



CHAPTER 11

POLICY FRAMEWORK FOR URBAN DEVELOPMENT

11.1 INTRODUCTION

The purpose of this chapter is to describe the various goals, strategies and policies for urban economies. The decisions made by the urban authorities will inevitably affect the inhabitants of a specific area. This may be a household living in the area, producers producing goods and delivering services, as well as the unemployed in the urban area. These decisions are generally made on the basis of rational decision-making with a strong self-interest in the area after consideration of the costs and benefits. It is thus important for local governments in urban areas to set the goals, develop the correct strategies and implement complementary policies.

The majority of local urban authorities will normally try to achieve sustainable economic growth and development within their urban environment. There is generally an agreement regarding the broad outlines of how the economy should operate, but there may be some disagreement concerning specific details and policies. Economics is sometimes seen as the science of values, with choices being the observable reflection of values.

11.2 GOALS OF URBAN ECONOMIC DEVELOPMENT

The goals of urban economic development can generally be directed towards an expansion of the tax base and the creation of jobs (McDonald, 1997: 404). However, macro-economic policy describes the importance of economic aggregates such as economic growth, employment, balance of payments, price stability and equity. These five macro-economic aggregates influence the welfare of the population. The attainment of target levels serves the interests of everyone and is thus an important goal in an urban environment too.

Economic growth as a goal is very important for any urban area and although it indicates the level of production it is more correct to regard growth as the expansion of productive capacity. The goal of a growth-inducing policy should be to obtain optimum rather than maximum growth. Optimum growth implies that the optimum balance between present and future consumption is established. Sometimes government attempts to perform the functions of investment and production, which often turns out to be inefficient. Government is not primarily geared towards these tasks and should best facilitate these functions, then leave them to the entrepreneur who strives for profits and faces the risk of failure, both of which are incentives for efficiency. The local authority would therefore be interested in attracting economic activity because these added tax revenues expand the local authorities' scope to improve the provision of services and possibly enhance their political stature.

The goal of employment is understood to imply that the population of working age is employed, or it could refer to the absence of unemployment. In addition to the direct benefit of employment, the increase in employment, output and income may have a multiplier effect on the local economy. The main goal would be to address structural unemployment, which is characterised by the co-existence of vacancies and unemployment. The unemployed cannot fill the posts due either to a lack of mobility or inappropriate or no training. The remedy may thus be to improve the mobility of labour through accessible and reliable public transport, or to provide training to suit the requirements of the vacancies. However, both remedies are time-consuming and costly. About the best thing that can be done for poor people in an urban environment is to increase overall employment.

The goal of attaining price stability implies the maintenance of price stability, or the combating of inflation. A sustained increase in prices should not be confused with a once-off increase in prices such as municipal rates. Consumer prices are subject to taxes levied and subsidies offered by local authorities and therefore serve to increase (taxes) or decrease (subsidies) the price consumers pay for commodities or services. The inflation rate is thus subject to policy decisions about taxes and subsidies and



affects the disposable income and ultimately the welfare of the population. Policies should thus be formulated to combat inflation.

The goal of balance of payments stability implies that consistent and large deficits or surpluses on the balance of payments should be avoided. This stability does not require that a deficit or surplus never arise, but that these should, however, be moderate and not chronic. It is important for a growing urban area to experience a net inflow of funds (surplus) to supplement existing resources to increase productive capacity.

One of the basic goals for any economic policy should be to strive for equity in the distribution of income. It should be the goal to move toward a Pareto-optimal allocation of resources i.e. to increase the welfare of someone without reducing the welfare of anyone else.

In any urban environment the attainment of these macro economic goals is vitally important. The agents responsible for reaching these goals, viz. the local authority, business chambers and labour unions, should thus be of a certain calibre and possess certain qualities. The quality of management of the responsible agents should be infallible in order to reach these goals. Management should follow a transparent policy approach, which is also accountable and consistent in policy implementation. All data systems need to be updated and the creation of joint business forums between the responsible agents may improve efficiency of communication. All economic, social and environmental elements should be integrated and private/public partnerships promoted. Failure to develop and set in place a well-structured marketing plan, will most certainly lessen the chance of realising ultimate success. The city needs to be positioned in terms of other cities and differentiated from other cities. Without a marketing plan, the city will just be the same as any other city with no future vision.



Although the attainment of these goals is vital, certain conditions should be sustained to increase the possibility of achieving success. The Economic System Approach (ESA) may provide the vehicle for addressing some of the issues in reaching success.

