growth- and even to the extent that growth rate has to be reduced, they are sufficiently well off to be able to bear the burden. There are however serious environmental problems in the Northern cities. Many of these are caused by the motor car. The cities need to use the latest research, new technologies and bold experimentation to cope with these problems. Can the car be made to meet the needs of cities and their people rather than the other way round as it is now? Thus Richard Rogers (1995):

The car is perhaps the century's most liberating technological product. On the face of it, the car is cheap, practical and promises freedom and status. Simple logistics show how increase in car ownership transforms the city. Public space is taken over by parked cars. An efficient parking standard requires 20 square meters for a single car. If only one in ten citizens owns a car, in a city of ten million people, you need an area twice the size of central London, just to park their cars. Start up those million cars, and drive off, and you saturate the city with pollution and congestion. Just the anticipation of high levels of car use has made city planners design new cities around road specifications, ignoring most other human needs. The tail is wagging the dog.

## **Part 4.**

This part of the paper turns to policy. It examines policy approaches to the problems and dilemmas outlined in the previous sections in relation particularly to the cities in the South. Many of the policy proposals to be outlined here are implicit in the conceptual and empirical analysis of the previous sections; these will now be more explicitly stated and examined.

### **Section XII Urban Employment in the North and the South:**

#### **Proposals for Policy Action**

##### XII.1 Policy Focus

Cities as we have seen face a wide range of problems but in order to keep the policy discussion focused, this part will concentrate on the present and future prospects for employment in cities and towns.

The employment question is directly linked to that of the reduction of poverty. At the microeconomic level a reasonably remunerative job will keep a family out of poverty. At the macroeconomic level, the relationship between the two, even

though indirect, is equally close. Just as the creation of sufficient employment opportunities requires a reasonable rate of economic growth, so does the eradication of poverty and meeting the minimum basic needs of the people.<sup>20</sup>

Although, at any one time, a redistribution of national output may enable a society to better meet the basic needs of its people, on a longer term basis such needs can only be met if there is an expansion of the national economy. Economic growth generates increased employment and household incomes; equally importantly, it increases government revenues, which may be spent on health, education, clean water supplies, and other basic needs of the people.

Part 2 of the paper showed that during the last 15 years, those economies (mainly in Asia) that were able to achieve high rates of growth have succeeded in significantly reducing poverty. These countries have also had high rates of growth of real wages and employment. On the other hand, low economic growth in the Latin American and African countries in the recent period has had

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<sup>20</sup> For the relationship between employment, basic needs, poverty and economic growth, see Singh (1979, 1992b). See also ILO (1976).

a serious negative effect both on poverty and employment generation in these economies.

## **XII.2 Job Creation in the Cities: Need for Action at Different Levels**

The conceptual analysis in Part II of the paper shows that long term trends in urban employment are shaped by, and in turn affect, endogenous forces of structural change (industrialisation, rural-urban migration and de-industrialisation) during the course of economic development. However, this analysis also indicate that more immediately, urban employment prospects are very much dependent on international and national macro-economic environments. With globalisation, the international dimension has become ever more important. National macro-economic developments, which are greatly affected by international economic forces have an overarching influence on job creation and job destruction. The main policy implication of this discussion is therefore that cities need to act at several levels to promote net job creation:

a) at the broadest international level, to influence global economic policies.

b) at the national level, to affect macro-economic and other national policies towards cities.

c) at the city level, to affect employment prospects through a range of micro-economic and social measures.

At this point in the argument one can easily imagine an overworked Mayor of New Delhi or Lagos or Chicago if he or she managed to get this far into the paper, finally throwing up their hands in exasperation and exclaiming that even if the analysis is correct, how can the cities influence international economic forces. Such despair is understandable but is nevertheless mistaken as the discussion below will suggest.

### XII.3 Action at the International Level

With globalisation, cities and countries, particularly in the South are subject to huge global economic shocks. Witness recent events in Mexico. As a result of the financial crisis and its aftermath, analysts expect the country's GDP to shrink by



anything between 3 and 7 percent. The consequences for the urban economy are bound to be disastrous - there will clearly be reduced real wages, fewer jobs, and more poverty. However efficient and dedicated the leaders of Mexico City may be, at best all that they might be able to do in these circumstances is to provide a few people some shelter from the economic hurricane. Even that may be difficult, but it certainly will not be possible for the civic leadership to undertake policy measures at the local level to negate national macroeconomic trends.

