



INTRODUCTION

Part A consists of the introductory section of the study which includes the following components:

1. The study's objectives and the research questions to be addressed.

2. The study's significance and its contribution to the field of research.

PART A

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Part A consists of the introductory section of the study where the following important aspects will be analysed:

- Firstly, the background to the study will be addressed.
- Thereafter, the problem statement, capturing the essence of the problem addressed in the study, will follow.
- The methodology and the structure of the study are then explained.
- Following the structure of the study, the definitions and concepts concerning urban economics will be explained. This serves as an introduction to the rest of the study and leads in to Part B: the theory of economic growth and development.



CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION AND BACKGROUND TO STUDY

Urban economics embraces the economics of urban areas. In any urban study, it is important to take cognisance of the various economic activities, social matters as well as environmental issues within urban areas. A rapid expansion in metropolitan areas and the concomitant growth of the population in these areas leads to an increase in population densities. An urban area acts as a melting pot where the majority of new modus operandi, goods and services are invented and developed, and where efficient information designed to satisfy certain needs and desires is produced.

Although other approaches to urban economics are possible, the emphasis in this study will be the fact that an urban environment is characterised by high population density levels, proximity, production specialisation, economic opportunities and technology. These characteristics obviously generate not only positive externalities but also an abundance of negative externalities, and economic opportunities may therefore be lessened by these externalities. Although economic growth in an urban area is essential, it is merely a necessary but not sufficient condition for economic development.

Although economic growth implies that the volume of final goods and services produced is on the increase, it does not, however, ensure that the welfare and thus quality of life of the total population also improve. Sometimes only a section of the population benefits from economic growth, while the rest remain poor and may even become poorer. Economic growth is therefore not sufficient in itself, but must be underpinned by social change. Social change, in this context, means a steady improvement in the total population's quality of life. This is called economic development. Economic development is thus a process that enables society as a whole to improve its economic position. Economic growth means quantitative change, while economic development



means both quantitative and qualitative change. Economic growth is thus a necessary condition for economic development. In this study, a developing economy, consisting of both developed and developing urban areas, will be assumed. Both these types of urban areas will be accommodated.

To sustain and maintain urban economic growth as well as development, the correct goals, strategies and complementary policies should be developed and implemented to improve quality of life. It is thus extremely important that special institutional conditions affecting the nature and quality of governmental decisions be in place to address and guide negative externalities, the social order, environmental issues and economic activities. Agents of government sometimes have limited authority to address these factors and need guidelines to strengthen their competence to limit the potential dangers of resource wastage or misallocation.

1.2 PROBLEM STATEMENT

Since an urban environment is, generally speaking, the economic powerhouse of a country, what urban economic growth and development goals, strategies and policies should be developed and implemented to enhance quality of life within urban areas?

1.3 METHODOLOGY

A literature study, combining economic growth, economic development, urban economics, project-management principles, goals, strategies and policies for urban authorities and macro-economic objectives, will be analysed.

The methodology of this study comprises:

- i) A review of the theoretical aspects of economic growth and development with specific reference to the fact that knowledge is applicable to the advanced capitalist society, predominantly generated within urban areas.



The mere fact that a concentration of people and ideas is combined in urban areas contributes to the stimulation and diffusion of knowledge and innovation and ultimately to growth.

- ii) A strategic assessment for urban economic growth and development will then be explored. Factors such as land use, localisation, transportation, labour and migration issues and housing will be analysed.
- iii) Finally, urban areas are managed by authorities. Support to these authorities in the form of goals, strategies and policies is necessary. These goals, strategies and policies should contribute towards urban economic growth and development and will consequently be analysed. Endogenous factors affecting the workers and business firms will be explained. Here it is important to determine the natural attractions of workers and firms to urban areas. The exogenous factors concerning the policy environment or milieu will also be explored. These factors ultimately influence the endogenous environment and create a climate that may attract firms, create a viable location, lead to the shedding, enhancement and proliferation of knowledge and lastly, generate economic growth and development.

1.4 STRUCTURE OF THE STUDY

The study is divided into five parts, based on the methodology explained above. A policy-planning package and a quality of life index will also be developed and provided in an appendix.

Part A, consisting of Chapter 1, intends providing an introduction to the study. This chapter is thus devoted to the background, problem statement, methodology and structure of the study. It also defines certain urban economic concepts and serves as a point of departure for the rest of the study.



Part B consists of Chapters 2 and 3, which explain the theory of economic growth and development with specific reference to urban areas.

Chapter 2 explores the conventional neo-classical theories of economic growth and development with reference to urban areas. The growth theories of Harrod-Domar, Solow and Romer will be analysed and the implications for urban economic development highlighted. An institutional and organisational framework within which the urban environment could flourish, namely the Economic System Approach (ESA) will also be analysed. The ESA aims to identify alternative assumptions and interpretations of economic activities and changes relative to the neo-classical theory. Attention is focussed on the technical and managerial capabilities of economic subjects such as economic decision-makers or economic agents, as well as on the importance of improving the productive capacity of economic subjects through education and training. The importance in human capital development and the role of proliferating knowledge is thus highlighted.