11.3 URBAN DEVELOPMENT: A THEORETICAL FRAMEWORK

11.3.1 The Economic System Approach*

The Economic System Approach (ESA) as a theoretical framework highlights the importance of investment in human ability to participate in economic growth and development. This is also in line with the reasoning of Solow and Romer and again emphasises the importance in human capital investment. The latter is of great importance as the demand for labour is related to the required level of production and people thus act as catalysts for economic activity. This view as to what stimulates economic growth has only recently been acknowledged by the introduction of endogenous growth models by Romer (Todaro, 1997: 90), and the work of the Institute of Developing Economies (IDE), on what is known as the ESA (Yanagihara & Sambommatsu, 1997). By contrast to the conventional neo-classical approach, the ESA focusses on the strengthening of organisational capabilities. It views the market not only as a pure mechanical process but also adds to the importance of inter-relationships among agents operating in the market. Markets are therefore shaped and reshaped by the interaction amongst these market participants. Furthermore, factor-endowment is not perfectly malleable but exists in distinctive forms and contexts which are embodied in, mediated and co-ordinated by expertise acquired through learning. This learning process occurs by experience within specific organisational setups and arrangements between firms (Yanagihara, 1997: 11).

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The radicalism of this process is accentuated by Sen (1988: 47, 48):

A major failing of traditional development economics has been its tendency to concentrate on the supply of goods rather than on ownership and entitlement. The process of economic development can be seen as a process of expanding the capabilities of people and the expansion of entitlements.

This view of Sen is proliferated by the ESA, which draws attention to the technological and managerial capabilities of economic agents (subjects/decision-makers), while markets refer to the relational arrangements among them. Decision-making and action by subjects to establish and change the interrelationships between them, create and develop markets. The ESA revolves around building the productive capacity of subjects by focussing on their personal capacities (education, training and health), and developing the infrastructure within which they operate. This is done to enhance the processes of production and employment in such a way that the subjects consider themselves participants in the process and not mere recipients or spectators. The infrastructure referred to comprises an institutional, physical and social framework, surrounded by the natural environment. These, the building blocks of the process must be of a certain character and quality. They need to be revised and adapted continuously to ensure sustained growth and development. The subjects, who drive the process and cause the changes to occur, must also possess certain capabilities. The productive capacities of the subjects and a smooth-running, production-enhancing process (dynamic relationships) within a supporting institutional, physical, social and natural environment have to be developed. The private subjects are the active players, while the government promotes, supports and deals with failures or breakdowns in the system and the capacity-generating process. Economic growth and development is therefore a joint process driven by all these subjects (Yanagihara, 1997: 8-13).

The ESA facilitates the integration of a multitude of processes and the diverse nature of human behaviour. It is descriptive, and focusses on people and their capabilities in the

interests of progress, rather than on techniques and models. The ESA recognises that the structure of society is complex - a fact which development theory, policy and practice must take into account. It captures the diversity of the participants by postulating that markets are an integral part of the diverse economic and development process. Society and the economy are determined by relationships that can vary in all possible ways, allowing each society its unique features (De Wet, Harmse & Blignaut, 1997: 365). By recognising these complexities and diversities, it is possible to create an environment conducive to development. Markets are therefore not neutral. The government must provide the institutional, legal and policy frameworks for subject-driven development. There is little room for clear-cut, formal, and rigorous policies (fine-tuning and the like). An application of the ESA constitutes a decisive paradigm shift from past practices. The ESA moved away from the mechanistic and deterministic conception of economic growth and development (Yanagihara, 1997: 16-18). The ESA therefore focusses on the process of human development by means of capacity building, and the strengthening of relational arrangements among subjects due to investment rather than the act of investment itself. Human and infrastructural development as well as capacity building implies an improvement and upgrading of the socio-economic environment of a country.