Therefore, as a very minimum, the leaders of large cities cannot any longer ignore the international economy. They have an obligation to understand the nature of global economic forces which may periodically devastate them. Even if they are unable to predict, they need to be prepared to cope with the human consequences of the next big economic shock that comes along.

However, in this new age of globalisation, it is necessary for the cities to go further than simply to cope with the aftermaths of such hurricanes. They need to forge solidarity at the international level for their voices to be heard in the international economic councils. World economic forces are not entirely an impersonal phenomenon but also shaped by the people

we know - for example, the leaders of G7. It would not at all be incongruous for the Mayors of large cities, North and South to make representations at the G7 Summit so as to influence international economic policy making.

On the employment question there is a common purpose between the cities of the North and the South. Cities should ask the G7 for priority to be given to employment, to raising the real rate of growth of world demand which will benefit both North and South<sup>21</sup>. Instead of letting international policy-making be dominated by banks and financial institutions simply by default, the civic leadership of the world's large cities should seek from the G7 governments, policies which curb financial speculation and lead to more stable world economic conditions<sup>22</sup>.

Thus, the globalisation of the economy requires a global partnership between city mayors. Not only should cities represent their concerns to G7, group of Mayors should ask to

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<sup>21</sup> For the complementary policies needed to achieve these aims without causing inflation see Singh (1995b).

<sup>22</sup> See further UNCTAD 1994 and 1995. See also the World Employment Report 1995.

attend the World Bank-IMF Annual meetings to draw attention to their specific needs and requirements.

For the civic leadership of the cities to understand the complexities of the international economy and to formulate appropriate policy responses, it is essential for them to develop a technical capacity for this purpose which most cities do not now possess. They will however also require such capacity for other important related tasks which will be outlined in the next section.

#### **XII.4 Action at the National Level**

Despite the fact that large cities account for a disproportionate share of national production, the economies of most of them in developing countries are controlled and directed by the central government. By and large, big cities in these developing countries have very little financial autonomy and a grossly inadequate tax base in relation to their needs. Many of them depend on property taxes for most of their revenues. The main task of the city governments appears to be to provide some social services to the community. As the cities total tax revenues tend to be relatively small, even these social services

have to be normally covered in large part by grants from the central government (Oberai, 1993).

This situation is unsatisfactory as well as inefficient. A decentralisation of decision-making and the devolution of economic power from the centre to the cities is highly desirable. Both economic analysis and practical experience indicates that these measures will have a positive effect on economic growth. To illustrate, many students of the Chinese economy regard decentralisation - the massive devolution of economic power from the Centre to the provinces and the cities and local authorities - to be a major factor responsible for the extraordinary economic growth in that country during the last decade.<sup>23</sup> However, although it will be efficient for the cities to take over many of the economic functions presently performed by the central governments, they do not at present have the technical capacity to do so.

City planning departments normally contain town planners, geographers and architects but hardly any economic planners. Such economic capacities need to be established so that cities can

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carry out properly the proposed new functions in a de-centralised national economy as well as in a liberalised world economy. The recent ESCAP report on urbanisation in the Asia-Pacific region puts this point lucidly and it is useful to quote them in full:

One main reason for the narrowness of local planning is the lack of understanding that most local officials have of their community's position in the national or international economic system. Typically, local officials possess little information regarding the way local economic activity fits into the national or international economic picture - i.e, what is produced in the local region, where it is shipped and to what users, what the current cost competitiveness of local products is and how it has changed in recent years, in what sub-sectors of the economy national demand is likely to grow fastest in the coming years, or who the locality's chief international competitors are and what cost structures these competitors face.

Realistic local economic development planning must start with this type of information and assessment. It then becomes possible to develop a "marketing plan" for the community, which targets for growth certain key sectors where it is feasible to enhance the city's market share. Specific strategies for encouraging local development can be evaluated in this context.

For example, a city's development analysis may determine that one of its strengths is a university with a well-regarded medical school and a hospital which successfully services an entire regional area. A local growth strategy that builds on these strengths could encourage a city's development as a regional medical centre, by clustering medical offices and specialised labs around the hospital and medical schools. Most of the strategizing would take place in the private sector, land-use planning, site acquisition and clearing, road and other infra-structure provision are all development tools that the city might employ to support the development strategy. Another city might conclude that a potential strength was the architectural and tourist value of an old part of the city that had fallen into despair. An area re-development strategy could include establishment of a building restoration fund, infrastructure renovation,

planning to facilitate tourist access, and encouragement of complementary retail activities.

