



SUMMARY AND CONCLUSION

PART E

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In part E, the summary and final conclusion of the study will be presented, whereafter references and two annexures will follow.

CHAPTER 12

SUMMARY AND FINAL CONCLUSION

12.1 COMPREHENSIVE SUMMARY

The main aim of this study is to provide a theoretical basis for urban economic policy-makers to develop goals, strategies and policies to improve the quality of life within urban areas. The various aspects that policy-makers should take into consideration will consequently be analysed as a comprehensive summary of each chapter.

The problem statement in Chapter 1 indicated that an urban environment is, generally speaking, the economic powerhouse of a country. The problem is thus to develop and implement urban economic goals, strategies and policies to enhance the quality of life within urban areas. The policies therefore need to be directed towards increased economic growth and development to stimulate urban economic business activity. Economic growth theories provide an extensive theoretical base on which these goals, strategies and policies could be based.

In Chapter 2, the growth theories of Harrod-Domar, Solow and Romer were analysed to provide a theoretical base to policy-makers within urban areas. Harrod-Domar expresses the importance of increased levels of savings and investment to generate economic growth and development. These factors are vitally important for urban areas within developing economies, although less applicable in developed economies. This is not to ignore the importance of these factors in developed economies, but rather to show an increased degree of importance in the case of developing urban economies. Solow's theory shows the importance of labour, capital and knowledge or the effectiveness of labour in generating economic growth. Although all these factors are extremely important to both developing and developed urban economies, he is unable to explain fully the factor of knowledge. Solow indicates that knowledge is an exogenous factor. This has become known as the Solow residual. This, however, paves the way for Romer to explore the factors generating economic growth. Labour,



capital, technology and output all contribute to economic growth, although technology or knowledge is now endogenised, which provides an answer to the Solow residual. The importance of investment in human capital and the R&D sector where additions to the stock of knowledge are made, is emphasised by Romer. Urban areas are generally best suited to enhancing the R&D sector and investment in human capital. Although this provides a theoretical base for urban economic growth and development, the implementation of the Economic System Approach (ESA) provides an institutional and organisational framework.

The ESA is mainly concerned with an analysis of technological and organisational or institutional innovations. A comparative assessment between the ESA and the conventional neo-classical approach to economic growth and development reveals a marked difference. According to this comparative analysis, the neo-classic approach emphasises the role of economic functions that are deterministic and universal by nature. The approach can therefore be prescriptive and leads to a narrowly-defined development path using abstraction and assumptions, based on a segregation of processes. The ESA, on the other hand, focusses on economic relationships which acknowledge the dynamic nature of the real world. Theory and policy should therefore be accommodating, with enough room for openness, based on the integration of processes.

The more analytical neo-classical approach regards people as objects (recipients or spectators) where policy-making and economic determinism are extremely important in achieving the "prescribed" results. The ESA, on the other hand, is descriptive and concentrates on people and their capabilities in order to achieve progress. Furthermore, due to the neo-classical approach viewing markets as homogenous in nature, markets act neutrally according to a specific order. The diversity of the participants is however, acknowledged by the ESA and markets are regarded as an integral part of the diverse economic process. People and infrastructure will influence market quality, volume, scope and nature. The ESA constitutes a decisive paradigm shift and postulates that people and dynamic relationships are essential to economic

growth and development. Urban areas are interdisciplinary and interactive. As the neo-classical approach is linear, it will therefore not contribute as much as the ESA.

Economic growth and development, according to the ESA, is a joint process driven by economic subjects. As for the infrastructural framework, the economic process is also embedded in an institutional, physical and social framework surrounded by the natural environment. These are the building blocks of the process and should be of high quality; needing constant revision and adaptation to ensure sustained growth and development. However, the subjects responsible for driving the process, also need to possess certain capabilities. It is therefore important that the productive capacities of the economic subjects and a production-enhancing process be developed within a supportive domain. The role of government is one of promoting and supporting and furthermore deals with any failures or breakdowns in the system and the capacity-generating process. The government should also define and establish institutional environments that set the rules for private economic agents, thus affecting the design and working of institutional arrangements. The main concern of technological and organisational or institutional innovations should therefore be addressed and the urban environment is best positioned to undertake this task. According to the economic growth theories, increasing the stock of knowledge is an important factor and urban areas are well positioned to do just this.