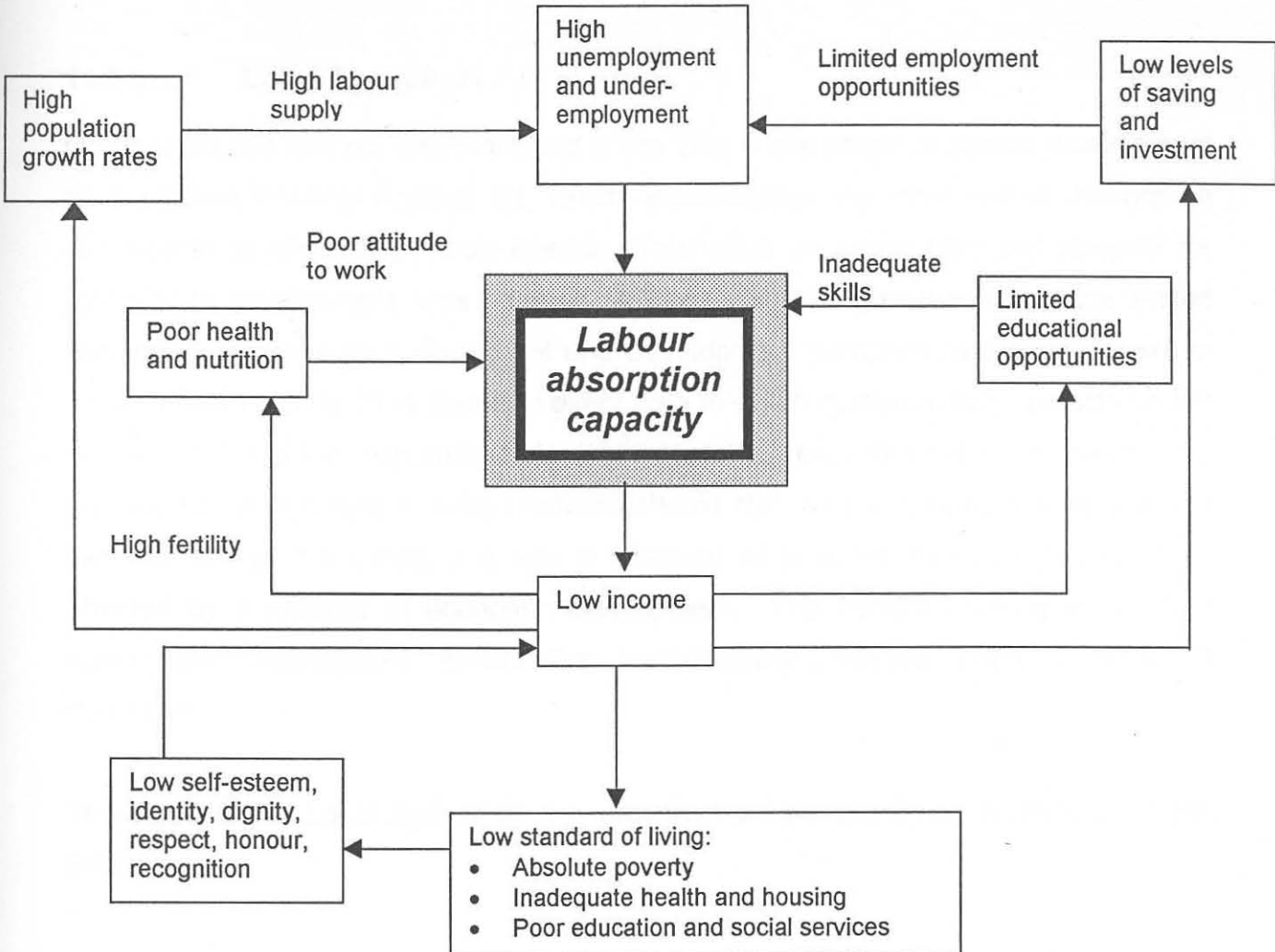
The question which the ESA poses is how the capacity of, and relationship between, economic agents can be strengthened and developed and their entitlement expanded. The development of an institutional environment as part of an infrastructural development programme can promote, and has indeed promoted, the process of building capacities and relationships, and enhances economic growth and development. Infrastructural development comprises both the physical infrastructure (eg. the sustainable use and development of natural resources and man-made capital) and a social infrastructure (eg. health, housing, financing and other institutions rendering services) (De Wet, Harmse & Blignaut, 1997: 366). Modern endogenous growth models accept that investment in private and human capital encourages external economies and productivity improvements, both of which offset the natural tendency towards diminishing returns. The implication is that investment in human capital could result in returns to scale and therefore economic growth and employment (Yosida, 1998: 357; Todaro, 1997: 92).



While the new growth theories stress the importance of the link between human development and growth, the United Nations equates human development with the improvement of the socio-economic environment (United Nations, 1996: 11-28). Furthermore, an improvement in the socio-economic environment improves productivity, which in turn promotes growth and employment (United Nations, 1996: 75; 86). The following schematic presentation reflects the linkages between the socio-economic environment and labour absorption which are derived from the required level of production. Note that the concept *labour absorption* in this study represents the capability of the economy to accommodate or employ new entrants into the labour market every year.