Implementation of economic development strategies in the local level, of course requires that local governments have significant authority over at least some of the important development tools - such as land use regulation, prioritization of local capital budgets, and budget authority to set up special development funds. It thus requires a degree of decentralisation in the government structure. (page 3-27/28)

## **XII.5 Action at the City Level**

### **XII.5.a. Governance of the City**

Just as it is desirable to devolve decision-making from the centre to the cities, it is similarly useful to have devolution of power in the city itself. The city is a complex organism and it is desirable for people to be as directly involved in the running of its affairs at all levels as is practical. This is particularly important for those who live in the slums and poor areas who do not have as much political power and ability to articulate their concerns and needs as the middle or the upper class. Involvement of business groups, trade unions, various informal sector associations, neighbourhood committees, church leaders in the day-to-day decision-making of the city should lead to more informed decisions, more democratic governance and a greater role for the civil society. It should also enhance

accountability and check bureaucratic tendencies within the city government. It is especially important that women's groups should be well represented and participate fully in such community organisations and in interactions with the city government. This is because there is evidence that a large proportion of the poor households in urban areas, even in developing countries, are headed by women. There are special needs of women for child care, flexible work arrangements which require the attention of the city authorities.

The ILO has practical experience with cooperatives of various kinds, with self-help groups and with community organisations in different parts of the world. The lessons from this experience are outlined in box 5.

#### **XII.5.b. Provision of Social Services, Infrastructural Development and Employment**

Although national macroeconomic environment and international economic conditions are the main determinants of employment, the normal local level city functions such as the provision of social services and the building and maintenance of the infrastructure,

can also affect employment. Health and education services can be regarded as supply-side measures to increase productivity and the cities' long run competitiveness. This investment in human capital may over time have a positive influence on employment.

Similarly, infrastructural spending also affects productivity and the attractiveness of the city as a place to live or to locate business. The techniques of production used to build or maintain the infrastructure - whether the technology is labour- or capital-intensive - influences employment. ILO's extensive experience in this area and what we learn from it are outlined in box 6.

With respect to the provision of health and education, the relevant concerns are: (a) Do the programmes meet the special circumstances and life patterns of people living and working in the informal sector or in the slums? (b) Similarly, are the problems of poor female headed households being adequately recognised at different levels in the city administration?

Attention to such matters often requires a rather different orientation and perspective on the part of providers of services than they are normally accustomed to. It invariably becomes



necessary to conceptualize the activity in rather different terms than before. This is illustrated in the next sub-section by the analysis of the case of urban housing in the informal sector. The required reorientation of the city administration will be more easily achieved if there was more community participation and articulation of their needs by the poor themselves.

### **XII.5.c Housing and Squatter Settlements**

The policy problems of housing are not only concerned with meeting the basic needs of the people for shelter, but also have an important bearing on a host of other issues such as the informal sector, employment generation, resource mobilisation and zoning laws.<sup>24</sup> The standard view of housing is that it is a durable consumer good, a home with a roof and four walls. However, neither of these perceptions reflect the reality of the informal sector in third world cities.

Housing therefore needs to be conceptualised in different terms to meet the real needs of the urban poor. The classic functions of housing include the following:

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<sup>24</sup> The following discussion is based on Perlman (1986).

- (1) housing as social consumption;
- (2) housing as an improver of health and well-being;
- (3) housing as a (macro) economic sector;
- (4) housing as a stimulus to savings and investment; and
- (5) housing as an indirect contributor to income and production.

Taking into account the realities of the informal sector, the new functions of housing should also include in addition the following:

- (1) housing as shop;
- (2) housing as factory;
- (3) housing as rental income;
- (4) housing as financial asset;
- (5) housing as entry point in the urban economy; and
- (6) housing as storage space or warehouse.

The construction of housing is clearly a source of both employment creation and income generation. It can, however, also be a source of substantial resource mobilisation to the extent that with the aid of the "self-help" and "use participation"

schemes, it leads to informal sector dwellers using their own labour to improve and extend existing homes or build new ones. Despite the many limitations of such schemes, they do have significant multiplier effects on the urban economy. This more rounded view of housing and its significance is clearly important for policy decisions in this area.