In Chapter 3, the nature of knowledge as the engine of economic growth in urban areas, is analysed. Knowledge, as well as economic and technical innovation may be enhanced in urban areas - more so than in non-urban areas - and therefore serves as an instrument that could be readily available in urban areas, if purposely stimulated. The essential nature of urban areas in providing the environment and contributing towards capacity building in general, should thus not be underestimated. It is therefore important to explore the possible economic contribution of urban areas towards reaching this ultimate goal.

Part C consists of Chapters 4 to 10, explaining the generic urban concepts within the field of urban economics. To gain insight into the urban environment, an analysis of the urban environment will be made in Chapters 4 to 9. In Chapter 10 the economic growth theories and their impact on the urban environment will be analysed and integrated. To

improve the technical and managerial capabilities of economic subjects, cognisance should be taken of these important generic urban factors in improving quality of life.

The various factors that may influence and affect economic growth in an urban area will be explained in Chapter 4. Agglomeration economies cause firms to cluster in cities and this clustering engenders economic growth and development in cities. According to agglomeration economies, cost reductions occur because economic activities are located in one place. The advantages of spatial concentration resulting from economies of scale are thus explained. Because of the spatial concentration of people and economic activities, optimal use of resources, such as land use, is vital.

In Chapter 5, land-use planning is explored as an important factor for urban economic development because land-use patterns contribute to the desirability and productivity of a city. The ability to influence land-use decisions is therefore an essential economic development instrument. The most basic justification for land-use controls is the prevention of resource misallocation. The misallocation of urban land inevitably entails misallocation of other valuable resources. This may lead to uncontrolled or poorly controlled urban growth without regard for the impact on the infrastructure and environment. Ways to control land use exist, the most widely accepted approach being the principle of zoning. Land use is an important factor in improving the image of an urban area, and may contribute to the attraction and location of new firms and workers.

Chapter 6 explains the fact that the location of new firms or the expansion of existing firms stimulates the possibility of economic growth in an area. An urban environment conducive to the location of firms is thus vitally important. It is therefore necessary to determine the factors that will encourage firms to choose a specific area to locate. It is important to realise that for any factor to influence location decisions, it must vary across locations. An aspect that may contribute to the attraction and location of new firms and workers is the efficiency of the transportation system.



Chapter 7 explains the difficulty of urban transportation due to the highly concentrated number of people as well as goods and services that are moved on a daily basis. This leads to a high level of strain on the capacity of the transportation system and facilities available. One of the major externalities arising from a concentration of people and goods is the concept of congestion. Ways in which congestion may be alleviated are also discussed in this chapter. The size, structure and efficiency of an urban area are to a large extent influenced by the transportation system. A well-developed transportation system is also needed because urban areas are characterised by a high density of people living in close proximity. Urban labour and migration factors may thus influence the functioning of an urban area.

Urban labour and migration are analysed in Chapter 8 by means of the supply and demand of labour in an urban environment. Factors affecting urban population growth are also analysed. Individuals and households normally settle in places to maximise their utility and firms usually locate in areas to maximise their profit. Economic and non-economic factors influence urban labour migration, this being a main problem facing urban areas. A major challenge to authorities, namely unemployment due to poor employment opportunities and crime, will also be analysed in this chapter. The migration of people leads to other basic needs having to be met, such as housing or shelter.

Housing is one of the largest categories of privately-owned assets, as well as one of the most durable. This is explained in Chapter 9. Housing is an essential component of living standards, comfort, security and social status within an urban environment. Large parts of land use in urban areas are devoted to the provision of housing and this affects a major portion of any household's annual income. The provision of housing sometimes implies decisions concerning public goods. The role of urban authorities can be one of supplying or encouraging the upgrading of the quality of housing. This presents another important challenge to authorities.



Chapter 10 firstly analyses the implications of Chapters 4 to 9 for urban economic growth and development. The economic growth theories and their impact on the urban environment will then be analysed and integrated indicating their contribution to improving quality of life.

Part D consists of Chapter 11 and provides possible goals, strategic priorities, policies and policy objectives to urban authorities, to curb the negative externalities and potential threats and to stimulate growth-enhancing opportunities of urban areas. The decisions made by the urban authorities will inevitably affect the inhabitants of a specific area. It is thus important that local governments in urban areas set the goals, develop the correct strategies and implement complementary policies. The challenges arising from a concentration of people consuming, and firms producing, in an urban area need to be addressed. It is important to reach sustainable economic growth and development and careful planning is thus a prerequisite. The common goal for the majority of urban areas would be to achieve an enhanced quality of life and thus needs economic growth and development.

A concise summary of the goals, strategic priorities, policies and policy objectives as well as possible actions of local authorities will be provided in Annexure A. This is intended to enable them to determine the focal areas in each economic sector, in order to address and improve the quality of life of the respective residents.

