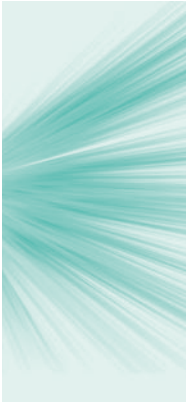


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Chapter Summaries

In Chapter 1, Annez and Buckley set the context for the rest of the book. They discuss the broad macro relationships between growth and urbanization as well as some of the well-documented microeconomic findings that underpin these linkages. Despite the clear link between cities and growth, policy makers and the development community are often ambivalent about urbanization (although attitudes differ considerably by region and country). The chapter concludes that the policy debate needs to change the question. Instead of asking whether to promote urbanization or curtail it, the debate should consider how to support the structural shifts that urbanization makes necessary.

In Chapter 2, Anthony Venables examines globalization through the lens of economic geography. The chapter argues that cumulative causation processes are fundamental to understanding growth and development. Such processes derive from spatially concentrated increasing returns to scale, including thick-market effects, knowledge spillovers, sectoral and urban clustering, and self-reinforcing improvements in physical and social infrastructure. These sources of agglomeration have been extensively analyzed in the economic geography literature. They imply that spatial unevenness in economic activity and incomes is an equilibrium outcome. Growth tends to be “lumpy,” with some sectors in some countries growing fast while other countries lag. The policy challenge is to lift potential new centers of economic activity to the point where they can reap the advantages of increasing returns and cumulative causation.

Chapter 3, authored by Gilles Duranton, develops a consistent framework for considering the effects of urbanization and cities on productivity

and economic growth in developing countries. There is strong evidence that cities bolster productive efficiency in developing countries, just as they do in developed economies. Regarding whether cities promote self-sustained growth, the evidence is suggestive but ultimately inconclusive. These findings imply that the traditional agenda of aiming to raise within-city efficiency should be continued. Furthermore, reducing the obstacles to the reallocation of factors across cities is also desirable.

In Chapter 4, John Quigley discusses the insights from the burgeoning theoretical and empirical literature on urban agglomeration. He reviews the linkages between urbanization and economic development and articulates the relationship between urban density and potential increases in productivity—through specialization, complementarities in production, through the diffusion of knowledge and mimicry, and simply through size and scale. The factors limiting the efficient sizes of cities are analyzed. The chapter reviews empirical knowledge—from underdeveloped countries as well as high-income industrial societies—about the importance and magnitudes of these productivity gains. The analysis documents the close link between gains in economic efficiency and the urbanization of populations in most parts of the world.

Chapter 5, by Sukkoo Kim, examines the question of spatial inequality in the growth process. Spatial inequality is an important feature of many developing countries that seems to increase with economic growth and development. At the same time, there seems to be little consensus on the causes of spatial inequality or on a list of effective policy instruments that may foster or reduce spatial inequality. This chapter examines the theoretical and empirical literature on spatial inequality to learn what we know and do not know about the causes of spatial inequality, to investigate what policies may or may not ameliorate spatial inequality, and to determine whether policy makers can identify and implement policies that promote or reduce spatial inequality.

The next two chapters turn to housing issues. Urbanization and growth bring a new set of forces into play in real estate markets. Oftentimes the result is rapid increases in housing costs, which have both social and political implications. The economic case for intervention in housing markets may be weak, but most governments face considerable pressure to do something about housing to make it more affordable for the middle class and to rid cities of unsightly and unhealthy slums. Choosing the policy response wisely is an important element in managing urbanization.

In Chapter 6, Richard Arnott considers the options for governments to improve housing affordability. He underscores the important role of informality, which limits the fiscal capacity of local governments to invest in infrastructure. Informality also makes it difficult to reach poor households with efficient subsidies. Arnott examines the feasibility of offering the kinds of housing subsidies used in developed countries, especially rental subsidies provided to households. He finds that informality would significantly hamper efficient delivery. Given these constraints, Arnott recommends a focus

on providing infrastructure rather than housing for the poor. He also suggests policies that might improve the functioning of urban land markets.

In Chapter 7, Dwight Jaffee discusses the mortgage market, often seen as a solution for improving housing access in developing countries. He examines lessons for developing countries drawn from the recent subprime mortgage crisis in the United States. His chapter identifies failures and scope for better policies at three different levels: (i) mortgage lending to subprime borrowers, (ii) securitization of mortgages, and (iii) financial markets and institutions. He notes that this crisis is similar to others in that it follows financial innovations. He recommends various regulatory actions to limit risks of future crises. These lessons are of relevance to developing countries, which are under growing pressure to reap the benefit of increasingly sophisticated but risky financial instruments.