Figure 11.1 shows that the low labour absorption capacity of the economy is a multi-faceted problem with a large degree of interdependence between both the supply and demand for labour, the socio-economic environment and the efficiency of the real sector of the economy. On the one hand, unemployment is fuelled by high rates of population growth which, in turn, are affected by low levels of income. The low level of labour absorption, low self-esteem and a low standard of living affects unemployment. These factors not only depict but also influence the nature of the supply of labour. On the other hand, unemployment is fuelled by the inadequate demand for labour due to the low rate of economic growth, which is the result of, *inter alia*, low levels of saving and investment. The latter is the result of low levels of income which also contribute to limited educational opportunities, inadequate skills and a further dampening of the labour absorption capacity of the economy (Todaro, 1985: 88-91).

Figure 11.1: Relationship between employment, growth and the socio-economic environment



Source: Adapted from: Todaro's model of underdevelopment (Todaro, 1985: 89).



These demand side factors have a serious quantitative impact on the number of people that can be absorbed by the economy not only in the short term, but also in the long term, since neither human nor industrial capacity is increased. The factors influencing the supply and demand for labour, however, do not operate in a vacuum, but are interactive. This is indicated by the fact that low income also contributes to poor health and nutrition.

11.3.2 Local Agenda 21

One aspect that has not been included in the ESA is the notion of spatial development as illustrated in Local Agenda 21, which encompasses the most recent thought on sustainable development. Local Agenda 21, which is an action plan and blueprint for sustainable development, was adopted by more than 178 governments at the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992. Local Agenda 21 is aimed at every area in which human activity impacts on the environment and the responsibility for implementation rests with the government. Any process of development or urban renewal should start with a comprehensive planning exercise and in this sense, it is vital to integrate all possible elements that could be affected by a process of economic development. The current thinking in terms of sustainable development entails the internationally-endorsed Local Agenda 21 document.

The objectives of Local Agenda 21 are, broadly, the following (Local Agenda 21, 1998: 6-16):

- i) Fostering international co-operation to accelerate sustainable development in developing countries through:
 - promoting sustainable development through multilateral international trade;
 - making trade and the environment mutually supportive;
 - the provision of adequate financial support to developing countries; and
 - encouragement of both domestic and international economic policies conducive to sustainable development.



- ii) Combating poverty as a priority by:
 - enabling poor communities to achieve a sustainable standard of living.

- iii) Changing unsustainable consumption patterns by:
 - bringing about a more sustainable pattern of consumption; and
 - developing and implementing policies to encourage sustainable production and consumption.

- iv) Addressing demographic dynamics by:
 - informing people about the negative link between demographic trends and sustainable development;
 - integrating policies for environmental, development and demographic trends; and
 - introducing population programmes, natural resource management and development programmes directed towards improving quality of life, ensuring sustainable use of natural resources and enhancing environmental quality.

- v) The protection of human health conditions by:
 - implementing a primary health care system;
 - control and prevention of diseases;
 - protection of vulnerable people;
 - meeting urban health needs to improve their contribution to economic and social development; and
 - minimising environmental hazards and pollution.

- vi) Improving and promoting sustainable human settlement by:
 - providing adequate shelter for the deprived urban and rural poor;
 - ensuring sustainable management of all urban settlements;
 - promoting sustainable land-use planning and management;
 - providing adequate environmental infrastructure for water, sanitation, drainage and solid-waste management;



- providing more energy-efficient technology and transport systems in human settlements;
- ensuring effective planning and management in disaster-prone areas;
- promoting a sustainable construction industry while avoiding harmful side-effects on human health; and
- promoting human resource development and capacity building by enhancing the personal and institutional capacity.

vii) Integrating decision-making concerning development and environmental matters by:

- combining policy, planning and management of development and environmental issues;
- implementing appropriate legal and regulatory policies, instruments and enforcement mechanisms;
- including environmental costs in production processes to reflect relative scarcity and total value of resources; and
- expanding national economic accounts in order to integrate environment and social dimensions.

The idea is to reverse current policies that increase poverty, hunger, sickness, illiteracy and degradation of the ecosystem. The main objective should thus be directed towards the achievement of sustainable development, which requires the integration of the economic, social and environmental elements. Now is an appropriate time to explore the various strategies and policies for achieving urban economic growth and development.