Chapter 3 states that technological progress is the engine of economic growth and development and it is thus to the benefit of any economy to promote research and development (R&D) and hence generate knowledge and innovation. The urban environment is best positioned to answer this challenge, where the major energy is generated to engage in R&D activities. Compared to all other factors contributing to growth and development, knowledge is the only factor of production that is not subject to diminishing returns.

There are various views on how to acquire knowledge, although one method on which most agree is intentional R&D activities by public and/or private firms. Due to the



importance of R&D in generating knowledge and innovation, it is vital to urban policy-makers to invest in education and training to stimulate economic growth. Policy-makers should also take cognisance of the fact that incentives are important because without incentives little effort would go into research, and fewer new ideas would be created. It is thus important to explore the potential benefits of urban areas, which may contribute towards improved innovation and R&D. Certain factors contribute to and enhance the fact that urban areas are well positioned to generate economic opportunities and were consequently analysed in Chapters 4 to 9.

In Chapter 4 the notion of agglomeration economics explains that general cost reductions occur due to spatial concentration of economic activity in urban areas.

Agglomeration economics are explained further by localisation and urbanisation economies of scale. Localisation economies introduce the advantages of labour pooling, access to specialised labour skills and employment opportunities. In addition, the greater ease of communication made possible by proximity to competitors, suppliers and customers and the benefit that stems from economies of scale in intermediate inputs, enables the urban environment to pass along innovations more rapidly.

Urbanisation economies of scale provide the advantages of access to a larger market as well as to a wide variety of specialised services and greater potential for cross-industry spillovers of knowledge and technology. From this chapter it could be seen that urban areas are conducive to opportunities for economic growth and development. Unfortunately, certain factors could also hamper economic growth opportunities in urban areas and need to be addressed by local authorities. Optimal usage of resources in urban areas is vitally important, land being one such factor that needs to be addressed with due care and caution.

Land is in fixed supply and therefore the best and highest use of land should be the ultimate goal in order to restrict the waste and misallocation of this vital resource in urban areas. In Chapter 5, due to the fixed nature of land, urban policy-makers are urged to adopt a long-term vision in terms of allocation of land for various uses. An

efficient distribution of land use contributes to local economic growth and development prospects. Land-use patterns are changing in response to urban growth, with zoning being the most popular policy tool used to regulate the use of land.

Since local government receives revenue from residential taxes, business taxes, etc., the more residents and businesses in an area, the greater the prospects for a higher level of revenue. This may lead to uncontrolled or weakly controlled urban growth without regard for the impact on the infrastructure and environment. In the long run this factor may motivate residents and businesses to move away, decreasing the tax base and reducing tax income. This may cause further environmental and social decay because governments are forced to cut the quantity and quality of services or raise the tax rates.

A comprehensive, urban ecological land-use plan in which all major variables are considered and integrated to anticipate present and future needs and problems and to propose solutions, is urged. A blend of economics and the ecology is vital to control the nature and speed of urban and suburban growth. In this way environmental degradation, pollution and social decay can be addressed and minimised. A very important factor to keep in mind is that zoning is an instrument used by local governments to anticipate conflicts in land use and to plan accordingly in the interest of the local community.

Complementary to well-developed land-use policies, is the ability of an urban area to attract businesses and skilled workers. In Chapter 6 the attractiveness of an urban area in terms of investment and place of residence is affected by various locational factors. Each type of business and individual will be affected, albeit differently, by a variety of locational factors. In terms of policy considerations, amenities, taxes, government incentives and infrastructure, political stability, local business climate, site and energy costs are important in addressing the improvement of the economic attractiveness of an urban area.

Policy-makers should also be constantly aware that the nature and importance of locational factors will inevitably change as technology and new production requirements change. The loss of workers and businesses may be a great economic risk if the attractiveness of an urban area is ignored, and the local government may struggle to recover from this neglect.