A tool for measuring urban economic policy success by urban authorities will be provided in Annexure B. This tool takes the form of an exposition of a quality of life index that may be applied by authorities to determine the changing quality of life. The purpose of this index is to develop a quality of life indicator as an index that may be used at national, regional or urban level. The idea is to develop a single index that may be used as an instrument to measure quality of life over time. From the individual items of the index it would be possible to indicate which variables were mainly responsible for the changes in the quality of life index. Furthermore, the possible changes in national

quality of life may be measured and compared to the quality of life of various urban areas over time.

Part E consists of Chapter 12, containing a comprehensive summary and the final conclusion of the study.

1.5 URBAN ECONOMICS: DEFINITIONS AND CONCEPTS

Urban economics is the study of economics where different geographical units organise themselves as urban areas. An urban area can be defined as a place with a very high population density, compared to the surrounding area (McDonald, 1997: 1). It can also be an area where the total population is greater than some minimum number. This is to distinguish urban areas from small towns. Urban areas can also be defined in terms of their density of economic activity. The intensity and frequency of interactions between people is thus greater than elsewhere (Bogart, 1998: 3). An urban area can also be seen as a system of interacting industries, housing and people (Hirsch, 1973: 3). This intensity of interactions leads both to increased opportunities as well as to problems or negative externalities. The fundamental economic explanation for urban areas is the positive externalities that result from the economic activities that are closely located. The main limitation on urban growth, however, is the negative externalities that arise from this dense pattern of activities (Bogart, 1998: 4).

The most useful way to think about urban areas in economic terms is as small open economies. They are small in the sense that the market price is given and their actions do not affect the market. They are open because they are not self-sufficient and thus do not operate in isolation and prefer to interact in trade with other open economies. The dominant model of an urban economy for many years was the so-called *monocentric city* model (Bogart, 1998: 4). In this model all employment was assumed to be concentrated in the inner city with the remainder of land devoted to housing. This type of model also assumes that locational choice depends only on commuting costs and space consumption and the fact that all housing capital is mobile (Wheaton, 1979:



124). A relatively recent change in the urban structure led to the *polycentric city* or *multiple-centre* model, which allows for various employment centres throughout the metropolitan area, including the traditional inner city, suburban malls, office parks and manufacturing areas (Wurtzebach & Miles, 1994: 55). This change in urban structure is important because it could lead to higher levels of urban expansion. This would ultimately put more pressure on local authorities to provide the public services demanded by new residents and businesses.

In urban economics it is important to look at two of perhaps the strongest trends underlying civilisation – industrialisation and urbanisation. Industrialisation is mainly focussed on production, while urbanisation is essentially the study of human settlement. These two trends should reinforce each other but recently industrialisation and urbanisation have been on a collision course. Environmental concerns and population growth are significant dimensions of this potential clash (Hirsch, 1973: 6).

The field of urban economics is closely related to its sister field regional development economics. The latter is the study of regions and although an urban area can be classified as a region, not all regions are urban. Many social scientists may define urban areas in terms of lifestyle rather than density and urban society is often contrasted with traditional society (Blair, 1995: 15). In this sense, a social change is reflected within the urban areas in which diversity, functional relationships, bureaucratic organisations etc. become important.

It is thus essential to acknowledge that urban areas in general have the best opportunity to effect the potential economic growth and development in any economy. Economic growth theory implies that research and development (R&D) is important. Urban economic growth and development thus forms a vital part of national economic growth and development. The main concern, however, is to determine how local authorities can create an urban environment conducive to such economic growth and development.

The emphasis on urban local economics does not ignore the notion of globalisation. Globalisation conveys the widely accepted idea that we are living in a borderless world. According to this view, globalisation signifies the end of geography. No notice is taken of distance or national policy any more, and national governments must accommodate the dictates of global markets (Veseth, 1998: 21).

In general terms, globalisation imparts a notion of compression or shrinking. It is also the process of economic, political and social change that occurs when all participants in a system have access to a common pool of resources. The common resource pool includes markets for capital, science, technology, goods and services as well as cultural goods. Access to the global resource pool changes the dynamics of the system as well as the nature of competition (Veseth, 1998: 26). Financial markets are the element of the common resource pool that come closest to being truly global. It is therefore important to realise that financial markets constrain what governments can do – not the other way around.

A common resource pool implies that a country has the necessary means to share in that pool. This cannot be taken for granted in the case of a developing country however, due to inadequate access to global resources. It thus cannot be assumed that all urban areas will be able to reap the perceived benefits of globalisation in the same way as other areas. For the purpose of this study, globalisation will therefore be regarded as the fact of life that no country or local urban economy can function in total isolation, but does not necessarily have automatic access to global resources and may influence or be influenced by the rest of the world. Globalisation will thus not be ignored in the study, although the emphasis will be on developing the local urban economy before entrance into the global world can be realised.

In Part B, the theory of economic growth and development will be analysed and will serve as an introduction to the rest of the study.