11.4 STRATEGIES AND POLICIES FOR URBAN DEVELOPMENT

11.4.1 Urban strategies

A strategy is a plan for reaching a specific goal and can be classified, in an urban sense, as business attraction, business retention or local business growth (McDonald, 1997: 414). A set of activities is used to support different strategies. A local urban authority may pursue three kinds of economic development strategies *viz.*: (a) do nothing, (b) try to draw firms from other local economies and (c) engage in efforts to assist existing firms in the local economy to grow and expand and attract new businesses. No local authority can follow a *laissez-faire* approach in such a dynamic environment and different strategies to attract new business enterprises towards the local economy may lead only to moderate success. Instead of focussing on attracting new business enterprises to the local economy, the most productive strategy may well be to concentrate on existing local enterprises that are actually located within the local economy's boundaries and are not planning to move away. Effort is still devoted to business attraction and business retention, which obviously remains a high priority, but the focus would shift to existing firms. This would, if successfully implemented, inevitably lead to the attraction of new firms to the local economy. It seems that an industry in an urban economy will grow more rapidly if it produces a product that is in demand, is competitive, is already of some size in the urban area, is located in a larger urban area and is surrounded by a diverse collection of industries (McDonald, 1997: 339).

A second way of classifying economic development strategies is by means of drawing a distinction between a sectoral and an area strategy. The aim of a sectoral strategy is to identify industries or groups of industries that can be promoted to achieve set goals. Policies are then designed to support and enhance the growth of these target industries. An area strategy focusses on a specific geographical area on the basis of needs of its residents. New policies are now designed to improve the economic prospects of these residents in specific areas that need special economic attention.



It is important to build the capacity of local authorities to enable them to take responsibility within their areas of jurisdiction. Urban areas are the productive heart of the national economy and home to the majority of its inhabitants. Urban areas are therefore vitally important in alleviating poverty, creating a more equitable society and enhancing international competitiveness.

11.4.2 Renewal options

A major shift of emphasis in government policy is necessary in order to address the process of revitalisation in urban areas. Options to consider are the following (Balchin, *et al.*, 1995: 251):

i) Filtration

This is based on the out-migration of households and employment followed by the clearance and redevelopment of vacated sites. It is potentially the most system-oriented of the approaches. A filtering process which increases the supply of low-cost housing may occur, but there may come a stage at which the pressure of demand from low-income groups places considerable pressure on this stock. As a result, overcrowding becomes a problem, rents soar, housing requirements are adapted to temporary needs and the pace of housing renewal basically comes to a halt. The reason is that property owners have no problem finding tenants, and owners thus they have little incentive to improve and maintain buildings in an increasingly decaying environment. The filtering process may delay the process of redevelopment substantially and the situation of accumulative decay may eventually spill over into neighbouring areas.

ii) Social planning

This is traditionally regarded as being less important and secondary to physical and economic planning. Social planning focusses more on people than on urban space or property and should therefore first be analysed to determine the cause of the deprivation.



iii) The boot-strap strategy

This involves the rehabilitation mainly of housing and should not imply the movement of occupants. Important factors to take into consideration are the interest rate, the expected life span of the rehabilitated property and the difference in the running costs between new and rehabilitated properties.

iv) Replacement

If a redevelopment scheme is selected, many social problems such as dumping grounds or informal housing may arise, especially if redevelopment does not occur immediately after clearance. It is therefore essential that, not only for economic reasons, schemes be carefully selected, priorities determined and work sensitively programmed.

v) Guiding urban growth through investment

This method combines the replacement strategy with market forces. Areas are ranked initially according to their renewal potential and the related infrastructure will be improved, whereafter private investment is attracted. These are the so-called new towns in town or enterprise zones. A mismatch, which should be guarded against, sometimes occurs between the characteristics of the inner city and the investment criteria of investors and occupiers. Inner cities have a high concentration of unskilled workers, derelict physical infrastructure, fragmented property interest and an uncertain economic base. Investors require a stream of income, a rental rate to hedge against inflation, a long leasehold, little onerous management involvement and a property in a satisfactory environment. These are usually not available in inner cities and should be provided because they will certainly be available in the suburban areas.

vi) A local government strategy

Local authorities should be increasingly open to a bottom-up approach rather than a top-down approach, as a solution to the problems of inner cities. In this case a policy of positive discrimination in favour of local firms by awarding contracts to ensure that the local multiplier is not reduced by leakages out of the area, may be applied.

vii) A co-ordinated strategy

A co-ordinated inner-city policy is necessary to hasten the pace of urban regeneration. Factors that are important are a comprehensive and ambitious vision for the selected area, full and effective partnerships between public and private sectors, participation of the local community and efficient arrangements for implementation and delivery.