One very important factor in enhancing the attractiveness of an urban area is a well-planned and designed transportation system. Chapter 7 analysed the importance of an urban transportation system to facilitate the exchange of goods and services and the movement of people. The optimum transportation system for an urban area depends on the size and structure of the area. For policy purposes, it is important to assess the urban population issues of an urban area. The individual's choice of transport mode depends on income, time and costs of alternative modes and local government should be sensitive to these factors.

Providing and upgrading the transportation system implies major costs and the use of land that may have more efficient uses. Transportation strongly influences land-use patterns in urban areas and long-term planning is thus essential. The efficiency of an urban area is greatly influenced by the transportation system and should therefore enhance the urban environment and not constrain economic activity. It is, however, also important to take cognisance of and evaluate the labour and migration changes in an area because of the impact and potential change in demand on the transportation system.

To ensure sustainable economic growth, the influence and effect of some important labour and migration features of an urban area were explored in Chapter 8. The quality of people and migration patterns may have a severe impact on an urban environment. An increased demand for products from a specific urban area will consequently affect the demand for labour. If an increased volume of sales can be achieved, the demand for labour will most certainly increase. The supply of labour to an urban area is positively linked to a high wage rate, quality of amenities, environmental quality and public



services, to mention but a few. An improved business climate could thus attract skilled labour to an urban area. Unfortunately, unemployed people also flock to cities in response to prospects of improved opportunities. The possibility of finding a job in a city is perceived as being higher than in rural areas, and therefore contributes to the increase in the supply of labour. This fact leads to increased numbers of unemployed people and, obviously, higher levels of criminal activity, which imposes a direct and indirect cost on society and influences business negatively. Policy-makers have to address the issue of urban crime urgently because of its critical destabilising nature on economic activity. This is most certainly one of the major challenges to policy-makers in urban areas. The structural constraints mentioned in the chapter, if addressed properly, may alleviate some urban labour problems. The changing labour and migration patterns of an urban environment also pose a challenge to deliver minimum service standards in residential areas. Housing is a basic necessity to any individual and decisions of households in terms of location effect the urban environment and surroundings.

In Chapter 9 factors influencing housing and ultimately the residential location were analysed. These factors include physical and socio-economic characteristics, public services, environmental quality and accessibility of the neighbourhood, all of which may be influenced by local government. With efficient policies to enhance the living conditions of communities, government may contribute both to their social responsibility and quality of life of the inhabitants of an urban area.

Due to the relatively public nature of housing, government needs to intervene to address problems in the housing market. Government's role may be one of supplying housing, enabling households to own their own homes, or encouraging the upgrading and the quality of housing. Policy-makers may consider the downward adjustment of assessed values of the deteriorating housing stock to prevent the abandonment of properties and consequent negative impact on housing and living conditions. Zoning ordinances imposing minimum lot sizes and other requirements that affect housing should also be revisited from time to time to establish a well-defined balance.



Excessively high standards for residential development drive up housing costs and force low-income households to locate far from job centres. This implies that some households would choose to live in housing of relatively low quality but the local government will not permit this because of concern for the health and safety of the public and the neighbourhood in general.

The real problem with public housing is that it does not address the true problem facing poor people living in low-cost housing. The true problem is not so much a housing as an income problem. Policies should thus not only be directed towards the provision of housing, but rather towards increasing incomes and thus job creation.

It is thus important for local authorities to engage in active planning to address current and potential concerns within their urban area. Both positive and negative externalities are experienced due to the spatial concentration of people and economic activities in urban areas.

The purpose of Chapter 10 was to recap and analyse the important urban features explained in Chapters 4 to 9 and to evaluate these chapters according to the economic growth theories discussed in Chapters 2 and 3. The various factors influencing the urban environment due to a concentration of people and economic activity occurring in an urban area, were explored. The main interest regarding an urban area is an improvement in the economic growth rate and hence economic development. The concentration of people and economic activity creates vast economic opportunities for households and businesses. These opportunities all contribute to the creation of an environment conducive to an enhanced quality of life.