#### **XII.5.d. Deregulation, Labour Standards and the Informal Sector.**

In this era of deregulation, it is fashionable to argue that all government imposed regulations should be abolished. There are those who believe that to promote the informal sector, and to allow it to make its full contribution to the economy, require a bonfire of regulations.<sup>25</sup> People need to soberly think about what will be the effect if this were to happen. A little bit of reflection will suggest that in this extreme form, this will be an untenable situation. There will be a constant threat to workers' health and safety. Similarly, abolishing the city zoning laws in order to promote the informal sector will lead to further degradation of the urban environment. To be sure, there are

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<sup>25</sup> This, for example, is the essential message of the World Development Report 1995, which examines the role of workers in a globalised economy.

regulations which do not serve any useful purpose. But the general case is that there is a trade-off between two good things: say, for example environment and employment or safety and employment in the two cases mentioned above. Such trade-offs should be acknowledged and people should make an explicit democratic choice between the alternatives.

A major difficulty in abolishing labour standards or in ignoring them altogether is that it is likely to generate, other things being equal, even more disguised unemployment. It will be socially divisive and will pit first world workers against third world workers. What the world needs is not simply more jobs, but more jobs with rising real wages and employment standards. This, as explained earlier, is only feasible if there is a trend increase in the rate of growth of real world demand. With a constant aggregate real demand, the abolition of labour standards and the promotion of total labour market flexibility would simply redistribute the same aggregate amount of work among a greater number of job seekers, leading to a fall in the price of labour.

Clearly, the first-best solution is to achieve both rising real wages and more jobs, and as noted earlier, that is perfectly feasible as the example of East Asia shows. Let us not forget that the world has the new technology (ICT) whose full potential

is not been fully realised because of the inadequate growth of demand and output in regions other than in East-Asia.

A different but important objection to labour standards is that these cannot be enforced in the informal sector in developing countries. A large proportion of informal sector businesses tend to be small and family-run. There is therefore force in the argument that the enforcement of labour standards is impractical in this sector of the economy.

A constructive solution to this problem is however, to use education and the media to increase in the informal sector the awareness of the usefulness of labour standards for people's health and safety, and to show that they are not just good for workers, but also for the employers to the extent that they may lead to greater productivity. The labour standards in the informal sector should nevertheless, be voluntary and in any case should not be enforced by government inspectors. Rather, the NGOs may be involved both in the educational task and in advising on methods for compliance with the standards.

### **XIII. Conclusion**

This paper has outlined the immense problems and the enormity of the tasks confronting those who lead the world's large cities, whether in the South or in the North. There has been some convergence in the problems facing cities in both regions. Every first world city today has a third world city within it (immigrant ghettos and slums), and every third world city has a first world city (the modern skyscrapers, banks, the fashion-houses) within it. Nevertheless, urbanisation and the growth of the cities in the North and the South are subject to rather different underlying forces.

Providing remunerative employment to third world's urban labour force which is growing at 3 percent a year is a daunting challenge, but not a hopeless one as the success of East-Asian countries (including China) demonstrates. Similarly, creating sufficient jobs to eliminate mass unemployment in the North is a formidable task. Here it is important to remember that most of these countries had more or less sustained full employment for more than two decades, in the fifties, sixties and early seventies. If such positive outcomes are possible today in the most populous part of the world, and were realised yesterday in

the most prosperous part, why should it be impossible for the whole world to move to the path of full employment again?

## BOX 4

### Unemployment in Transition Economies

The transition economies have experienced an acute crisis since 1989, not so much because of shocks from the international economy as from the collapse of communism and its economic institutions, including comecon and the communist party. As a consequence, although a few countries are performing adequately, economies of most have performed poorly since 1989. Thus available data indicates that GDP in russia fell by .....

What has been the effect of this catastrophic fall in GDP on employment? Here there is a puzzle and a controversy. Official data suggest that .....

However, the special surveys carried out by the ILO paint a rather different picture of the magnitude of Russian unemployment. Standing points out that a significant proportion of the officially employed are only nominally employed. They are officially on the payrolls of the enterprises except that they are not being paid even though they may turn up for work and be actually working. Many are on long unpaid holidays. When all these factors are taken into account, the Russian unemployment figure soars to twenty five percent - a catastrophic waste of human potential.



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