11.4.3 Policy-planning package

The role of the local urban authority should be to develop a policy package to promote and facilitate rather than control economic growth. The development of leadership is vital and must encompass a commitment to credibility, accountability and consistency in policy implementation. The leadership should create opportunities rather than react to problems. The focus must be on creativity, with a well-defined domestic and international vision for the urban area's future. An urban local authority should identify and expand its area's comparative advantage and enhance its infrastructure, capital assets and human resources. This identification and expansion should be based on well-informed decisions and directed towards the implementation of a realistic action plan. Service delivery should be of high quality and standard, and residents should be seen as customers. A progress evaluation programme should be in place to ensure continuous objective evaluation. Any adjustments to the action plan could then be implemented immediately with the minimum effort. Success should be measured in terms of results rather than inputs.

The choice of a policy package relates directly to the goals and objectives as well as the economic development strategy of the local authority. The goals, strategic priorities, policies and policy objectives and possible actions could be adapted and customised for the unique needs of each urban area. A framework for the enhancement of the city image, within which the strategies and policies could be implemented, is presented in Table A1 as part of Annexure A. According to this framework, local authorities should



divide the urban area into six different identities to ensure a holistic approach. These identities would describe the social/demographic, natural, geographic, cultural, urban and infrastructural identity. This description would have to be based on various urban levels, viz. the metropolitan, city, district, precinct, neighbourhood and street-block level.

With this description completed, several options in terms of an urban sectoral policy-planning package may be considered. If the goals and objectives are taken into consideration, the policies are therefore the individual actions or elements that support the strategy. An overlap of sectors may also occur, emphasising the importance of a holistic approach by local authorities. The various sectors should thus not be seen in isolation, and planning should be an integrated process. In this way a synergy between urban sectors may be established to create spin-offs. Each of the nine main economic sectors will be discussed briefly in terms of goals for the urban environment. A condensed table with specific references to goals, strategic priorities, policies and policy objectives, and possible actions will be presented in Table A2 as part of Annexure A.

The agricultural, fishing and forestry sector is classified according to the Standard Industrial Classification (SIC) of Economic Activities by the code number 1 000. In terms of urban policies the greater emphasis would be on urban agriculture rather than forestry or fishing-related activities. The main challenge to urban authorities would be to develop the urban periphery in such a way as to prevent excessive dependence on urban structures. If services between the periphery and urban core differ substantially, a pull-effect towards the urban core would occur with a concomitant negative spill over and increased degradation of the urban periphery.

The mining sector, according to the SIC of Economic Activities, is classified as industrial code number 2 000. In terms of urban policies, mining activities normally do not form part of an urban environment, although there are exceptions. In such a case, urban authorities would be faced with the same challenge as in the case of the previous sector, i.e. to develop the urban periphery in such a way as to prevent excessive dependence on urban structures. If services between the periphery and urban core



differ substantially, the same negative spill over and increased degradation of the urban periphery will take place.

The manufacturing sector is classified according to the SIC of Economic Activities by the code number 3 000. The goal of local authorities would be to focus on the comparative advantage of its urban environment. This would lead to increased specialisation with the result of attracting highly skilled individuals to the city, with increased agglomeration economies. Local flagship projects normally generate confidence and attract private-sector investment. The intention of local authorities should be for immediate action and visible results.

The electricity, gas and water sector is classified according to the SIC of Economic Activities as code number 4 000. The challenge to local authorities would be to make electricity and water accessible to all residents within the urban area, with the emphasis on high-quality service delivery.

The construction sector, according to the SIC of Economic Activities, is classified as industrial code number 5 000. In terms of construction, local authorities should concentrate their efforts on effectiveness and minimum wastage of resources. The construction of roads, sewage, water facilities, etc., should also be integrated with ecological land-use planning. It is important to classify areas of environmental importance to define a hierarchy of important areas where different levels of requirements for development are applicable. The more valuable an area with regard to environmental resources, the stricter the development requirements. The areas should be classified according to the following zones: standard zones; low sensitivity zones; medium sensitivity zones; high sensitivity zones; and special sensitivity zones.

The trade (retail and wholesale) sector is classified according to the SIC of Economic Activities by the code number 6 000. Local authorities should ensure a viable trade environment with political stability, and consistency of policy implementation to establish credibility amongst business people. Businesses should not be constrained by unnecessary and excessive local regulations. The revival of business activity will ensure increased tax revenues to the local authority.