However, the negative externalities experienced in urban areas call upon the local government to engage actively in addressing problems, for the betterment of all residents. The same economic factors that stimulate increased growth in urban areas also create problems such as economic decline, urban decay, pollution, traffic congestion, crime and inadequate housing. The fact that businesses leave the city

centre for decentralised areas implies that a deliberate effort at urban renewal and revitalisation driven by city leaders is necessary to gain and retain businesses. In the case of urban renewal, increased levels of savings and investment (Harrod-Domar) are vitally important. This can be seen as the first stage of urban renewal and will serve as a catalyst for further urban improvement and renewed business activity. Any urban area will strive towards sustainable economic growth and development. This emphasises the importance of enhancing R&D, which would contribute to the generation of knowledge and ultimately ensure increasing returns to scale (Solow and Romer).

The application of all three economic growth theories is thus possible within urban areas. An urban area can be seen as the powerhouse of an economy, thus savings and investment (Harrod-Domar); capital, labour and knowledge or efficiency of labour (Solow); or labour, capital, technology and output (Romer) are best generated within urban areas. The degree of importance of these variables, however, could differ depending on the level of economic development. The existence of agglomeration economies is pivotal in the economic explanation of urban economic growth.

Static agglomeration (localisation) economies will create a once-off decrease in the cost of a particular industry. Dynamic agglomeration (urbanisation) economies are associated with a continuous increase in the output of a particular industry. At the centre of dynamic agglomeration economies lies the production and use of knowledge. More inventive innovators will create a continuous flow of technological change, which means that a firm applying new technology can produce more output with a given amount of capital and labour. This process of technological progress is seen as an internal or endogenous improvement.

From a static point of view, urban economic growth can rather be associated with increased levels of savings and investment (Harrod-Domar). In a dynamic sense, however, the rate of innovation will increase with more people engaged in R&D and investment in human capital (Solow & Romer). Close proximity, present in urban areas,



will stimulate knowledge and innovation spillovers and thus contribute to endogenous and dynamic urban economic growth. Local urban authorities should be aware of these factors before developing and implementing urban economic goals, strategies and policies.

In Chapter 11, the importance to the local urban authority of economic growth, employment, balance of payments, price stability and equity as general economic goals, was shown. To provide a framework for local urban authorities, the ESA was again emphasised, with its focus on a people-centred vision and the enhancement of the capabilities of economic agents. This served to accentuate the importance of R&D and human capital investment and to link this to the economic growth theories supporting just such an approach. Local urban authorities will also have to address the sustainability of their strategies and policies. The achievement of sustainable development necessitates the inclusion of Local Agenda 21, which requires the integration of economic, social and environmental elements.

An urban policy framework on which local urban authorities can base their policies was then developed. This will empower them and also enable them to customise policies to their own unique needs and preferences. This urban policy framework is presented in Annexure A, although the economic sentiments behind this framework were analysed in Chapter 11. The nine economic sectors are used as a basis for this urban policy framework. To enhance the city image, the urban area is first divided into six different identities comprising the social/demographic, natural, geographic, cultural, urban and infrastructure elements. This is described according to the various urban scales, *viz.* the metropolitan, city, district, precinct, neighbourhood and street block levels. The urban policy-planning package then follows in terms of the nine economic sectors, providing several options for local urban authorities. This policy-planning package is directed towards the creation of an environment conducive to improved quality of life and local authorities should therefore engage in a planning exercise to develop and implement urban goals, strategies and policies to this end. The selection of target industries that respond well to policy initiatives may be a platform from which to address

increased business activity. This is to ensure that an efficient application of time and money occurs without wasting valuable resources. The existence of negative externalities increases the difficulty of developing and implementing these goals, strategies and policies. This urban policy-planning package, when applied, should restore confidence and stimulate the revival of business activity with increased prospects of higher economic returns and improved quality of life.

12.2 CONCLUSION

Urban areas remain the engines of economic growth and development in the national economy. Efficient and effective strategies and policies enhancing economic growth and development are prerequisites for achieving the goals of expansion of the tax base and the creation of jobs. Local governments, however, sometimes lack the capacity and competence to manage this economic growth necessary for creating a promising future for the growing urban population. Progress in technology as well as knowledge and innovation must play a decisive role if success is to be realised.