The transport, storage and communications sector is classified according to the SIC of Economic Activities by the code number 7 000. An efficient and accessible transport system to all would most likely be the main goal of a local authority. Given the fact that the majority of residents may not own private vehicles, the provision of a reliable public transportation system may be a necessity. Planning of new neighbourhoods should also be integrated, with accessibility to public transport in mind. The efficiency of an urban area and its labour is closely related to the effectiveness of its transportation system.

The financial, real estate and business-services is classified according to the SIC of Economic Activities by the code number 8 000. Here it is of the utmost importance that the local authority evaluate the existence of the economic energy within its urban area. The strengthening and promotion of existing clusters may attract much-needed domestic and foreign investment. This may further exploit economic growth opportunities and stimulate economic development.

The government, non-governmental organisations, community and social-services sector is classified according to the SIC of Economic Activities by the code number 9000. Local authorities are the everyday face of the public sector and this is where policy meets the people. Developing and improving urban policies on every sector to generate economic growth and achieve sustainable economic development is a prerequisite for increasing quality of life for all residents. Local authorities should first of all determine the status quo within each sector, whereafter the desired outcome in each sector should be determined, which would give rise to a management system. The way to achieve the desired outcome will be reflected in the implementation and operational system and lastly, a system of monitoring should be in place to evaluate the actual outcome.

Although not part of the official nine economic sectors, reference to the environment, tourism and informal sectors are also included in Annexure A. The strategic priorities,



policies and policy objectives and possible actions outlined above can be adjusted in terms of each type of urban area and local government structure. It is, however, important to identify and target industries to make effective use of limited available local resources. A basic strategy of balanced growth to create jobs for lower-income people as well as for the provision for greater public participation can be followed in the formulation of specific policies. This may also include both sectoral and area-development strategies.

A point of concern in targeting industries, is that once they are selected, they influence decisions about policy. Forecasts for individual industries may also be subject to large errors. Furthermore, policymakers may neglect the more basic conditions for general economic growth and development if focussing on selected industries only. With this in mind, the identification and targeting of industries may still be an important starting point for urban economic renewal.

A very important issue in urban economic development is that incentives have become part of the game of urban politics. The problem is that firms do not necessarily keep their promises to retain and/or create new jobs when accepting some kind of assistance from the local authorities. To reduce the risk of this happening, it should be required of those firms that they make commitments about jobs. Should they default, benefits will be forfeited. Local authorities can implement strong performance requirements and close monitoring of performance to ensure compliance.

If efficient and effective general policies to revitalise an urban area can be introduced by the public sector, thereby restoring confidence, the private sector will once again start to invest. Urban renewal should be measured by the success of its attempts to stimulate the revival of business activity. A collapse of one part of the urban system will inevitably have consequences for other parts of the system. All stakeholders within an urban environment will potentially benefit from a regeneration of urban centres. Economic specialisation is a vital part of urban development and remains essential to the survival and growth of urban areas. It is essential that urban authorities identify their area's



comparative advantage to ensure a successful response to increased economic competition. The challenge facing an urban area is whether it has a comparative advantage in some good or service that has the potential to become intensely competitive both nationally and internationally.

Globalisation can offer expanded opportunities for trade in wider markets and provide access to a wealth of expertise, services and technology. Every urban area or region, over time, tends to proceed towards comparative advantage in its more specialised goods and services. Local production initially relies heavily on basic factors such as natural resources and unskilled or semi-skilled labour. Over time, however, more specialised factors like modern technology and highly-skilled labour come to form the backbone of local production. The former type of production is based on *natural* comparative advantage and the latter form of production is based on *created* comparative advantage. The dimensions of comparative advantage are depth (quality of an area's environment and ingenuity of its people); diversity of its economy; and scale of activities. It is important to expand the capacity of the formal urban economy and simultaneously address the underdeveloped informal sector of the economy. This should be based on a realistic appreciation of its strengths and weaknesses.

Policies should be directed towards realisation whilst meeting the following criteria:

- i) Efficiency - the creation of improved conditions for, *inter alia*, efficient production, residential and industrial location, provision of social services, increased rate of employment and high productivity.
- ii) Distribution - the fostering of equal opportunities in terms of jobs, services, housing and recreation as well as freedom of choice among offered alternatives.
- iii) Access - the provision of effective access between dwellings and jobs, services, recreation areas, regardless of modes of transportation.
- iv) Environment - the institution of an ecological basis for planning, conservation of natural resources and the protection of cultural values.
- v) Adaptability - increasing the range of long-term success developments by adapting short-term allocation and ensuring the flexibility of development options.



Policies in general should be developed in such a way that they stimulate business activity and job creation, reduce poverty and thus improve quality of life.

11.5 EVALUATION INDEX FOR MEASURING POLICY SUCCESS

In an effort to measure the policy success, a quality of life index was developed and will be elaborated upon in Annexure B. The objective of developing this index will be to measure the level of welfare or quality of life on various levels. The basic philosophy underlying this framework is that various economic factors need to be measured to enable a country or urban area to identify, address and correct inferior aspects, with the ultimate goal of improving the quality of life and enhancing business activity. Increasingly, it is suggested that if national welfare or quality of life could be improved, economic growth and development would be enhanced.

The relative importance of agglomeration economies in explaining the concentration of economic activity in metropolitan areas had been emphasised. While the benefits and externalities that arises due to agglomeration economies are well defined and well known, they have not been adequately measured. This index will be applicable on a national economy in measuring national welfare or quality of life over time. In this sense, it will be possible to measure and compare the quality of life of different cities and countries and provide insight as to where problem areas may exist and how to correct them. It will thus provide a tool to measure policy success in terms of economic, social and environmental issues, amongst other.

The basic idea of this quality of life index is that sustainable urban development requires the urban environment to be improved as a factor contributing to the quality of life. National or urban welfare is thus encompassing by quality of life. The idea is to develop a time series of a single index that may be used as an instrument to measure quality of life over time. This means that if the values of the quality of life index increases over time, an improvement has taken place in the general quality of life of the inhabitants of

that specific area. A decreasing quality of life index would obviously mean the opposite. 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. This would provide a tool to policy-makers to identify those variables responsible for a decreasing quality of life and thus a chance to correct or eliminate policies contributing to that decrease. 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.

11.6 SUMMARY

Although different definitions can be used for an urban area, this study is ultimately concerned with the fact that a concentration of people and economic activity occur in an urban area. The main interest of this area is an improvement in the economic growth rate and hence economic development. This improvement is not only an improvement relative to other competing areas, but also an improvement in absolute terms.

The Economic System Approach (ESA) highlights the importance of investment in human ability to participate in economic growth and development. This is also in accordance with the endogenous growth theory of Romer. The ESA revolves around building the productive capacity of subjects by focussing on their personal capacities (education, training and health), and developing the infrastructure within which they operate. The infrastructure referred to comprises an institutional, physical and social framework surrounded by the natural environment. These, the building blocks of the process must be of a certain character and quality. They need to be revised and adapted continuously to ensure sustained growth and development. The subjects who drive the process and cause the changes to occur, must also possess certain capabilities.

The private subjects are the active players, while the government promotes, supports and deals with failures or breakdowns in the system and the capacity-generating process. Economic growth and development is therefore a joint process driven by these subjects. Modern endogenous growth models accept that investment in private and human capital encourages external economies and productivity improvements, both of which offset the

natural tendency towards diminishing returns. The implication thereof is that investment in human capital could result in returns to scale and therefore economic growth and employment.

The main objective of Local Agenda 21 is the achievement of sustainable development, which requires the integration of the economic, social and environmental elements. Policies should be developed with the general notion of Local Agenda 21 as a strong feature. If efficient and effective general policies to revitalise an urban area can be introduced, thereby restoring confidence, the private sector may rethink investment in those areas. Urban renewal should be measured by the success of its attempts to stimulate the revival of business activity with increased prospects of higher economic returns.

The basic goals of any economic policy - efficient use of resources and equity in the distribution of income - is vitally important. The efficient application of resources occurs when some people gain some economic welfare without a reduction in someone else's welfare. Due to the existence of externalities this is a very difficult goal to attain. Equity in the distribution of income assumes that the society agrees on the nature of the goal. Different views on the achievement of this goal often lead to a difference in policy recommendations. Job growth that offers employment to the unemployed and underemployed provides benefits both for efficiency and equity.

The choice of goals leads to the selection of strategies to support the economic growth and development plan. These strategies lead to the choice of various complementary policies. Policies can be categorised according to the underlying factor in economic growth which they enhances. The sources of urban economic growth should be given intense attention to determine the comparative advantage of a specific area. The selection of target industries that respond well to policy initiatives may be a way to address the problem of economic growth and development in an urban area.

In the next chapter, a comprehensive summary and final conclusion of the study will be provided.