If local governments want to exploit the benefits of agglomeration economies, they should provide an efficient and attractive place to do business. They need to invest in infrastructure if they are to provide the basic services necessary for economic growth and development. A new kind of local government entrepreneurship or leadership is required with its focus on the efficient provision of the services for which it is responsible, and the easing of excessive regulation and control. A key factor is to establish a structure to ensure that local growth and development strategies and investment plans are based on sound information. A local government can only judge the appropriateness of policies if it has reliable information concerning its economy. This can save valuable time and money if decisions regarding the elimination of growth-hampering policies or the implementation of growth-enhancing policies are to be made.

Good governance implies inclusion and representation of all stakeholders in an urban society, as well as accountability, integrity and transparency in local government actions. Capable urban management requires a capacity to fulfil public responsibilities

with knowledge, skills, resources and procedures that draw on partnerships. If local government provides the public the chance to participate and express their views, and encourages them to monitor their work, an effective system of governance creates a willingness to obey laws and pay taxes. However, encouraging participation requires that government have in place regulatory structures that minimise transaction costs and barriers to entry.

The formation and increasing size of slums among the urban population is a reflection of, *inter alia*, policy and institutional failure in the allocation of land use, housing and infrastructure systems. Policy weaknesses may have major ramifications for households and businesses alike and can disrupt most perceived benefits to urbanisation. The role of local government should be refocussed to facilitate markets, promote economic and social stability and to ensure equity.

The rewards for successful growth and development strategies and policies and the penalties for failure, are likely to be greater and will be experienced more quickly than in the past. Local governments creating an urban environment conducive to the accumulation of social and human capital may attract more foreign investment and more skilled migrant workers. The consequences of delays and half-hearted attempts at reform, giving little thought to long-term credibility, will profoundly affect urban economic growth and development.

It is vital for local government to realise that their people remain the everyday face of the public sector. This is the level at which essential public services are delivered to individuals and businesses and where policy meets the people. Although urban areas have varying potential and life cycles, efficient strategies and complementary policies, linked with community involvement, private-sector commitment and accountable local government, can make a great difference to the character of urban areas and their contribution to economic growth and development. A framework for the enhancement of the urban and city image as well as reference to strategic priorities, policies, policy objectives and possible actions, will be presented in Annexure A. This framework aims to guide policy-makers in improving overall quality of life, addressing factors such as

business environment, residential amenities, environmental impact as well as the socio-economic milieu, etc.

If urban areas are to promote the welfare of their residents they must provide a livable environment, ensuring a decent quality of life and equitable opportunity for all residents. Building a livable urban environment requires consistent incentive systems that foster productive and competitive firms of all sizes. In an era of globalisation, a city must be competitive both domestically and internationally. The exploitation of global opportunities also reinforces certain advantages of proximity in urban areas.

An assumed responsibility, willingness and decisive effort to address urban problems should not be negotiable by any future-oriented urban government. Initiative and commitment by urban governments to create jobs, promote wealth, permanently protecting the urban environment and natural resources, guaranteeing commuter-friendly mobility, creating appropriate residential space for all inhabitants and finally, a decisive act to eliminate criminal activities, would ultimately offer high returns to all. The scale of urbanisation, if addressed properly, offers significant opportunities for urban governments to improve the quality of life for all their citizens. In an effort to determine the effectiveness of policies, a tool was developed to assist authorities. This tool, viz. a quality of life index, was developed to measure the success of policies developed and implemented by local authorities, and is explained and discussed in Annexure B.

Most urban areas are subject to similar influences and are confronted with similar problems. However, there will be no easy, single, all-embracing solution to overcome these difficulties. Depending on the economic, social and cultural background, different solutions, adapted to each respective situation, are called for. The use of opportunities which present themselves, the exploitation of an area's economic potential whilst simultaneously mastering social conflict and ecological challenges, in a sustainable manner, is one of the major tasks awaiting local urban governments. Whether this economic potential is realised, depends fundamentally on the quality of urban management and the policies affecting it.